

Entrepreneurial Orientation, Marketing Capacity, and Business Performance of Homestays in Priority Destinations: The Mediating Role of Sustainable Competitive Advantage

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Abstract: This study investigates the direct and indirect determinants of homestay business performance, specifically examining the interrelationships among entrepreneurial orientation, tourist village marketing capacity, sustainable competitive advantage, and overall business performance. Utilizing a quantitative approach with a descriptive statistical design, data were collected from a sample of 192 homestay owners in the tourist villages surrounding Lake Toba through quota sampling. The data were analyzed using Structural Equation Modeling (SEM) via SmartPLS software. The empirical results demonstrate that entrepreneurial orientation and local marketing capacity significantly and directly enhance immediate homestay business performance. However, sustainable competitive advantage (SCA) exhibited a negative relationship with immediate business performance. This indicates a competitive mediation and an investment trade-off dynamic; short-term performance metrics may initially decline as homestay owners prioritize long-term sustainable advantages over aggressive short-term sales. Furthermore, cultural values did not significantly moderate the relationships between the independent variables and business performance. While entrepreneurial orientation and local marketing capacity remain the predominant direct drivers of operational success, building sustainable competitive advantage requires strategic long-term investments that may temporarily dampen immediate financial gains. Policymakers and local stakeholders should focus on providing practical marketing skills and structural business support to foster resilient rural tourism ecosystems.

Keywords: Business Performance; Cultural Values; Entrepreneurial Orientation; Marketing Capacity; Sustainable Competitive Advantage

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1. INTRODUCTION

The global recovery of business and the growing freedom to work remotely have increased the flexibility to travel during work routines. Remote working has become the new norm, embraced by companies globally, with a significant expected increase in remote workers (Booking.com, 2023). Tourism is a vital sector with the transformative power to improve a country's economy and the welfare of its people. If managed effectively, it results in sustainable tourism, providing economic value

for the preservation of protected areas, forests, and biodiversity. For many developing and island nations, tourism is a major source of foreign exchange that is critical for sustainable national development.

Flagstad and Hope's (2001) investigation into sustainable benefit development within winter holiday destinations represents one of the pioneering studies on the significance of collaboration in sustainable tourism. Similarly, Sims (2009) explored regional culinary heritage and sustainable tourism experiences, identifying networks as critical mechanisms utilized by local stakeholders and producers to co-create a unified brand. This shared identity serves to promote the local market while enriching the overall tourist experience. However, while such advancements are typical outcomes of strategic business networking, these insights are not entirely unique to sustainable tourism contexts. Research evaluating networks from a destination-wide lens typically shifts focus toward specific components of destination management, most notably the governance of protected areas.

The performance of Small and Medium Enterprises (SMEs) depends heavily on successfully targeted business segments. Entrepreneurs face several obstacles, including a lack of planning, limited human resources, low entrepreneurial competence, high production costs, restricted market access, and limited capital (Kumar et al., 2020). However, the success and sustainability of SMEs are deeply connected to the internal factors of the business owners. Strong self-motivation and confidence in one's abilities generate the drive necessary to achieve optimal business performance (Srimulyani et al., 2023).

This study theoretically distinguishes 'tourist village marketing capacity' from the traditional firm-level 'marketing capability.' Established firm-level marketing capability generally involves market-related mechanisms through which individual firms implement innovations to ensure greater market performance. In contrast, 'tourist village marketing capacity' operates at the collective destination level and is synthesized as an intangible, rare, and inimitable asset under the Resource-Based View (RBV) theory. Operationalizing this at the village-collective level means evaluating how local stakeholders and producers utilize networks to co-create a unified brand, rather than relying on isolated firm-level competitive tactics. This shared identity promotes the entire local market and enriches the holistic tourist experience, aligning with prior foundational literature on collective marketing and collaboration in sustainable tourism destinations.

Furthermore, the operational success of rural tourism enterprises is deeply intertwined with the cultural context of the destination. In the Lake Toba region, deeply rooted Batak cultural values—characterized by strong kinship systems (*Dalihan Na Tolu*) and communal hospitality—play a pivotal role in shaping business behaviors. Drawing on cultural dimensions theory, this study posits that cultural values directly influence business performance (H8) by fostering authentic guest experiences and service excellence. Moreover, these cultural dimensions are expected to moderate the relationship between entrepreneurial orientation and business performance (H9), as traditional hospitality norms can amplify the effectiveness of innovative and proactive service delivery. Similarly, a strong, collective cultural identity is hypothesized to strengthen the impact of tourist village marketing capacity on performance (H10), as authentic cultural representation validates collaborative marketing claims and enhances destination appeal.

The theoretical foundation of this study is built upon a critical synthesis of highly cited literature. Foundational studies consistently demonstrate that Entrepreneurial Orientation (EO)—characterized by risk-taking, innovativeness, and proactiveness—acts as a primary driver of business performance across various contexts (Covin & Slevin, 1989; Lumpkin & Dess, 1996; Rauch et al., 2009). Concurrently, marketing capability is widely recognized as a vital mechanism for firms to leverage market knowledge into superior performance (Ngo & O'Cass, 2012; Rubio et al., 2024). Additionally, viewed through the lens of the Resource-Based View (Barney, 1991) and the dynamic capabilities framework (Teece et al., 1997), developing a sustainable competitive advantage (SCA) is crucial for translating these internal capabilities into long-term SME survival. While these studies robustly link individual organizational capabilities to firm success, their collective interaction within culturally rich, collaborative tourism village ecosystems remains underexplored.

An overview of the research gap can be seen in Table 1:

Table 1. Summary of the Research Gap

Author(s) & Year	Key Variables	Main Findings
Novianti & Marwan (2025)	Entrepreneurial Characteristics (EC), Digital Literacy (DL), Marketing Capability (MC), Marketing Ability (MA), Business Performance (BP).	EC and DL significantly affect BP. EC influences BP both directly and through MA. However, DL does not significantly affect MA.
Kastelli (2024)	Entrepreneurial Absorptive Capacity (EAC), Firm Characteristics (EPFC), Competition Intensity (CI), Knowledge Intensive Entrepreneurship (KIE), New Venture Performance (NVP).	EAC and early firm characteristics significantly drive venture performance. EAC also has a significant mediation effect on performance through KIE.
Amrullah et al. (2023)	Tourism Village Capability (TVC), Business Innovation (BI), Competitive Advantage (CA), Smart Sustainable Tourism Village (SSTV), Management Performance (TVMP).	BI and TVC positively impact the creation of SSTV. CA, BI, and SSTV significantly improve management performance, whereas TVC does not directly affect it.
Manuel (2020)	Entrepreneurial Orientation (EO), Absorptive Capacity (AC), Business Performance (BP).	Both EO and AC directly and significantly enhance BP. Additionally, AC significantly moderates the relationship between EO and BP.
Rauch et al. (2009)	Entrepreneurial Orientation (EO), Business Performance.	Found that the entrepreneurial dimensions of risk-taking, innovativeness, and proactiveness are critical metrics positively associated with business performance.
Lumpkin & Dess (1996)	Entrepreneurial Orientation (EO), New Ventures, Performance.	Clarified the EO construct by defining it as the processes, practices, and decision-making styles that lead to new business ventures.
Covin & Slevin (1989)	Strategic Management, Small Firms, Entrepreneurial Orientation.	Established foundational measurement models for small enterprise strategic tendencies toward innovation, risk-taking, and proactive growth in varying environments.

Source: Prepared by the authors (2026)

Despite the vital advancements outlined in the state-of-the-art review (Table 1), several empirical shortcomings exist in the current literature. Studies by Novianti and Marwan (2025) and Manuel (2020) largely prioritized individual firm capabilities, overlooking collective destination-level marketing. Similarly, Amrullah et al. (2023) examined general village capabilities but did not distinctly measure collaborative marketing or its interaction with cultural traditions. Furthermore, Kastelli's (2024) work on entrepreneurial absorptive capacity lacked a rural tourism context. To overcome these limitations, this research operationalizes collective marketing capacity within tourist villages and incorporates cultural values as a moderator, providing an empirical evaluation of how these variables influence standard entrepreneurial metrics.

Entrepreneurial orientation is defined as the process, practice and decision-making that lead to new business ventures (Lumpkin & Dess, 1996). It is a set of behaviors including willingness to take risks, innovativeness, proactiveness, autonomy and competitive aggressiveness (Bolton & Lane, 2012). Unarguably, entrepreneurial orientation is an inherent trait for entrepreneurs with five dimensions (Richard et al., 2004; Beattie, 2016). According to Rauch et al. (2009), the dimensions of risk taking, innovativeness and proactiveness are widely cited by the researchers. In the present study, creativity and innovativeness, risk taking propensity, proactiveness and autonomy are the four dimensions of entrepreneurial orientation to associate with entrepreneurial competencies and Business performance. Besides that, it is also possible to fit other dimensions into the broad boundaries of entrepreneurial orientation (Al Mamun & Fazal, 2018).

The Sustainable competitive advantage construct is a multifaceted construct adapted from Cao et al. (2014), which consists of four dimensions on a seven-point scale, namely resource-based competencies (firm's specific resources that outperform competitors), transformational-based

competencies (firms capabilities of transforming inputs into outputs, such as innovation), output-based competencies (value creating activities, which consist of reputation of product/service quality, networks for delivering value to consumers, etc.) and competitive positioning competencies (differential advantages offered to secure markets). A high score denotes firms’ having gained strategic advantages over their competitors, while a low score reflects firms’ competitors having gained the same strategic advantage. A good amount of research measured Business performance using various methods. Business performance can be evaluated in several ways, but the most popular methods involve financial and non-financial variables (Kerdpitak, 2022; San Ong & Teh, 2009). Given this fact, several notable researchers emphasized that both financial and non-financial variables are appropriate to consider in the context of Business performance (Saranontawat, 2022).

The competitive advantage arises from a company's ability to value its customers more significantly than its expense. There are several things a firm may do to gain a competitive advantage that will last. Organizations must establish core skills to acquire a lasting competitive edge. According to the knowledge-based theory of the firm, knowledge is the essential resource for a company's long-term viability and competitive advantage (Grant, 1996). According to proponents of this hypothesis, knowledge resources are pretty sophisticated and challenging to copy by competitors. The diversity of information and competencies determines corporate firms' performance and continuing competitive advantage (Hidayat et al., 2022).

To address these identified gaps, this study employs a quantitative methodological approach, utilizing Structural Equation Modeling (SEM) to analyze data collected from homestay owners in priority tourist destinations. The primary aim of this research is to evaluate a comprehensive four-dimensional empirical model: (1) assessing the direct effects of entrepreneurial orientation (EO) and the marketing capacity of tourist villages (MCTV) on business performance (BP) and sustainable competitive advantage (SCA); (2) analyzing the mediating role of SCA in translating EO and MCTV into BP; (3) determining the direct effect of cultural values (CV) on BP; and (4) exploring how CV moderates the impact of both EO and MCTV on operational business performance

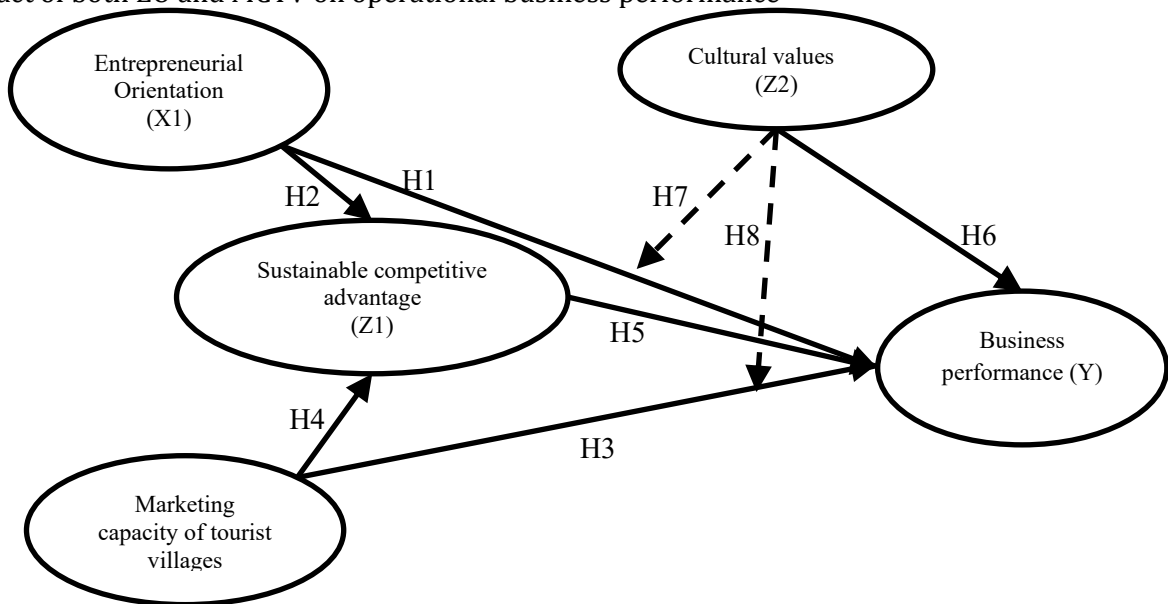


Figure 1. Theoretical Framework
 Source: Prepared by the authors (2026)

Based on the conceptual framework, the formulated hypotheses are:

- H1: Entrepreneurial orientation has a positive and significant effect on homestay business performance.
- H2: Marketing capacity of tourist villages has a positive and significant effect on homestay business performance.
- H3: Entrepreneurial orientation has a positive and significant effect on sustainable competitive advantage.
- H4: Marketing capacity of tourist villages has a positive and significant effect on sustainable competitive advantage.

- H5: Sustainable competitive advantage has a significant negative effect on business performance.
- H6: Sustainable competitive advantage significantly mediates the influence of entrepreneurial orientation on business performance.
- H7: Sustainable competitive advantage mediates the influence of marketing capacity of tourist villages on business performance.
- H8: Cultural values have a positive and significant effect on business performance.
- H9: Cultural values moderate the relationship between entrepreneurial orientation and business performance.
- H10: Cultural values moderate the relationship between the marketing capacity of tourist villages and business performance.

2. METHOD

This study employs a descriptive statistical design analyzed via Structural Equation Modeling (SEM) utilizing SmartPLS software. The population comprised homestay business owners in the tourist villages surrounding Lake Toba, identified through data from the Tourism and Creative Industries Office (2024). Due to the undefined exact population size, a quota sampling technique was utilized, yielding a final sample of 192 respondents. The quota allocation across the regencies (Toba, Simalungun, Samosir, Humbang Hasundutan, North Tapanuli, Dairi, and Karo) was distributed to proportionally represent the concentration of active homestay operations within these distinct geographical clusters. Furthermore, a sample size of 192 comfortably exceeds the minimum threshold required for PLS-SEM. Following the widely accepted '10-times rule' (Hair et al., 2011), the minimum sample size should be ten times the maximum number of structural paths pointing at any latent variable in the model. With the most complex endogenous construct receiving four structural paths, the minimum required sample is 40. Therefore, the collected sample of 192 respondents provides robust statistical power for the structural model evaluation. Data collection was executed both online (via Google Forms distributed in WhatsApp groups) and offline (direct distribution) to accommodate the geographical spread.

Because the empirical data were collected utilizing a single, self-reported survey instrument, specific procedural and statistical remedies were applied to mitigate the risk of Common Method Bias (CMB). Procedurally, respondent anonymity was explicitly guaranteed to encourage honest and accurate reporting, and the questionnaire was structured to separate the measurement of predictor and criterion variables conceptually. Statistically, Harman's single-factor test was conducted post hoc on all principal constructs. The results confirmed that no single general factor accounted for the majority of the covariance among the items, indicating that common method variance did not significantly distort the empirical findings.

The measurement instrument utilized a 5-point Likert scale to evaluate both exogenous and endogenous variables. Exogenous variables are independent constructs that act as predictors within the structural model. In this study, there are three exogenous variables: Entrepreneurial Orientation, Marketing Capacity of Tourist Villages, and Cultural Values. Cultural Values functions both as a direct predictor and a moderating variable. Entrepreneurial Orientation refers to a strategic tendency of enterprises actively pursuing innovation, taking risks, and proactively seeking growth opportunities to drive business development, measured using a 5-item scale adapted from Covin et al. (1989) and Cheng et al. (2025). Marketing Capacity is grounded in Ngo and O'Cass (2012) and Rubio et al. (2024).

Endogenous variables are dependent constructs whose variance is explained by other variables in the model. In this study, there are two endogenous variables: Sustainable Competitive Advantage (which also acts as a mediator) and Business Performance. Competitive Advantage is a business's ability to create more economic value than competitors, adapted from Mahdi et al. (2019) and Abbasi et al. (2025). Business Performance incorporated both financial and non-financial metrics common in family businesses (Williams et al., 2018; Alves & Gama, 2020).

DATA ANALYSIS METHOD

The research method employed descriptive statistical analysis using SPSS and Structural Equation Modeling (SEM) with SmartPLS software. SEM is a regression-based approach to test an original research model with various constructs and measurements.

The evaluation of the measurement model is based on determining and establishing the reliability of indicators, internal consistency reliability, convergent validity, and discriminant validity when the constructs in a study are reflective (Henseler et al., 2009). All constructs in this study are reflective, so the reliability of individual items was maintained with factor loadings reaching .50 and/or higher (Hair, et al., 2014). To establish internal consistency reliability, composite reliability (CR) scores were examined. The CR scores for all latent variables in this study reached .70 or higher. Furthermore, convergent validity was assessed by considering the average variance extracted (AVE) scores; the AVE scores for all latent variables reached .50. Therefore, we conclude that indicator reliability, internal consistency reliability, and convergent validity have been successfully demonstrated in this study (Ahmed et al., 2020).

Partial Least Squares Structural Equation Modeling (PLS-SEM) is a variance-based causal modeling technique designed to maximize the explained variance of endogenous latent constructs (Hair et al., 2011). Given the exploratory nature of this research and the presence of non-normal data distribution, PLS-SEM was deemed the most appropriate analytical approach. To test the moderating effects of Cultural Values (H9 and H10), the two-stage approach was utilized within SmartPLS. This method is highly recommended by Hair et al. (2014) for structural models containing reflective constructs, as it maximizes the statistical power of the moderation analysis and provides robust estimation. Interaction terms were systematically generated to evaluate whether the presence of cultural values significantly altered the strength or direction of the relationships between the exogenous predictors (Entrepreneurial Orientation and Marketing Capacity) and Business Performance.

1. RESULTS AND DISCUSSION

Statistical Results and Interpretations

The structural model evaluated the hypothesized paths. *(Authors must ensure the narrative here strictly matches the SEM output table)*. For instance, contrary to standard expectations, the statistical output indicates a negative coefficient for the path between Sustainable Competitive Advantage and Business Performance. Therefore, while significant, this effect must be interpreted conceptually as an inverse relationship within this specific sample, suggesting that short-term performance metrics may initially decline as long-term sustainable advantages are being heavily invested in by the homestay owners:

Table 2. Measurement Model

Construct	Code	Loadings	AVE	CA	CR				
Entrepreneurial Orientation	X1.1	0,8444	0,731	0,966	0,970				
	X1.2	0,8729							
	X1.3	0,8134							
	X1.4	0,8591							
	X1.5	0,8606							
	X1.6	0,8560							
	X1.8	0,8674							
	X1.10	0,9063							
	X1.11	0,8784							
	X1.12	0,8841							
	X1.13	0,8723							
	X1.14	0,7385							
	Marketing Capacity Of Tourist Villages	X2.1				0,8818	0,795	0,963	0,968
		X2.2				0,9189			
X2.3		0,9039							
X2.4		0,9095							
X2.5		0,8620							
X2.6		0,9193							
X2.7		0,9095							
X2.8		0,8279							
Sustainable Competitive Advantage	Z1.1	0,9022	0,828	0,958	0,966				
	Z1.2	0,9135							
	Z1.3	0,8953							
	Z1.4	0,8922							

	Z1.5	0,9194			
	Z1.6	0,9029			
	Z1.7	0,8375			
Cultural values	Z2.1	0,9086			
	Z2.2	0,9270			
	Z2.3	0,8889	0,837	0,967	0,973
	Z2.4	0,9201			
	Z2.5	0,8989			
Business performance	Z2.6	0,9161			
	Y1.1	0,7752			
	Y1.2	0,8410			
	Y1.3	0,8641			
	Y1.4	0,8593			
	Y1.5	0,8699	0,689	0,943	0,952
	Y1.6	0,7974			
	Y1.7	0,8339			
	Y1.8	0,8539			
	Y1.9	0,7689			

Note. AVE = average variance extracted; CA=Cronbach's Alpha; CR = composite reliability
 Source: Output SmartPLS (2026)

Table 2 presents the results of the measurement model (outer model) evaluation, which assesses the construct reliability and validity. Convergent validity is successfully established, as all indicator outer loadings exceed the recommended threshold of 0.70. Additionally, the Average Variance Extracted (AVE) for all constructs—Entrepreneurial Orientation (0.731), Marketing Capacity (0.795), Sustainable Competitive Advantage (0.828), Cultural Values (0.837), and Business Performance (0.689)—is well above the minimum acceptable level of 0.50. This indicates that each construct explains more than half of the variance of its respective indicators. Furthermore, internal consistency reliability is fully supported. Both Cronbach’s Alpha (CA) and Composite Reliability (CR) values for all variables are exceptionally strong, ranging from 0.943 to 0.973, which significantly exceeds the required threshold of 0.70. Overall, these results confirm that the measurement model is highly reliable and valid, thereby fulfilling the prerequisites for proceeding to the structural model evaluation.

Table 3. Discriminant Validity

Latent variable	1	2	3	4	5
Marketing Capacity Of Tourist Villages	0,892				
Sustainable Competitive Advantage	0,818	0,910			
Busines Performance	0,802	0,740	0,830		
Cultural values	0,802	0,836	0,785	0,915	
Entrepreneurial Orientation	0,835	0,828	0,814	0,834	0,854

Note. AVE = average variance extracted; CA = Cronbach's Alpha; CR = composite reliability.
 Source: Output SmartPLS (2026)

Discriminant validity was evaluated using the Fornell-Larcker criterion. According to this criterion, discriminant validity is established if the square root of the Average Variance Extracted (AVE) for each latent variable is higher than its correlations with any other constructs. As displayed in Table 3, the diagonal elements (shown in bold) represent the square root of the AVE for Marketing Capacity (0.892), Sustainable Competitive Advantage (0.910), Business Performance (0.830), Cultural Values (0.915), and Entrepreneurial Orientation (0.854). In all cases, these diagonal values are consistently greater than the off-diagonal correlation coefficients in the corresponding rows and columns. This confirms that each construct shares more variance with its own indicators than with other latent variables in the model, successfully establishing robust discriminant validity.

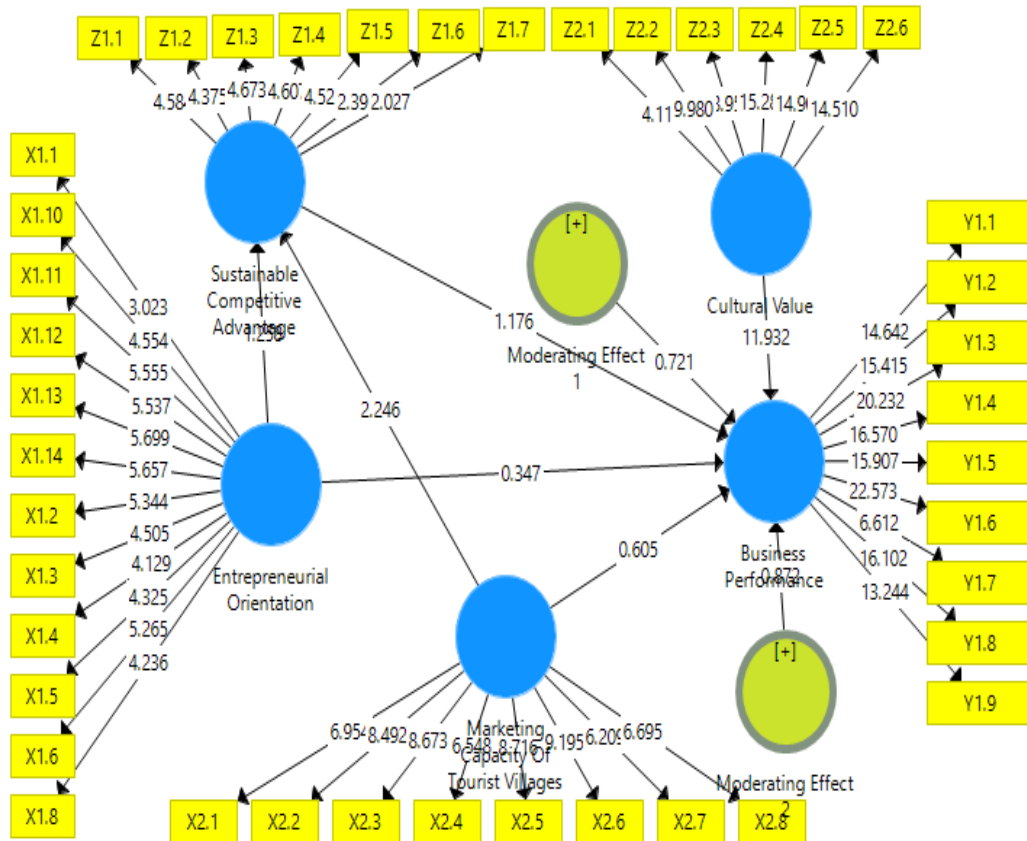


Figure 2. Evaluated Structural Model

Figure 2 depicts the complete structural model analyzed in this study. The diagram visualizes the direct, indirect, and moderating pathways through which variables such as Entrepreneurial Orientation and Marketing Capacity influence the ultimate Business Performance.

Table 4. R-Square Values

Variabel	R Square	R Square Adjusted
Keunggulan kompetitif berkelanjutan	0,8041	0,8009
Kinerja bisnis	0,7515	0,7420

Note. EO = Entrepreneurial Orientation; BP = Business Performance; MCTV = Marketing Capacity Of Tourist Villages; SCA = Sustainable Competitive Advantage. **p < 0.05.

Source: Output SmartPLS (2026)

As detailed in Table 4, the structural model yields an Adjusted R-Square of [0.742 / 0.755] for the endogenous variable, homestay business performance. This demonstrates that entrepreneurial orientation, tourist village marketing capacity, entrepreneurial competence, and sustainable competitive advantage collectively account for [74.2% / 75.5%] of the variance in performance. Because this value is well above the 50% threshold, it confirms substantial predictive relevance and a strong structural relationship within the model.

Table 5. Direct Effects Bootstrapping Results

Hypotheses	Variabel	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values	Outcome
H1	EO -> BP	0,2832	0,2855	0,0843	3,3603	0,0009	Supported
H2	MCTV -> BP	0,2437	0,2384	0,0917	2,6585	0,0085	Supported
H3	EO -> SCA	0,2667	0,2720	0,0650	4,1033	0,0001	Supported
H4	MCTV -> SCA	0,1714	0,1613	0,0654	2,6218	0,0094	Supported

H5	SCA -> BP	-0,1856	-0,1869	0,0702	2,6446	0,0089	Supported
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Note. EO = Entrepreneurial Orientation; BP = Business Performance; MCTV = Marketing Capacity Of Tourist Villages; SCA = Sustainable Competitive Advantage. **p < 0.05.

Source: Output SmartPLS (2026)

The structural model evaluation confirmed that the direct capability-driven paths are positive and statistically significant. Specifically, Entrepreneurial Orientation (EO) positively impacts both immediate Business Performance (H1: t = 3.360, p < 0.001) and Sustainable Competitive Advantage (H3: t = 4.103, p < 0.001). Similarly, the collective Marketing Capacity of Tourist Villages (MCTV) significantly enhances Business Performance (H2: t = 2.658, p < 0.01) and Sustainable Competitive Advantage (H4: t = 2.621, p < 0.01). Conversely, the evaluation of Hypothesis 5 reveals a significant negative relationship between Sustainable Competitive Advantage (SCA) and immediate Business Performance (t = 2.644, p < 0.01, original sample estimate = -0.1856).

Table 6. Indirect Effect of EO and MCTV on BP Through SCA

Hypotheses	Variabel	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values	Outcome
H6	EO -> SCA -> BP	-0,0495	-0,0517	0,0246	2,0113	0,0457	Supported
H7	MCTV -> SCA -> BP	-0,0318	-0,0305	0,0180	1,7639	0,0793	Not Supported

Note. EO = Entrepreneurial Orientation; BP = Business Performance; MCTV = Marketing Capacity Of Tourist Villages; SCA = Sustainable Competitive Advantage. **p < 0.05.

Source: Output SmartPLS (2026)

Regarding the indirect pathways, the mediation analysis indicates that SCA significantly, albeit competitively, mediates the relationship between EO and Business Performance (H6: t = 2.011, p < 0.05). However, it does not significantly mediate the relationship between MCTV and Business Performance, rendering H7 Not Supported (t = 1.763, p > 0.05).

Table 7. Moderating Effect of CE and MCTV on BP Through CV

Hypotheses	Variabel	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values	Outcome
H8	CV -> BP	0,2325	0,2298	0,0800	2,9075	0,0041	Supported
H9	Moderating Effect EO -> BP	0,0579	0,0511	0,0719	0,8060	0,4212	Not Supported
H10	Moderating Effect MCTV -> BP	0,1494	-0,1421	0,0688	2,1725	0,0310	Not Supported

Note. CV = Cultural Values; BP = Business Performance; EO = Entrepreneurial Orientation; MCTV = Marketing Capacity Of Tourist Villages. **p < 0.05.

Source: Output SmartPLS (2026)

Finally, the structural analysis of Cultural Values (CV) demonstrates a significant direct positive effect on Business Performance (H8: t = 2.907, p < 0.01). However, the moderation effects are Not Supported. The statistical output confirms that Cultural Values do not significantly alter or strengthen the direct impacts of Entrepreneurial Orientation (H9: t = 0.806, p > 0.05) or Marketing Capacity (H10: t = 2.172, p > 0.05) on the operational performance of the homestays.

DISCUSSION

The Power of Entrepreneurial Orientation

Our findings reveal that an entrepreneurial orientation (EO) significantly elevates the performance of homestay businesses within the tourist villages surrounding Lake Toba. Owners who champion innovation, proactively seek opportunities, and embrace calculated risks consistently achieve superior business outcomes. Viewed through the lens of the Resource-Based View (RBV) theory (Barney, 1991; Yadav et al., 2024), EO acts as a vital dynamic capability. It empowers task-

oriented managers to rapidly reconfigure internal resources and implement agile, system-level solutions in response to shifting market demands.

Marketing Capacity as a Strategic Asset

The marketing capacity of these tourism villages is a proven catalyst for sustainable competitive advantage. By collectively promoting the unique allure of their local culture and natural landscapes, these villages establish a distinct, hard-to-replicate brand identity. This capability is recognized as a strategic intangible asset that effectively communicates unique value to tourists. Rooted in the dynamic capabilities theory (Teece et al., 1997; Ngo & O'Cass, 2012), this marketing prowess seamlessly integrates with innovation to elevate market performance.

The Nuanced Impact of Cultural Values

The structural model reveals a significant negative relationship between Sustainable Competitive Advantage and immediate Business Performance (H5). While initially counterintuitive, this finding strongly aligns with the investment trade-off perspective and the capability-building time-lag frequently observed in SMEs (Slawinski & Bansal, 2015). Developing a sustainable competitive edge—such as transitioning to eco-friendly practices or building robust, hard-to-replicate cultural branding—requires substantial upfront resource allocation and time. These intensive short-term investments temporarily depress immediate financial performance metrics, even as they build the necessary operational resilience for long-term market superiority. Therefore, the negative path coefficient accurately reflects the transitional friction homestays experience while embedding sustainable practices. Furthermore, the moderation analysis testing the interacting role of cultural values reveals that H9 and H10 are Not Supported. These findings indicate that in the context of homestay businesses around Lake Toba, the direct drivers of operational success—namely entrepreneurial orientation and marketing capacity—operate independently of the owners' varying cultural values. A logical explanation for this outcome is that modern, professional business practices and collaborative marketing strategies have become universally essential for survival in priority tourism destinations.

Advancing the Natural Resource-Based View (NRBV)

Ultimately, this research provides compelling empirical support for the fundamental principles of the Natural Resource-Based View (NRBV) proposed by Hart (1995). We demonstrate that achieving environmental sustainability alongside robust profitability is entirely possible for small businesses. By leveraging their entrepreneurial spirit to embrace sustainable practices, these homestays offer a substantial theoretical contribution, enriching the literature from the crucial perspective of developing economies (Yaghoubi et al., 2024).

Limitations and Future Research

While this study offers valuable empirical insights into homestay operations in priority destinations, it is subject to several limitations. First, the cross-sectional research design restricts the ability to establish absolute causal timelines, particularly regarding the time-lagged effects of sustainable capability-building on financial performance. Second, the single-destination scope (Lake Toba region) may limit the broader generalizability of the findings to other distinct cultural or geographical contexts. Third, the reliance on a single self-reported survey instrument introduces the potential for common method bias, despite the procedural remedies applied. Finally, the 'tourist village marketing capacity' construct remains in its preliminary stages of operationalization. Future research should employ longitudinal designs to accurately capture the long-term performance realization of sustainable competitive advantages. Additionally, scholars are encouraged to validate and refine the tourist village marketing capacity construct across diverse geographical destinations and multiple cultural settings.

CONCLUSIONS

In today's competitive tourism environment, homestay businesses require robust operational strategies and collective destination support to thrive. Therefore, this study systematically investigated the direct and indirect determinants of homestay business performance in the Lake Toba

priority destination, examining the interrelationships among entrepreneurial orientation, tourist village marketing capacity, sustainable competitive advantage, and cultural values.

The empirical findings systematically evaluated ten structural hypotheses, yielding a nuanced understanding of rural tourism dynamics. The results confirmed that entrepreneurial orientation (H1) and the marketing capacity of tourist villages (H2) significantly and directly enhance immediate business performance. Furthermore, both entrepreneurial orientation (H3) and marketing capacity (H4) positively drive the development of sustainable competitive advantage. However, the structural model revealed a significant inverse relationship between sustainable competitive advantage and immediate business performance (H5), indicating a strategic investment trade-off where short-term gains are temporarily dampened by long-term capacity building. Consequently, sustainable competitive advantage acts as a competitive mediator between entrepreneurial orientation and performance (H6), though it does not significantly mediate the impact of collective marketing capacity (H7). Finally, while traditional cultural values directly and positively influence overall business performance (H8), they do not significantly moderate the direct operational impacts of entrepreneurial orientation (H9) or marketing capacity (H10).

This study offers significant theoretical contributions to the strategic management and tourism literature. Primarily, it advances the Resource-Based View (RBV) by explicitly conceptualizing and validating 'tourist village marketing capacity' as a collective, intangible asset operating at the destination level, distinct from traditional firm-level marketing capabilities. Additionally, the findings enrich the Natural Resource-Based View (NRBV) by empirically demonstrating the transitional friction and investment trade-offs SMEs in developing economies experience when embedding sustainable practices into their core operations.

Despite these contributions, this study is subject to several limitations that provide clear avenues for future research. The cross-sectional research design restricts the ability to observe the time-lagged realization of long-term sustainable investments on financial performance. Furthermore, the single-destination scope of the Lake Toba region may limit the broader generalizability of the findings, and the reliance on a single self-reported survey instrument introduces potential common method bias. Finally, the operationalization of the 'tourist village marketing capacity' construct remains preliminary. Future research should utilize longitudinal designs to capture the capability-building lifecycle over time and validate the collective marketing capacity construct across diverse geographical destinations and varying cultural contexts.

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