

Navigating Institutional Pressures and Cognitive Aspects: Strategies for Sustainable Corporate Performance in Creative Industries

Iskhak^{1,*}, Setyo Ferry Wibowo², Suparno³

^{1,2,3}State University of Jakarta, Indonesia

(Received: July 10, 2025; Revised: September 10, 2025; Accepted: December 15, 2025; Available online: January 31, 2026)

Abstract

This study examines the relationship between institutional pressures and corporate performance through the lens of corporate cognitive aspects in the Indonesian creative industry sector. Data were collected from 531 business owners across fashion, food, and crafts sectors and analyzed using Structural Equation Modeling Partial Least Squares (SEM-PLS). The results show that institutional pressures significantly affect digital transformation ($\beta = 0.656, p < 0.001$), entrepreneurial orientation ($\beta = 0.748, p < 0.001$), dynamic capability ($\beta = 0.660, p < 0.001$), and competitive advantage ($\beta = 0.759, p < 0.001$). However, the direct effect of institutional pressures on corporate performance is not significant ($\beta = 0.039, p = 0.231$). Instead, digital transformation ($\beta = 0.347, p < 0.001$), entrepreneurial orientation ($\beta = 0.146, p = 0.007$), and dynamic capability ($\beta = 0.446, p < 0.001$) mediate the relationship, explaining 65% of the variance in corporate performance ($R^2 = 0.65$). This study contributes to the literature by highlighting the role of corporate cognitive aspects and emphasizing the integration of institutional theory into entrepreneurial practice. Moreover, it aligns with Sustainable Development Goals (SDGs) 9 and 12 by promoting responsible consumption and innovation in industry. One limitation of this study lies in its focus on Indonesia's creative sector, suggesting that future research should explore broader contexts. The findings encourage businesses to adopt corporate cognitive aspects to achieve sustainable growth. Future studies could also investigate additional antecedents of corporate cognitive aspects and their influence on environmental performance.

Keywords: Institutional Pressures, Competitive Advantage, Corporate Performance, Digital Transformation, Entrepreneurship Orientation, Dynamic Capability.

1. Introduction

The creative industries have become a vital sector of the global economy, making substantial contributions to national development through innovation, cultural preservation, and job creation [1]. In Indonesia, this sector has grown significantly, supported by government initiatives and increasing consumer demand for creative products and services [2]. Nevertheless, many Indonesian creative firms continue to face challenges in sustaining competitive advantage [3]. These challenges are frequently linked to institutional constraints, such as regulatory barriers, cognitive limitations in managerial decision-making, and the administrative mindset of policymakers [4]. To address these issues, a comprehensive analysis of how institutional theory and corporate cognitive aspects interact in shaping firm performance is required [5].

This study examines how institutional factors and corporate cognitive aspects influence corporate performance in Indonesia's creative industries. Institutional theory provides a useful framework for analyzing how regulatory, normative, and cognitive institutions shape organizational behavior and strategic decision-making [6]. At the same time, corporate cognitive aspects, such as digital transformation, entrepreneurial orientation, and dynamic capability are critical for firms to effectively respond to external pressures and adapt to dynamic markets. Teece's distinction between orchestrating capabilities and value-capture capabilities underscores the significance of cognitive abilities in these processes [7]. Similarly, Russell et al. [8] highlight the role of cognitive models in enabling digital transformation, while Gupta et al. [9] demonstrate how a cognitive-creative entrepreneurial style fosters risk-taking and reframes challenges as opportunities. By integrating institutional theory with corporate cognitive aspects, this study offers a more nuanced understanding of how external pressures and internal mechanisms jointly influence firms' ability to sustain competitive advantage. Prior research has typically examined either institutional determinants or cognitive

*Corresponding author: Iskhak (iskhakmuin@gmail.com)

DOI: , doi: 10.47738/jads.v7i1.1058

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factors in isolation, thereby overlooking their interdependencies [10]. This study addresses this gap by empirically testing the interaction between institutional pressures and managerial cognition, providing a holistic perspective on strategic decision-making within the creative industries. Furthermore, although extensive research has explored competitive advantage in traditional sectors, relatively little attention has been given to the distinctive challenges faced by creative firms in emerging economies. By presenting empirical evidence from Indonesia, this study contributes to the literature and generates insights relevant to other developing markets with similar institutional environments. The article is structured as follows: Section 2 reviews institutional theory, corporate cognition, and performance studies. Section 3 outlines quantitative methodology. Section 4 presents results and discussion linking data to theory. Section 5 concludes with key findings, implications, and future research directions in creative industry management.

2. Literature Review

2.1. Institutional Theory

Institutional theory and stakeholder theory have emerged as two prominent frameworks that have received increasing scholarly attention over the past five years [11]. Institutional theory explains how organizations are shaped by external norms, regulations, and societal expectations [12]. Scholars increasingly acknowledge that institutions play a crucial role in driving organizational behavior toward sustainability [13]. For instance, regulatory changes, industry standards, and stakeholder expectations often compel firms to adopt environmentally friendly strategies, thereby influencing their competitive positioning [14]. This evolution reflects a broader trend in which institutional theory extends beyond compliance to encompass how organizations leverage sustainability as a source of legitimacy and differentiation.

At the same time, the concept of sustainable competitive advantage has evolved beyond the traditional resource-based view to incorporate institutional dynamics [15]. Recent studies demonstrate that organizations achieve long-term success by aligning their strategies with institutional requirements for sustainability [16]. The intersection of these perspectives is evident in research examining how firms navigate institutional pressures to develop distinctive capabilities that enable them to sustainably outperform competitors. For example, firms that innovate in their business models or adopt circular economy approaches often secure both competitive advantage and institutional legitimacy [17]. This focus on institutional alignment underscores the recognition that achieving competitive advantage in today's globalized and environmentally conscious markets requires not only internal resources but also strategic responsiveness to external institutional environments.

2.2. Institutional Pressures and Corporate Performance.

Institutional pressures—defined as external forces such as regulations, norms, and stakeholder expectations—play a central role in shaping organizational behavior and decision-making [18]. Corporate performance, by contrast, reflects a firm's capacity to achieve strategic objectives and sustain long-term success [19]. Institutional pressures are typically classified into three dimensions: coercive pressures arising from regulations and mandates, normative pressures stemming from social norms and values, and mimetic pressures resulting from the imitation of successful peers [20].

Empirical studies suggest that institutional pressures influence corporate performance, though the mechanisms vary. For instance, Wiredu et al. [21] report that the direct impact of institutional pressures on environmental performance is often insignificant, but indirect effects can enhance outcomes through top management support and the adoption of Green Supply Chain Management (GSCM) practices. Zhang et al. [22] demonstrate that institutional pressures stimulate green innovation mediated by entrepreneurial orientation, though excessive entrepreneurial orientation may weaken the relationship between green innovation and sustainable performance. Similarly, Rashid et al. [20] find that institutional pressures, coupled with manufacturing supply chain collaboration, significantly improve both operational and environmental performance, underscoring their importance in achieving sustainability goals.

Additional evidence further illustrates this relationship. Lee et al. [23] show that Environmental, Social, And Governance (ESG) strategies mediate the link between institutional pressures and triple bottom line performance, with digitalization capabilities amplifying the effect. Hasan et al. [19] confirm that environmental management accounting enhances environmental performance, moderated by institutional pressures and supported by top management. Nazir et al. [24] likewise demonstrate that GSCM practices improve environmental performance in manufacturing firms,

with institutional pressures strengthening this relationship. Based on this discussion, the following hypothesis is proposed:

H1: Institutional pressures positively influence corporate performance.

2.3. Institutional Pressures and Competitive Advantage.

Institutional pressures play a critical role in shaping competitive advantage [25]. Competitive advantage reflects a firm's capacity to outperform competitors by leveraging distinctive resources, capabilities, or strategies [21]. The interaction between institutional pressures and competitive advantage has received substantial scholarly attention, particularly in exploring how organizations navigate external demands while pursuing differentiation and sustainability [6].

Empirical evidence suggests that institutional pressures influence competitive advantage through both direct [26] and indirect mechanisms [27]. Directly, firms that comply with stringent environmental regulations often gain reputational capital and access to markets unavailable to less compliant competitors [28]. Indirectly, institutional pressures foster innovation and adaptation, enabling firms to develop distinctive capabilities that differentiate them from rivals [10]. For instance, Alshumrani et al. [29] show that institutional pressures drive management innovation, which, when effectively implemented, can generate sustainable competitive advantage.

Other studies underscore the mediating role of dynamic capabilities and strategic alignment in converting institutional pressures into competitive advantage. Lee et al. [23] find that environmental, social, and governance (ESG) strategies mediate the relationship between institutional pressures and triple bottom line performance, with digitalization capabilities amplifying this effect. Similarly, Rashid et al. [20] demonstrate that supply chain collaboration, driven by institutional pressures, enhances operational performance and strengthens competitive positioning. These findings highlight the importance of aligning internal capabilities with external institutional demands to achieve superior performance.

Nonetheless, institutional pressures can also constrain competitive advantage. Excessive or conflicting demands such as overlapping regulations or divergent stakeholder expectations may strain resources and limit organizational flexibility, particularly for small and medium-sized enterprises [7]. Based on this discussion, the following hypothesis is proposed:

H2: Institutional pressures positively influence competitive advantage.

2.4. Institutional Pressures and Digital Transformation.

Digital transformation refers to the integration of digital technologies across all dimensions of an organization, fundamentally reshaping its operations and business models [30]. The relationship between institutional pressures and digital transformation has become an important area of inquiry, particularly in examining how organizations respond to external demands while pursuing innovation and efficiency [31].

Empirical studies indicate that institutional pressures play a critical role in advancing digital transformation across diverse sectors. In the maritime industry, coercive and mimetic pressures have been shown to accelerate digital adoption, with customer recognition of competitors serving as a strong motivator [32]. Similarly, municipalities undergo digital transformation through coercive regulatory mandates, mimetic adoption of best practices, and normative adherence to professional standards.

Evidence from engineering enterprises further demonstrates that the combined effects of coercive, normative, and mimetic pressures foster digital transformation, with stakeholder vision and supply chain collaboration emerging as key enablers [33]. In the healthcare sector, institutional pressures and digital readiness jointly mediate strategic renewal, highlighting the importance of integrated teams and digital health services for successful transformation [34]. Moreover, digital leadership under institutional pressures has been shown to enhance sustainable performance, although environmental turbulence may moderate this effect [35]. Based on these findings, the following hypothesis is proposed:

H3: Institutional pressures positively influence digital transformation

2.5. Institutional Pressures and Entrepreneurship Orientation.

Entrepreneurial Orientation (EO) represents a firm's strategic posture characterized by innovativeness, proactiveness, and risk-taking—factors that are essential for achieving competitive advantage and driving growth [36]. EO also functions as a strategic framework that integrates environmental sustainability with entrepreneurial practices, reflecting an organization's commitment to sustainable development and environmentally responsible business opportunities [37]. Its importance has increased as businesses seek to strengthen their sustainability credentials. Common EO practices include developing eco-friendly initiatives [38], implementing energy-saving technologies [39], and promoting broader sustainable business practices [40].

The dimensions of EO typically encompass proactiveness, opportunity recognition, innovativeness, resource leveraging, calculated risk-taking, customer intensity, and value creation [41]. A strong EO has been shown to enhance corporate performance [38]. Research further indicates that institutional pressures—including regulatory, normative, and cognitive dimensions—significantly influence green innovation and EO, which in turn shape sustainable performance and entrepreneurial outcomes [22].

Empirical studies highlight that institutional pressures encourage firms to adopt green practices, with EO acting as a mediator that strengthens green innovation. However, an unbalanced or excessive EO may negatively moderate the relationship between green innovation and sustainable performance [22], [42], [43]. Likewise, social EO has been found to be positively influenced by institutional pressures, with utilitarian identity reinforcing the relationship, while other-regarding values weaken it [44].

Moreover, managerial commitment plays a vital role in reinforcing the relationship between market orientation and green supply chain practices under institutional pressures [45]. For new ventures, coercive, normative, and mimetic pressures enhance entrepreneurial performance through green EO, with network centrality amplifying these effects [43]. Based on this discussion, the following hypothesis is proposed:

H4: Institutional pressures positively influence entrepreneurship orientation.

2.6. Institutional Pressures and Dynamic Capability

Dynamic capability (DC) refers to a firm's ability to integrate, build, and reconfigure internal and external competencies in order to respond to rapidly changing environments [46]. DC is commonly described as comprising three dimensions: sensing opportunities and threats, seizing opportunities, and transforming resources [47]. These capabilities enable firms to adapt to technological shifts, market dynamics, and institutional pressures, thereby supporting long-term competitiveness.

Institutional pressures strongly influence DC by requiring firms to adjust their strategies, structures, and processes. Coercive pressures arising from regulations encourage firms to adopt sustainable practices, while normative and mimetic pressures stimulate innovation and collaboration [48]. Research demonstrates that firms with well-developed DC are better equipped to respond to institutional demands, thereby improving resilience and performance [49].

Recent evidence reinforces this view. Jin et al. [48] report that institutional pressures promote the development of DCs that strengthen environmental performance. Similarly, Singh et al. [47] find that green dynamic capabilities mediate the relationship between institutional pressures and sustainable supply chain practices. Based on this discussion, the following hypothesis is proposed:

H5: Institutional pressures positively influence dynamic capability.

2.7. Digital Transformation and Corporate Performance.

Digital transformation has become a critical driver of corporate performance in the modern business landscape [30]. By integrating advanced technologies such as artificial intelligence, big data analytics, cloud computing, and the Internet of Things (IoT), organizations can enhance efficiency, streamline operations, and improve decision-making processes [50]. This integration enables companies to respond more effectively to market demands, optimize resource allocation, and create innovative business models that enhance competitiveness [51]. Additionally, digitalization fosters

better customer engagement by providing personalized experiences and seamless interactions across multiple platforms [52].

However, successful implementation requires strategic planning, leadership commitment, and continuous adaptation to technological advancements [53]. Digital transformation significantly influences corporate performance by enhancing operational efficiency, improving customer engagement, and fostering innovation. Studies show that firms undergoing digital transformation achieve superior financial and non-financial outcomes, such as increased profitability and sustainability performance, particularly when supported by strong corporate governance and strategic alignment [54]. For instance, digital transformation positively impacts environmental, social, and governance (ESG) management, which in turn enhances firm performance, though regional differences exist, as seen in comparisons between Korea and China [55].

Additionally, the mediating role of business model innovation and innovation capability further amplifies the relationship between digital transformation and corporate performance, particularly in manufacturing industries [56]. However, challenges like resource allocation and resistance to change can hinder successful implementation, emphasizing the need for strategic plan [57]. Based on these discussions, this study proposes:

H6: Digital transformation positively influences corporate performance.

2.8. Entrepreneurship Orientation and Corporate Performance

Entrepreneurial Orientation (EO) plays a pivotal role in shaping corporate performance. Firms that embrace an entrepreneurial mindset are better positioned to identify emerging market opportunities, develop innovative products or services, and adapt swiftly to dynamic business environments [58]. EO enhances competitive advantage by fostering strategic flexibility and cultivating a culture of continuous improvement [59]. Entrepreneurial firms also tend to demonstrate greater resilience, enabling them to navigate uncertainty and sustain long-term growth [60]. However, the influence of EO on corporate performance is not uniform; it depends on contextual factors such as organizational culture, resource availability, and innovation capabilities [59]. Accordingly, businesses that strategically embed entrepreneurial principles into their operations are more likely to achieve superior performance and long-term success in competitive markets.

Empirical evidence reinforces the critical role of EO in driving corporate outcomes. Zhang et al. [22] found that EO mediates the relationship between institutional pressures, green innovation, and sustainable performance. Similarly, Nguyen et al. [61] reported that although EO does not directly influence business performance in Small And Medium-Sized Enterprises (SMEs), it indirectly enhances outcomes through team creativity, dynamic capabilities, and competitive advantages. Mondal et al. [62] further emphasized that EO, particularly when linked to sustainability, contributes to long-term performance when supported by corporate social responsibility and policy awareness. Likewise, Aftab et al. [63] demonstrated that EO fosters firm performance through green innovation, moderated by corporate social responsibility and differentiation strategies.

Other studies provide additional insights into the mechanisms through which EO affects performance. Baquero [64] showed that EO strengthens sustainable performance through green knowledge acquisition, with resource orchestration capabilities serving as a moderator. Zhen and Ali [65] highlighted the mediating role of organizational agility in enhancing the EO–corporate performance relationship, while Yi et al. [66] identified EO as a key driver of corporate dual performance through effective resource management. Moreover, Arabeche et al. [59] confirmed that organizational culture significantly mediates the EO–performance link in the context of Algerian SMEs. Based on this discussion, the following hypothesis is proposed:

H7: Entrepreneurship orientation positively influences corporate performance.

2.9. Dynamic Capability and Corporate Performance

Dynamic Capability (DC) is a critical determinant of corporate performance, as it enables firms to adapt, integrate, and reconfigure internal and external resources in response to rapidly changing market conditions [67]. Organizations with strong DCs can continuously innovate, enhance operational efficiency, and sustain competitive advantage in dynamic environments [68]. This adaptability allows firms to capture emerging opportunities, mitigate risks, and optimize

strategic decision-making [69]. In addition, DC fosters organizational resilience, supporting long-term growth and sustainability [70]. However, its effectiveness depends on factors such as leadership, organizational culture, and knowledge management [71]. Firms that successfully develop and apply DC are more likely to achieve superior performance and remain competitive in increasingly complex global markets.

Empirical studies underscore the multifaceted role of DC in strengthening firm outcomes. Chen and Guo [72] reported that while green supply chain management may initially hinder firm performance, when combined with carbon neutrality capabilities and digital transformation, it contributes to long-term success. Similarly, Hassan et al. [73] emphasized that green human resource management enhances sustainable performance through the development of green DC and strategic flexibility. Zhang et al. [74] demonstrated that digital marketing improves corporate performance via information-based DC, while Wimpertiwi et al. [75] found that SMEs must strategically align their DC with market needs to maximize outcomes.

Further evidence highlights DC as a mechanism for value creation and competitive advantage. Dovbischuk [67] confirmed that DC strengthens both competitive positioning and firm performance, while Alkaraan et al. [68] linked green strategic investment with technological innovation and governance, mediated by DC. Finally, Chen and Zheng [76] established that organizational learning fosters resource integration and reconfiguration capabilities, which significantly contribute to performance improvements.

Taken together, these findings demonstrate that DC enables firms to innovate, adapt, and sustain superior outcomes by strategically reconfiguring resources in dynamic contexts. Based on this discussion, the following hypothesis is proposed:

H8: Dynamic capability positively influences corporate performance.

2.10. Indirect Effect Institutional Pressures toward Corporate Performance through Corporate Cognitive Aspects

Institutional pressures have been shown to influence corporate performance indirectly through key mediating mechanisms, particularly digital transformation, EO, and DC. While institutional pressures may not always exert a direct impact on firm performance, they shape internal processes and strategies that ultimately enhance outcomes.

Digital transformation is a central mediator in this relationship. Institutional demands often compel firms to adopt digital technologies, which, in turn, improve operational efficiency, foster innovation, and strengthen decision-making capabilities [35]. These technological advancements enable organizations to respond more effectively to evolving market needs, thereby driving both financial and non-financial performance.

EO and DC further reinforce the mediating pathway between institutional pressures and corporate performance. Prior research indicates that institutional pressures encourage the adoption of sustainable and entrepreneurial practices, which enhance performance through innovation and resource optimization [43]. Likewise, DC enables firms to reconfigure resources, adapt to environmental changes, and maintain resilience, thereby improving long-term competitiveness and performance [77].

Together, these mediating mechanisms underscore the importance of aligning internal capabilities with external institutional demands to achieve superior outcomes. Based on the discussion above, the following hypotheses are proposed:

H9: Institutional pressures positively influence corporate performance, mediated by digital transformation.

H10: Institutional pressures positively influence corporate performance, mediated by entrepreneurship orientation.

H11: Institutional pressures positively influence corporate performance, mediated by dynamic capability.

All hypotheses in this study are illustrated in [figure 1](#).

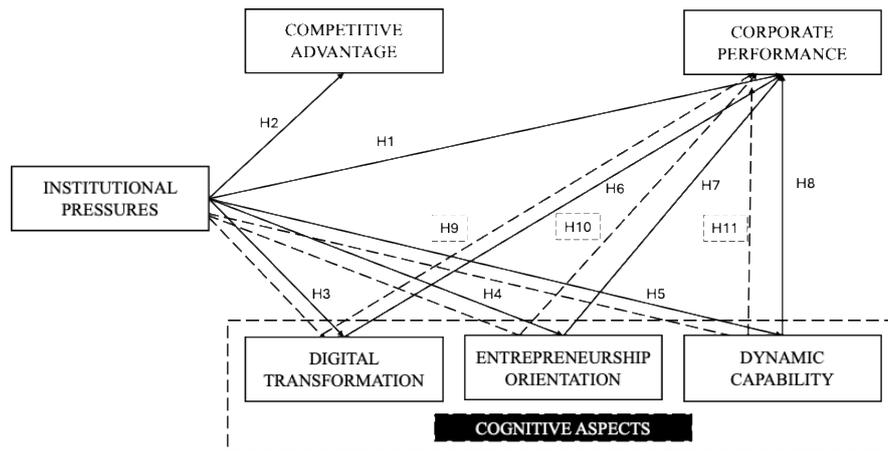


Figure 1. Framework research

3. Methodology

3.1. Sample and Procedure

This study investigates the relationships among institutional pressures, digital transformation, entrepreneurial orientation, dynamic capability, competitive advantage, and corporate performance in Indonesian creative SMEs. Structural Equation Modeling (SEM) using SmartPLS was employed, as it is well-suited for analyzing complex models involving multiple relationships and measurement errors simultaneously [78].

Data were collected from SME owners in Indonesia's creative industry through an online survey distributed via halal e-commerce platforms. A convenience sampling technique was used to recruit participants. To ensure clarity and cultural relevance, the questionnaire was administered in Indonesian. Before completing the survey, respondents were provided with a detailed explanation of the study's objectives and were assured of the confidentiality of their responses.

All constructs were measured using multi-item scales adapted from established literature. Responses were recorded on a six-point Likert scale, ranging from Strongly Disagree to Strongly Agree. The questionnaire consisted of 24 items covering the following constructs: institutional pressures [24], competitive advantage [27], digital transformation [31], entrepreneurship orientation [22], [43], dynamic capability [47] and corporate performance [22].

The measurement model was assessed to evaluate reliability and validity. The structural model was then used to test the hypothesized relationships among constructs [79]. A bootstrapping procedure with 5,000 resamples was performed to estimate standard errors and assess the statistical significance of the path coefficients [80].

3.2. Demographic Characteristics of Respondents

A total of 531 respondents were surveyed from major cities across Java, Indonesia, focusing on three key creative economy sectors: fashion, food, and crafts. The sample shows a balanced gender distribution, with 53.7% male and 46.3% female respondents. In terms of education, the majority of participants hold a high school diploma (52.5%) or a bachelor's degree (36%).

Regarding business type, 48.2% of respondents operate in the fashion sector, 20.3% in food, and 31.5% in crafts. Most respondents represent small enterprises, with 51.4% employing between one and ten workers.

The focus on fashion, food, and crafts is justified by their substantial contribution to Indonesia's national GDP, as these three sub-sectors rank among the largest contributors within the country's 17 officially recognized creative economy sectors [81]. Concentrating on these industries provides a comprehensive perspective on the dynamics of the creative sector in Indonesia's major urban centers.

4. Results and Discussion

4.1. Validity and Reliability

Table 1 presents the outer loadings of the indicators for each construct, illustrating the relationships between the observed variables (questionnaire items) and their corresponding latent constructs. All outer loadings exceed 0.70, indicating a strong association between each indicator and its intended construct, thereby demonstrating good indicator reliability. For Institutional Pressures (IP), the indicators capture the influence of environmental regulations, consumer trends, stakeholder expectations, and government policies on the creative industry, with outer loadings ranging from 0.786 to 0.874. Competitive Advantage (CA) indicators reflect a firm’s ability to outperform competitors in terms of revenue, operational costs, profitability, and strategic knowledge, with loadings between 0.806 and 0.869.

Digital Transformation (DIG) indicators emphasize the presence of well-defined strategies, processes, investments, and the effective use of digital technologies, with loadings ranging from 0.846 to 0.901. Entrepreneurial Orientation (EO) indicators highlight the firm’s strategic approach to uncertainty, documented processes for new product introduction, and responsiveness to opportunities and threats, with loadings between 0.824 and 0.863. Dynamic Capability (DC) indicators capture mechanisms for competitive flexibility, innovation-driven evaluation, and effective communication protocols, with loadings from 0.879 to 0.904.

Finally, Corporate Performance (CP) indicators reflect perceived superiority in profit growth, sales growth, and market share growth compared to competitors, with loadings ranging from 0.852 to 0.898. The Cronbach’s alpha (α), composite reliability (CR), and average variance extracted (AVE) for each construct all exceed the commonly accepted thresholds ($\alpha \geq 0.70$, $CR \geq 0.70$, $AVE \geq 0.50$), confirming both reliability and validity [82]. Overall, these findings indicate that the measurement model is robust, providing a solid foundation for subsequent analyses.

Table 1. Outer Loading Results

Items	Indicators	Outer loadings
Institutional pressures. $\alpha = 0.879$; CR = 0.912; AVE = 0.674		
IP1	I recognize that the creative industry is influenced by environmental regulations set by the local government.	0.800
IP2	I implement creative strategies in response to evolving consumer trends.	0.874
IP3	I align my company's strategy with the expectations of stakeholders, including regulatory bodies and creative industry associations.	0.786
IP4	I develop new strategies in response to strict government regulations on consumer rights protection.	0.801
IP5	I take into account the policies of creative industry associations when formulating my company’s strategy.	0.842
Competitive advantage. $\alpha = 0.890$; CR = 0.919; AVE =0.695		
CA1	My company’s revenue from new products outperforms that of its competitors.	0.869
CA2	My company’s operational costs in production are lower than those of its competitors.	0.833
CA3	The profitability of my company’s new products exceeds that of its competitors.	0.829
CA4	My company’s new products leverage knowledge of competitive strategies.	0.806
CA5	My company’s new products are developed in accordance with competitive principles	0.831
Digital transformation. $\alpha = 0.897$; CR = 0.928; AVE = 0.764		
DIG1	Our company has a clearly defined strategy for allocating resources to develop digital infrastructure and facilities.	0.846
DIG2	Our company has established processes for leveraging digital technology applications to improve its digital operations.	0.864

Items	Indicators	Outer loadings
DIG3	Our company's investments in training and development effectively empower skilled personnel to enhance digital operations.	0.901
DIG4	I can confidently assess that the use of digital technology in my company is effective and aligned with industry standards.	0.884
Entrepreneurship orientation. $\alpha = 0.865$; CR = 0.908; AVE = 0.712		
EO1	Our firm understands the potential benefits and risks associated with making aggressive investments in the face of uncertainty.	0.829
EO2	Our firm's leadership exhibits a well-informed and strategic approach to dealing with uncertainty.	0.859
EO3	Our firm possesses a documented process for the introduction of new products or services.	0.863
EO4	Our firm can accurately assess and respond to opportunities and threats when faced with uncertainty.	0.824
Dynamic capability. $\alpha = 0.869$; CR = 0.920; AVE = 0.793		
DC1	Our firm has formal mechanisms to demonstrate and assess competitive flexibility in the creative industry.	0.888
DC2	Our firm has processes in place to regularly evaluate its strengths and weaknesses to identify opportunities for innovation.	0.904
DC3	Our firm has communication protocols in place to effectively implement management practices.	0.879
Corporate performance. $\alpha = 0.857$; CR = 0.913; AVE = 0.778		
CP1	I believe that our company's profit growth is superior to that of our main industry competitors.	0.896
CP2	I believe that our company's growth in sales is superior to that of our main industry competitors.	0.898
CP3	I feel confident that our company's market share growth is superior to that of our main industry competitors	0.852

Table 2 presents the discriminant validity assessment using the Fornell–Larcker criterion. The diagonal values represent the square root of the Average Variance Extracted (AVE) for each construct, while the off-diagonal values represent the correlations between constructs. Discriminant validity is confirmed when the square root of the AVE for a construct exceeds its highest correlation with any other construct [83].

In this study, the square root of the AVE for each construct—Competitive Advantage, Corporate Performance, Digital Transformation, Dynamic Capability, Entrepreneurial Orientation, and Institutional Pressures—surpasses its correlations with all other constructs in the model. For instance, the square root of the AVE for Competitive Advantage (0.834) is greater than its highest correlation with another construct (0.772 with Entrepreneurial Orientation). Similar results hold for the remaining constructs, thereby demonstrating adequate discriminant validity across the model.

These findings confirm that each construct is empirically distinct and captures a unique dimension of the phenomenon under investigation, thereby supporting the robustness of the measurement model for subsequent analyses.

Table 2. Discriminant Validity

	CA	CP	DIG	DC	EO	IP
Competitive Advantage	0.834					
Corporate Performance	0.715	0.882				
Digital Transformation	0.720	0.859	0.874			
Dynamic Capability	0.693	0.873	0.835	0.890		
Entrepreneurship Orientation	0.772	0.793	0.792	0.771	0.844	
Institutional Pressures	0.759	0.669	0.656	0.660	0.748	0.821

4.2. Testing Hypotheses

Table 3 presents the path coefficients, t-statistics, and p-values for the direct relationships among the constructs. The results indicate several significant positive relationships. Institutional Pressures positively and significantly influence Digital Transformation ($\beta = 0.656, p < 0.001$), Entrepreneurial Orientation ($\beta = 0.748, p < 0.001$), Dynamic Capability ($\beta = 0.660, p < 0.001$), and Competitive Advantage ($\beta = 0.759, p < 0.001$). These findings suggest that higher levels of institutional pressures encourage firms to adopt digital technologies, foster entrepreneurial behavior, develop dynamic capabilities, and strengthen their competitive advantage.

However, the direct effect of Institutional Pressures on Corporate Performance is not significant ($\beta = 0.039, p = 0.231$). In contrast, Digital Transformation ($\beta = 0.347, p < 0.001$), Entrepreneurial Orientation ($\beta = 0.146, p = 0.007$), and Dynamic Capability ($\beta = 0.446, p < 0.001$) each exert a significant positive influence on Corporate Performance. These results imply that while Institutional Pressures do not directly improve performance, they contribute indirectly through their impact on internal capabilities. In particular, firms that successfully leverage digital technologies, cultivate entrepreneurial orientation, and strengthen dynamic capabilities in response to institutional demands are more likely to achieve superior performance outcomes.

Table 3. Path Coefficients

	Original sample (O)	T statistics	P values
IP → DIG	0.656	11.777	0.000
IP → EO	0.748	22.821	0.000
IP → DC	0.660	11.946	0.000
IP → CA	0.759	20.920	0.000
IP → CP	0.039	1.200	0.231
DIG → CP	0.347	5.943	0.000
EO → CP	0.146	2.702	0.007
DC → CP	0.446	7.095	0.000

Table 4 summarizes the specific indirect effects of Institutional Pressures on Corporate Performance through Digital Transformation, Entrepreneurial Orientation, and Dynamic Capability. All three indirect effects are significant. Specifically, Institutional Pressures indirectly enhance Corporate Performance via Digital Transformation ($\beta = 0.227, p < 0.001$), Entrepreneurial Orientation ($\beta = 0.109, p = 0.008$), and Dynamic Capability ($\beta = 0.294, p < 0.001$).

These results underscore the mediating role of organizational capabilities in translating institutional demands into superior performance outcomes. In other words, firms that adapt to institutional pressures by strengthening their digital, entrepreneurial, and dynamic capabilities are more likely to achieve sustained competitive and financial success.

Table 4. Specific Indirect Effects

	Original sample (O)	T statistics	P values
IP → DIG → CP	0.227	5.303	0.000
IP → EO → CP	0.109	2.658	0.008
IP → DC → CP	0.294	6.436	0.000.

4.3. Discussion

The findings of this study provide important insights into the direct and indirect effects of institutional pressures on corporate cognitive aspects and, subsequently, corporate performance. Institutional pressures—comprising regulatory, normative, and mimetic forces—were found to positively and significantly influence Digital Transformation ($\beta = 0.656, p < 0.001$), Entrepreneurial Orientation ($\beta = 0.748, p < 0.001$), Dynamic Capability ($\beta = 0.660, p < 0.001$), and Competitive Advantage ($\beta = 0.759, p < 0.001$). These results are consistent with prior studies, such as Kuo et al. [31], who showed that coercive and mimetic pressures drive digital transformation in the maritime industry, and Alshumrani

et al. [29], who demonstrated the role of institutional pressures in promoting management innovation and sustainable competitive advantage. Together, these findings highlight the role of cognitive aspects as mediators that translate external institutional demands into organizational strategies and capabilities.

In contrast, the direct relationship between Institutional Pressures and Corporate Performance was not significant ($\beta = 0.039$, $p = 0.231$). This finding aligns with Wiredu et al. [21], who also reported no direct link between institutional pressures and performance. This suggests that institutional demands, while shaping firms' orientations and capabilities, must be strategically mediated to yield tangible performance outcomes. Indeed, Digital Transformation ($\beta = 0.347$, $p < 0.001$), Entrepreneurial Orientation ($\beta = 0.146$, $p = 0.007$), and Dynamic Capability ($\beta = 0.446$, $p < 0.001$) each had significant positive effects on Corporate Performance, corroborating the findings of He et al. [35], Meng et al. [56], Liu et al. [43], Zhang et al. [22], and Jain et al. [77]. These studies collectively emphasize the importance of technological adoption, entrepreneurial practices, and adaptive capabilities in enhancing firm outcomes.

The mediating hypotheses (H9–H11) further confirm the indirect pathways through which institutional pressures affect performance. Digital Transformation enables firms to leverage technology for efficiency and innovation, supporting findings by He et al. [35]. Entrepreneurial Orientation channels institutional demands into innovation and competitive advantage, consistent with Liu et al. [43]. Dynamic Capability allows firms to adapt and reconfigure resources, validating arguments by Jain et al. [77] regarding the central role of adaptability in achieving superior performance.

Overall, these findings suggest that institutional pressures act as catalysts for strategic change rather than direct drivers of performance. Firms that merely comply with external requirements are unlikely to realize performance gains; instead, they must proactively leverage cognitive aspects such as digitalization, entrepreneurial orientation, and dynamic capabilities to convert institutional demands into competitive and financial benefits.

In the context of Indonesia's creative industries, these results are particularly relevant. Fashion, food, and craft enterprises operate in an environment shaped by rapid technological shifts and rising consumer demand for sustainability. Digital Transformation facilitates innovation and process efficiency, Entrepreneurial Orientation encourages proactive and risk-taking behavior, and Dynamic Capability ensures resource reconfiguration and market responsiveness. Together, these factors enhance the resilience and long-term sustainability of Indonesian creative SMEs, enabling them to thrive under institutional pressures.

Among the three mediating mechanisms, dynamic capability exhibits the strongest indirect effect ($\beta = 0.294$), suggesting that the ability to reconfigure resources and adapt strategically is the most critical cognitive asset for creative firms under institutional pressure. This finding underscores that in volatile and culturally nuanced markets like Indonesia, agility and learning may outweigh pure technological adoption or entrepreneurial risk-taking in driving sustainable performance. The non-significant direct path from institutional pressures to corporate performance challenges the assumption that compliance alone yields competitive returns. Instead, it implies that institutional demands, whether regulatory, normative, or mimetic, must be internalized and translated through cognitive and strategic filters. Firms that treat institutional pressures as mere external constraints rather than as signals for strategic renewal are unlikely to benefit performance-wise.

In the context of Indonesian creative SMEs, this means that a batik artisan facing new halal certification requirements (a coercive pressure) will not automatically perform better by complying. However, if the artisan uses this as a catalyst to digitize marketing (digital transformation), experiment with eco-friendly dyes (EO), and restructure supply chains (DC), then performance improves. This micro-level illustration aligns with our macro-level statistical findings. This study proposes that creative industry firms can effectively overcome institutional barriers by implementing three interrelated solutions: digital transformation to improve operational efficiency, entrepreneurial orientation to foster innovation and responsiveness, and dynamic capability to sustain adaptability and competitiveness. Together, these solutions provide a practical framework for translating institutional demands into strategic growth opportunities.

5. Conclusion

5.1. Implication

This study contributes to the literature by integrating institutional theory with corporate cognitive aspects, offering a novel perspective on how firms achieve sustainable competitive advantage. While prior research often examined these constructs in isolation or within specific industries, such as eco-innovation in manufacturing SMEs [26] or green entrepreneurial orientation in tourism [84], [85], this study provides a comprehensive framework for the creative

industry. By doing so, it advances understanding of how institutional pressures interact with digital transformation, entrepreneurial orientation, and dynamic capability to influence corporate performance.

Unlike previous studies that focused separately on institutional or cognitive aspects, this research uniquely integrates both within a single empirical framework, thus offering a more comprehensive understanding of strategic adaptation under institutional pressures. The findings also align with the United Nations Sustainable Development Goals (SDGs), particularly SDG 9 (Industry, Innovation, and Infrastructure) and SDG 12 (Responsible Consumption and Production). The emphasis on digital transformation, innovation, and sustainability reinforces the global agenda for responsible industrial development and consumption patterns.

From a practical standpoint, the results highlight several implications. For policymakers, the findings underscore the need to create supportive ecosystems that encourage digital adoption, innovation, and entrepreneurial activity in the creative sector. For business owners, the study emphasizes the strategic value of investing in digitalization, cultivating entrepreneurial cultures, and developing dynamic capabilities to achieve long-term sustainability and profitability. Collectively, these insights provide actionable guidance for navigating competitive and institutional pressures in emerging markets.

5.2. Limitation and Future Research

Despite its contributions, this study has several limitations. First, its focus on the Indonesian creative industry may limit the generalizability of the findings to other sectors or geographic contexts. Future research could apply the proposed framework to different industries or countries to validate and extend these results. Second, this study focused primarily on corporate performance as the outcome variable. Incorporating additional outcomes—such as environmental or social performance—would provide a more holistic view of how institutional pressures and cognitive aspects contribute to sustainable development.

In conclusion, this study deepens the understanding of how institutional pressures shape corporate performance through cognitive aspects. By emphasizing the mediating roles of digital transformation, entrepreneurial orientation, and dynamic capability, it advances theoretical insights while offering practical recommendations for firms and policymakers. These findings not only contribute to the resilience and sustainability of Indonesia's creative industries but also align with global development goals, paving the way for innovation-driven and sustainable growth.

6. Declarations

6.1. Author Contributions

Conceptualization: I.S., S.P., and S.F.W.; Methodology: I.S.; Software: I.S.; Validation: I.S., S.P., and S.F.W.; Formal Analysis: I.S., S.P., and S.F.W.; Investigation: I.S.; Resources: I.S.; Data Curation: I.S.; Writing Original Draft Preparation: I.S., S.P., and S.F.W.; Writing Review and Editing: I.S., S.P., and S.F.W.; Visualization: I.S. All authors have read and agreed to the published version of the manuscript.

6.2. Data Availability Statement

The data presented in this study are available on request from the corresponding author.

6.3. Funding

The authors received no financial support for the research, authorship, and/or publication of this article.

6.4. Institutional Review Board Statement

Not applicable.

6.5. Informed Consent Statement

Not applicable.

6.6. Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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