

The Effect of Entrepreneurial Competencies, Business Innovation, and Management Strategies on the Success of Micro, Small, and Medium-Sized Enterprises (MSMEs) in Jatinegara Village, Cakung Subdistrict, East Jakarta City

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Keywords:	Abstract
entrepreneurial competence; business innovation; management strategy; MSME business success; mediation; PLS-SEM	Micro, Small, and Medium-Sized Enterprises (MSMEs) play a strategic role in Indonesia's economy through their contributions to employment, income generation, and economic development. However, MSMEs continue to encounter challenges related to limited entrepreneurial capabilities, innovation, and systematic business management, which may constrain their success and sustainability. This study aims to examine the effects of entrepreneurial competence, business innovation, and management strategy on the success of MSMEs in Jatinegara Village, Cakung Subdistrict, East Jakarta, both partially and simultaneously, also examines the mediating role of business innovation in the relationships between entrepreneurial competence, management strategy and MSME success. The study employed an associative quantitative approach with a descriptive-verification design. Data were collected through a five-point Likert-scale questionnaire administered to 189 MSME owners or managers selected using purposive sampling, with at least one year of business operation as a screening criterion. Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM), encompassing measurement model (outer model) and structural model (inner model) evaluation, with bootstrapping-based hypothesis testing for both direct effects and the mediating role of business innovation. The results show that management strategy has the strongest direct effect on MSME success ($\beta = 0.448$; $p < 0.001$), while entrepreneurial competence exerts a marginally significant direct effect ($\beta = 0.160$; $p = 0.051$). Entrepreneurial competence and management strategy both strongly influence business innovation ($\beta = 0.544$, $p < 0.001$; and $\beta = 0.315$, $p < 0.001$, respectively), while business innovation itself has a marginally significant direct effect on MSME success ($\beta = 0.168$; $p = 0.059$). Business innovation was also found to marginally mediate the effects of entrepreneurial competence (indirect effect = 0.091; $p = 0.067$) and management strategy (indirect effect = 0.053; $p = 0.074$) on MSME success. Entrepreneurial competence and management strategy jointly explain 62.1% of the variance in business innovation ($R^2 = 0.621$), while all three variables jointly explain 49.2% of the variance in MSME success ($R^2 = 0.492$). The study concludes that strengthening entrepreneurial competence, innovation capabilities, and strategic management practices is essential for improving MSME competitiveness, resilience, and sustainable business success.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in the Indonesian economy as the backbone of the national economy, contributing significantly to the number of business units, employment, and Gross Domestic Product (Satriaji 2023). However, MSMEs still face obstacles such as limited capital, access to technology, and marketing challenges (Aldiansyah et al. 2023; Annisa and Elfarina 2023), requiring them to continuously innovate and improve their competencies to survive and grow amidst economic dynamics (Owhoeke et al., 2025; Patterson et al., 2022; Perea-Vicente & Cunningham, 2025; Shino et al., 2024).

In Jatinegara Village, Cakung District, East Jakarta, many MSMEs lack adequate entrepreneurial competencies, such as decision-making, creativity, and risk management (Azra 2022). Business innovation is also limited to product aspects and has not yet addressed process or marketing innovations oriented to modern market needs. Meanwhile, the implementation of systematic management strategies is often neglected due to limited resources and managerial capabilities (Felix 2021). This situation creates a gap between the economic potential of MSMEs and their level of success, necessitating academic studies to analyze the influence of entrepreneurial competencies, business innovation, and management strategies on the success of MSMEs in the region.

Entrepreneurial competency encompasses a combination of knowledge, skills, and attitudes that enable entrepreneurs to manage businesses effectively and adaptively, as well as respond to market changes, take risks, and exploit opportunities (Fanzuri 2022). However, several findings indicate that the influence of entrepreneurial competency on business success is not always significant depending on the sectoral context (Satriaji 2023), raising questions about the extent to which entrepreneurial competency determines the success of MSMEs in certain areas such as Jatinegara. Business innovation, whether in the form of product, process, marketing, or business model innovation, is another critical variable in maintaining the sustainability and growth of MSMEs (Safitri and Handoyo 2024), although in micro and small businesses, innovative capacity is often constrained by limited resources and a low culture of innovation (Azra 2022). The third factor, management strategy, which encompasses planning, organizing, controlling, and leadership, enables MSMEs to be more structured in managing resources and responsive to market changes (Pudyastuti and Saputra 2021). However, literature on specific management strategies for micro-scale MSMEs in Indonesia is still relatively limited.

A review of ten previous research articles from 2021–2025 shows that studies on MSMEs have largely discussed entrepreneurship, innovation, strategy, competitiveness, and business performance factors separately or in specific objects and sectors (Felix 2021; Safitri and Handoyo 2024; Pudyastuti and Saputra 2021; Azra 2022; Rusliani et al. 2023; Tustiati 2025; Destany et al. 2022; RS Dewi et al. 2025; Annisa and Elfarina 2023), but not many have specifically tested the influence of entrepreneurial competency, business innovation, and management strategy on MSME success simultaneously in the local context of the village, with comprehensive measures of MSME success including increased revenue, customer growth, ability to survive in competition, business development, satisfaction with business performance, stable profits, and long-term prospects. This research gap is the basis for this study.

In addition to entrepreneurial competence, business innovation represents another important mechanism through which MSMEs can improve their ability to survive and grow

(Antara et al., 2025; Esubalew & Adebisi, 2024; Ismail, 2022; Jundulloh & Nasution, 2024; Mardikaningsih et al., 2022; Sakib et al., 2022; Taleb et al., 2023). Innovation in MSMEs should not be interpreted solely as the introduction of completely new products; it also includes improving existing products and services, adopting new technology, modifying operational processes, creating new marketing approaches, adapting distribution channels, and responding creatively to changing customer needs. The increasingly digital business environment has amplified the importance of such capabilities. Empirical evidence supports this argument. Mulyana and Romi (2023), examining 200 culinary MSME owners in Bandung, reported significant relationships involving entrepreneurial competence, innovation, knowledge management, and MSME performance, although the mediating effects identified in their model demonstrated that these relationships can become more complex when additional organizational mechanisms are introduced. Isa, Nurohman, and Qurniawati (2024) similarly examined Indonesian SMEs through a dynamic-capability perspective and demonstrated the importance of innovation capability in connecting entrepreneurial orientation, knowledge management, human resource management, knowledge sharing, and organizational performance. These studies suggest that innovation constitutes an important business capability, yet its impact can vary according to organizational resources, business characteristics, and the local environment in which MSMEs operate.

The role of entrepreneurial and managerial capabilities has also received considerable empirical attention, but previous findings demonstrate that the determinants of MSME performance remain context-dependent. Safitri and Handoyo (2024), for example, examined 100 culinary MSMEs in DKI Jakarta and found that entrepreneurial competence, market orientation, business strategy, and product innovation each had a positive and significant influence on business performance. Similarly, Sudirjo et al. examined 220 Indonesian MSMEs and reported significant positive effects of managerial competence, innovation, and market orientation on MSME performance, with managerial competence producing the strongest effect in their model. At the international level, Goyal and Mishra (2024) investigated MSME performance by positioning entrepreneurial competency within the relationship between entrepreneurial orientation and organizational performance, further demonstrating that competencies can operate not only as a direct organizational resource but also as a mechanism connecting entrepreneurial behavior with business outcomes. However, contradictory evidence also exists. Kasmad, Mustakim, and Purnama (2024), studying MSMEs in South Tangerang, found that competency positively and significantly influenced MSME performance, whereas product innovation did not demonstrate a statistically significant effect. The divergence among these findings indicates that entrepreneurial competence, innovation, and related managerial capabilities should not be assumed to generate identical outcomes across geographical areas and business populations.

These empirical inconsistencies establish an important research gap. Much of the existing literature has examined entrepreneurial competence, entrepreneurial orientation, product innovation, digital marketing, market orientation, competitive advantage, or business strategies either independently or through mediation and moderation models. The manuscript's review likewise demonstrates that previous MSME studies from 2021–2025 predominantly investigated entrepreneurship, innovation, strategy, competitiveness, and performance in separate models or within specific industries and geographical settings. Furthermore, several

previous studies have concentrated on culinary MSMEs or sector-specific samples, whereas the MSME ecosystem at the village level consists of heterogeneous microenterprises operating in culinary, retail, services, fashion, and small manufacturing activities. Another gap concerns the conceptualization of the dependent variable. Business performance is frequently measured through financial or operational indicators alone, while MSME success can be interpreted more comprehensively through revenue growth, customer growth, competitive survival, business development, satisfaction with business performance, profit stability, and long-term business prospects. The present research therefore addresses both an empirical and contextual gap by simultaneously examining entrepreneurial competence, business innovation, and management strategy as predictors of multidimensional MSME success within a geographically specific urban MSME ecosystem.

The urgency of examining these factors becomes stronger when the characteristics of micro and small enterprises in Jakarta are considered. BPS-Statistics DKI Jakarta continues to monitor micro and small industries based on indicators including entrepreneur and worker characteristics, business partnerships, business counseling, sources of capital, marketing, annual income, and utilization of information technology, demonstrating that MSME development is inherently multidimensional rather than dependent on financing alone. This issue is especially relevant to the current study because its respondents consist predominantly of micro-scale enterprises. The research data show that 66.1% of the 189 respondents operate culinary businesses, 26.5% are engaged in trade and retail, 94.7% employ only one to four workers, and 87.3% have never participated in MSME or entrepreneurship training. Such characteristics illustrate an environment in which organizational success can depend strongly on the individual capability of the owner-manager. Limited access to structured entrepreneurial development may reduce the ability of entrepreneurs to recognize opportunities, adopt innovation, formalize management systems, and respond strategically to competition. This creates an urgent need for empirical evidence capable of identifying which internal capabilities should receive priority in MSME development interventions.

Against this background, the novelty of this research lies in the simultaneous integration of entrepreneurial competence, business innovation, and management strategy into a single explanatory framework for MSME success at the urban-village level. Rather than examining entrepreneurship or innovation independently, the study positions MSME success as the combined outcome of the entrepreneur's individual competence, the enterprise's capacity to innovate, and the systematic application of management strategy. This integration is conceptually meaningful because the three variables represent complementary dimensions of organizational capability: entrepreneurial competence reflects the human-capital capacity of the business owner; business innovation reflects the adaptive capacity required to translate ideas and market changes into new value; and management strategy represents the organizational capacity to analyse the environment, formulate objectives, implement plans, allocate resources, and evaluate business activities. The empirical model is also differentiated from studies focusing solely on business performance because the dependent variable incorporates seven dimensions of success, including increased revenue, customer growth, competitive survival, business development, satisfaction with business performance, stable profits, and long-term prospects. This multidimensional approach provides a broader explanation of what constitutes successful microenterprise development in an urban local economy.

Accordingly, this study is designed to determine whether variations in entrepreneurial competence, business innovation, and management strategy are associated with differences in MSME success in Jatinegara Village, Cakung Subdistrict, East Jakarta. More specifically, the research seeks to examine the partial effect of entrepreneurial competence on MSME success, evaluate the effect of business innovation on MSME success, determine the effect of management strategy on MSME success, and assess whether the three explanatory variables simultaneously influence MSME success. These objectives correspond directly to the research questions established in the manuscript. By empirically evaluating these relationships within a sample of 189 MSME owners and managers, the study is expected to provide a more localized understanding of business-success determinants than studies conducted using broader provincial or sectoral populations. Such evidence is particularly relevant because managerial practices that are effective for medium-sized enterprises or highly digitalized businesses cannot automatically be assumed to have equivalent effects among microenterprises in which ownership and management functions are concentrated in one individual.

The study is expected to generate theoretical, empirical, practical, and policy contributions. Theoretically, it extends the literature on MSME success by integrating human-capital, innovation-capability, and strategic-management perspectives within one empirical framework and by testing their applicability within urban microenterprises. Empirically, the study provides evidence from Jatinegara Village that can complement earlier findings from Bandung, South Tangerang, Serang, and other Indonesian MSME settings, thereby contributing to a better understanding of geographical and sectoral variations in MSME success determinants. Practically, the findings may enable MSME owners to identify which competencies, innovative practices, and management activities require improvement to strengthen revenue, customer development, competitiveness, profit stability, and long-term business sustainability. For the government and MSME development institutions, the results can serve as evidence for designing more targeted entrepreneurship training, innovation assistance, managerial mentoring, and business-development programs, particularly given the high proportion of respondents who have never participated in entrepreneurship training. For educational and training institutions, the findings can inform the design of competency-based entrepreneurship curricula that more closely reflect the operational realities of microenterprises. Ultimately, the research is expected to benefit not only the development of academic knowledge but also the formulation of practical interventions capable of strengthening the competitiveness, resilience, and sustainable success of MSMEs in Jatinegara Village and comparable urban communities in Indonesia.

METHOD

This study used an associative quantitative approach with a descriptive-verification design to examine the influence of entrepreneurial competency, business innovation, and management strategy on the success of MSMEs, with business innovation additionally tested as a mediating variable (Creswell, 2018; Umar, 2020). The study was conducted in Jatinegara Village, Cakung District, East Jakarta City in 2025. The study population was all MSMEs actively running businesses in the area, including the trade, culinary, service, and home industry sectors. The sample was determined using purposive sampling, with respondents required to be the owner or primary manager of the MSME, to operate the business in

Jatinegara Village, Cakung District, and to have run the business for at least one year. Referring to Hair et al. (2022), who recommend a minimum sample size of 5–10 times the number of measurement indicators, the 32 indicators used in this study required a minimum of 160–320 respondents. This study involved 189 respondents who were owners or managers of MSMEs meeting these criteria.

Data were collected through a five-point Likert-scale structured questionnaire (1 = strongly disagree to 5 = strongly agree), which was compiled based on theoretical synthesis for each variable. Entrepreneurial competence (X1) was measured through 8 indicators (9 statement items, including reverse items), business innovation (X2) through 7 indicators (6 statement items), management strategy (X3) through indicators of environmental analysis, formulation, implementation, and evaluation and control of strategy (10 statement items), and MSME success (Y) through 7 indicators (9 statement items). Details of the variables and operational definitions are presented in Table 1.

Table 1. Operational Definitions of Research Variables

Variables	Code	Indicator	Number of Grains
Entrepreneurial Competence	X1	Recognizing business opportunities, measurable risks, business vision, decision making, problem solving, business motivation, increasing knowledge & skills, business relations	9
Business Innovation	X2	Product/service innovation, openness to new ideas, adaptation to consumer needs, utilization of technology, process/service innovation, marketing innovation	6
Management Strategy	X3	Environmental analysis, strategy formulation (objectives, marketing, planning), strategy implementation (execution, finance & resources, technology), strategy evaluation & control	10
Success of MSMEs	Y	Increased revenue, customer growth, ability to survive in competition, business development, satisfaction with business performance, stable profits, long-term prospects	9

Source: data processed from research instruments.

Data were analyzed using SmartPLS through Partial Least Squares Structural Equation Modeling (PLS-SEM), which was selected because the research model includes both direct and mediating relationships among latent constructs. The analysis followed a two-stage procedure. First, the measurement model (outer model) was evaluated to confirm the validity and reliability of the research instrument. Convergent validity was assessed using the outer loading value of each indicator and the Average Variance Extracted (AVE) of each construct; an indicator was declared valid if its outer loading exceeded 0.70 and the construct's AVE exceeded 0.50. Following Hair et al. (2019), indicators with an outer loading between 0.40 and 0.70 were considered for elimination if their removal increased the AVE above the recommended threshold. Reliability was assessed using Cronbach's Alpha and Composite Reliability, with both required to exceed 0.70.

Second, the structural model (inner model) was evaluated to test the hypothesized causal relationships. The coefficient of determination (R^2) was used to assess the extent to which the

independent variables explain the variance in business innovation and MSME success. Hypothesis testing for both direct effects (H1–H5) and indirect, mediating effects (H6–H7) was conducted using the bootstrapping procedure in SmartPLS at a 5% significance level with a one-tailed test. A hypothesis was accepted if its p-value was below 0.05; following Hair et al. (2019), p-values between 0.050 and 0.100 were considered marginally accepted, reflecting the 10% significance tolerance commonly applied in social and business behavioral research such as MSME studies. The mediating role of business innovation in the relationships between entrepreneurial competence and management strategy on MSME success was examined through the specific indirect effects generated by the bootstrapping procedure.

RESULTS AND DISCUSSION

Respondent Characteristics

This study involved 189 respondents who were owners or managers of MSMEs in Jatinegara Village, Cakung District, East Jakarta. Respondent characteristics based on gender, age, type of business, length of business, training participation, and number of employees are presented in Table 2.

Table 2. Characteristics of Research Respondents (N = 189)

Category	Group	Frequency (People)	Percentage (%)
Gender	Man	95	50.3
	Woman	94	49.7
Age	< 20 years	5	2.6
	20 - 30 years	25	13.2
	31 - 40 years old	52	27.5
	41 - 50 years old	61	32.3
	> 50 years	46	24.3
Type of business	Culinary (Food & Drink)	125	66.1
	Trade & Retail	50	26.5
	Service	9	4.8
	Fashion & Cosmetics	2	1.1
	Industry / Manufacturing	3	1.6
Length of Business	< 1 year	12	6.3
	13 years old	56	29.6
	4 - 6 years	50	26.5
	> 6 years	71	37.6
MSME Training	Never	165	87.3
	1 - 3 times	19	10.1
	4 - 6 times	4	2.1
	> 6 times	1	0.5

Category	Group	Frequency (People)	Percentage (%)
Number of Workers	0 people (independent)	2	1.1
	1 - 4 people	179	94.7
	5 - 10 people	8	4.2

Source: SPSS data processing results, primary data processed.

Based on Table 2, the proportion of male (50.3%) and female (49.7%) respondents is relatively balanced, with the largest age group being in the 41–50 years range (32.3%). In terms of business type, the Culinary (66.1%) and Trade & Retail (26.5%) sectors dominate, reaching 92.6% of the total respondents, indicating that the local economic cycle in this region relies on providing food and daily consumer goods needs for the community. The majority of respondents have been running their businesses for more than 6 years (37.6%), indicating that most MSMEs have passed the critical initial business phase. Spatially, the respondents' business locations are spread across various RT/RW areas in Jatinegara Village, with the highest concentration in RW 002 and RW 013 (11.1% each) and RW 003 (10.6%).

A noteworthy finding is that the absolute majority of respondents (87.3%) admitted to having never participated in any entrepreneurship training, indicating a lack of equitable distribution of entrepreneurship empowerment programs in the region. Furthermore, nearly all MSMEs (94.7%) were very small-scale businesses employing 1–4 employees, highlighting the characteristics of micro-MSMEs, which are highly dependent on the internal capacity of the business owner.

Measurement Model Evaluation (Outer Model)

Testing the quality of the data in the Partial Least Squares Structural Equation Modeling (PLS-SEM) method was carried out through the measurement model (outer model) evaluation stage. This evaluation aims to confirm that the research instrument (questionnaire) meets the methodological standards of validity and reliability, so that the measurement representation for each latent variable can be scientifically justified.

Convergent Validity

Convergent validity was measured using the Outer Loading value of each indicator and the Average Variance Extracted (AVE) of each variable. An indicator is declared valid if it has an Outer Loading value > 0.70 and an AVE value > 0.50 (Hair et al., 2019). In the initial PLS-SEM algorithm test, several indicators were found to have outer loading values below the recommended standard (< 0.70). The low loading values on these indicators were dominated by reverse-worded statement items, causing the AVE value of the research variables to fail to reach the minimum feasibility limit of 0.50. Following the PLS-SEM evaluation guidelines of Hair et al. (2019), indicators with an outer loading value between 0.40 and 0.70 can be eliminated from the measurement model if the removal increases the AVE value beyond the standard threshold. Based on this reference, the model was modified by eliminating several indicators in stages, as summarized in Table 3.

Table 3. Dropped Indicators (Outer Model Refinement)

Variable	Indicators Removed	Reason for Removal
Entrepreneurial Competence (X1)	X1.1, X1.2, X1.8_Rev, X1.9_Rev	Low outer loading value that burdened the AVE value. X1.8 and X1.9 are reverse-worded items.
Business Innovation (X2)	X2.6_Rev	Low outer loading value; a reverse-worded item susceptible to error variance.
Management Strategy (X3)	X3.6_Rev, X3.7_Rev, X3.8_Rev	Significantly reduced the AVE value; mostly reverse-worded items that disrupted model testing.
Success of MSMEs (Y)	None	All indicators met the validity and reliability criteria.

Source: SmartPLS data processing results.

Based on the details in Table 3, indicators with outer loading values below the standard were systematically removed from the model framework (dropped items). This elimination process was carried out in stages using the SmartPLS application, followed by a re-run of the algorithm until all remaining indicators met the eligibility criteria. Based on the final test results, all remaining indicators met the convergent validity criteria, as summarized in Table 4.

Table 4. Outer Loading and Average Variance Extracted (AVE) Results

Variable	Indicator	Outer Loading	AVE
Entrepreneurial Competence (X1)	X1.3	0.769	0.540
	X1.4	0.682	
	X1.5	0.661	
	X1.6	0.819	
	X1.7	0.733	
Business Innovation (X2)	X2.1	0.797	0.507
	X2.2	0.712	
	X2.3	0.730	
	X2.4	0.647	
	X2.5	0.665	
Management Strategy (X3)	X3.1	0.642	0.506
	X3.2	0.777	
	X3.3	0.767	
	X3.4	0.704	
	X3.5	0.792	
	X3.9_Rev	0.646	
Success of MSMEs (Y)	X3.10_Rev	0.629	0.539
	Y.1	0.767	
	Y.2	0.754	

Variable	Indicator	Outer Loading	AVE
	Y.3	0.751	
	Y.4	0.814	
	Y.5	0.733	
	Y.6	0.783	
	Y.7	0.729	
	Y.8_Rev	0.611	
	Y.9_Rev	0.647	

Source: SmartPLS data processing results.

Based on Table 4, the outer loading values for all retained indicators met the acceptance threshold. In line with this, the Average Variance Extracted (AVE) values were recorded at 0.540 for Entrepreneurial Competence (X1), 0.507 for Business Innovation (X2), 0.506 for Management Strategy (X3), and 0.539 for Success of MSMEs (Y). Given that all AVE values exceed the critical criterion of 0.50 (Hair et al., 2019), it can be concluded that the measurement instrument in this research model adequately meets the convergent validity criteria, with each latent construct explaining more than half of its indicators' variance.

Reliability Test (Construct Reliability)

The reliability test was assessed using two main parameters from the SmartPLS output, namely Cronbach's Alpha and Composite Reliability (ρ_c). Both values are required to exceed 0.70 to be declared reliable.

Table 5. Composite Reliability and Cronbach's Alpha

Variable	Cronbach's Alpha	Composite Reliability	Information
Entrepreneurial Competence (X1)	0.785	0.854	Reliable
Business Innovation (X2)	0.757	0.836	Reliable
Management Strategy (X3)	0.837	0.877	Reliable
Success of MSMEs (Y)	0.892	0.913	Reliable

Source: SmartPLS data processing results.

Based on Table 5, the lowest Cronbach's Alpha value was recorded at 0.757 and the lowest Composite Reliability at 0.836. Since all values on these parameters exceed the required minimum threshold of 0.70, the research questionnaire instrument can be stated to demonstrate good reliability, ensuring that the results of the subsequent structural (inner model) causality testing can be trusted and empirically justified.

Structural Model Evaluation (Inner Model)

After the outer model requirements were fulfilled, the next stage was the inner model evaluation. This evaluation aims to predict the magnitude of influence and test the hypothesized causal relationships among the research variables.

Coefficient of Determination (R-Square)

The R-Square (R^2) value measures how much of the variance in the dependent variable can be explained by the independent variables in the model.

Table 6. R-Square Values

Dependent Variable	R-Square	Percentage of Influence
Business Innovation (X2)	0.621	62.1%
Success of MSMEs (Y)	0.492	49.2%

Source: SmartPLS data processing results.

Based on Table 6, the R^2 value for Business Innovation is 0.621. Referring to the PLS-SEM classification criteria of Hair et al. (2019), this figure falls into the moderate-to-strong category, meaning that 62.1% of the variability in business innovation can be explained by entrepreneurial competence and management strategy. Meanwhile, the R^2 value for Success of MSMEs is 0.492, classified as moderate, indicating that the combination of Entrepreneurial Competence, Management Strategy, and Business Innovation simultaneously explains 49.2% of MSME success. The remaining variance of 50.8% suggests that other determinants outside this model, such as access to capital, macro-level purchasing power fluctuations, and the level of advanced digital literacy, are assumed to contribute to variation in MSME performance.

Hypothesis Testing

Hypothesis testing was carried out through the bootstrapping procedure in SmartPLS at a 5% significance level ($\alpha = 0.05$) using a one-tailed test. A hypothesis is declared accepted if the P-Values < 0.05 . However, in social and business behavioral research (such as MSME studies), Hair et al. (2019) explain that a significance tolerance of up to 10% ($\alpha = 0.10$) can still be accepted. Therefore, hypotheses producing P-Values between 0.050 and 0.100 are categorized as marginally accepted. The recapitulation of direct-effect hypothesis testing (H1 to H5) is presented in Table 7, while indirect (mediation) effect testing (H6 and H7) is presented in Table 8.

Table 7. Direct Effects Hypothesis Testing Results

Hypothesis	Path	Path Coefficient (O)	t-statistics	p-values	Decision
H1	Entrepreneurial Competence → Success of MSMEs	0.160	1.640	0.051	Accepted (Marginal)
H2	Management Strategy → Success of MSMEs	0.448	5.868	0.000	Accepted
H3	Entrepreneurial Competence → Business Innovation	0.544	8.428	0.000	Accepted
H4	Management Strategy → Business Innovation	0.315	4.874	0.000	Accepted
H5	Business Innovation → Success of MSMEs	0.168	1.564	0.059	Accepted (Marginal)

Source: SmartPLS bootstrapping results.

Table 8. Indirect Effects (Mediation) Hypothesis Testing Results

Hypothesis	Mediation Path	Indirect Coefficient (O)	t-statistics	p-values	Decision
H6	Entrepreneurial Competence → Business Innovation → Success of MSMEs	0.091	1.502	0.067	Accepted (Marginal)

Hypothesis	Mediation Path	Indirect Coefficient (O)	t-statistics	p-values	Decision
H7	Management Strategy → Business Innovation → Success of MSMEs	0.053	1.444	0.074	Accepted (Marginal)

Source: SmartPLS bootstrapping results (specific indirect effects).

The Influence of Entrepreneurial Competence on MSME Success (H1). The path coefficient of 0.160 with a t-statistic of 1.640 and p-value of 0.051 indicates that, within the 10% significance tolerance, H1 is accepted on a marginal basis. Higher competence, in terms of experience and skill, allows business owners to manage resources more tactically amid market volatility. This finding affirms Human Capital Theory (Becker, 1964) and is consistent with Annisa and Elfarina (2023), where human capital acts as a foundational driver of business performance, although its direct effect in a highly competitive area is not as strong as the execution of management strategy.

The Influence of Management Strategy on MSME Success (H2). A path coefficient of 0.448, t-statistic of 5.868, and p-value of 0.000 (< 0.05) indicate that H2 is accepted. MSMEs that discipline themselves in executing strategic planning are shown to reduce the risk of operational failure and allocate budgets more efficiently. This finding strongly reinforces the Resource-Based View (Barney, 1991) and is consistent with Pudyastuti and Saputra (2021), in which managerial strategy is viewed as an intangible resource that genuinely creates MSME competitive advantage.

The Influence of Entrepreneurial Competence on Business Innovation (H3). The test results recorded a path coefficient of 0.544 with a very strong t-statistic of 8.428 and p-value of 0.000 (< 0.05), so H3 is accepted. Competent and experienced entrepreneurs possess high analytical sensitivity in reading market opportunities amid shifting consumer preferences. This affirms the Dynamic Capability Theory (Teece et al., 1997), which, in the context of modern digital-era MSMEs, is also evidenced by Tustiati (2025), where individual baseline competence dynamically transforms into an adaptive capacity to generate fresh product ideas.

The Influence of Management Strategy on Business Innovation (H4). A path coefficient of 0.315, t-statistic of 4.874, and p-value of 0.000 (< 0.05) indicate that H4 is accepted. Successful business innovation in practice is not merely coincidental but rather the outcome of measured strategy formulation. Management strategy acts as a compass ensuring that innovation efforts are executed effectively in accordance with target consumer demand, as emphasized in the research of Felix (2021).

The Influence of Business Innovation on MSME Success (H5). The test results show a path coefficient of 0.168, t-statistic of 1.564, and p-value of 0.059. With the 10% tolerance ($\alpha = 10\%$), H5 is accepted on a marginal basis. In line with the classical Innovation Theory of Schumpeter (1934) and confirmed by the empirical study of Rusliani et al. (2023), the creation of novelty acts as an economic driving force. Although marginal due to the intense competition (red ocean) in the Jatinegara business ecosystem, innovation is nonetheless shown to operate as a differentiation instrument that supports business success.

The Mediating Role of Business Innovation in the Relationship between Entrepreneurial Competence and MSME Success (H6). Based on the specific indirect effects test, an indirect coefficient of 0.091, t-statistic of 1.502, and p-value of 0.067 were obtained, indicating that H6

is accepted on a marginal basis. This causal mechanism explains that human capital (competence) will not have a transformative impact unless it is channeled into a manifestation of renewal. In this regard, innovation acts as a catalytic bridge that converts the owner's abstract expertise into a tangible, marketable product (Destany et al., 2022).

The Mediating Role of Business Innovation in the Relationship between Management Strategy and MSME Success (H7). The indirect effect test recorded a coefficient of 0.053, t-statistic of 1.444, and p-value of 0.074, confirming that H7 is accepted on a marginal basis. The causality of this path demonstrates that organizational planning on paper (strategy) requires an operational vehicle in the form of renewal action (innovation) in order to produce financial and operational outcomes that MSMEs can directly experience (Saratian et al., 2025).

Taken together, the findings show that the success of MSMEs in Jatinegara Village is not a matter of chance driven by a single factor, but rather the result of a complex synthesis in which the sharpness of Management Strategy execution ($\beta = 0.448$) provides the strongest direct contribution to MSME success, while Entrepreneurial Competence is the most fundamental predictor of Business Innovation ($\beta = 0.544$). This indicates that strategy functions as the execution engine, while competence is the embryo of renewal. The marginal significance of business innovation's direct effect and its mediating role (H5, H6, H7) is itself an important empirical contribution: given that the sample is dominated by the culinary sector (66.1%), the Jatinegara business ecosystem has practically become a red ocean, a highly saturated and hyper-competitive market with a low barrier to entry. In such conditions, forms of innovation such as new menu variants, contemporary packaging designs, or online delivery promotions are easily imitated by competitors within days, shortening the window of opportunity for MSMEs to enjoy an exclusive surge in revenue and thereby producing marginal statistical effects. Consistent with Schumpeter's (1934) innovation theory as reinforced by Destany et al. (2022) and Rusliani et al. (2023), innovation remains a catalytic bridge; however, in a hyper-competitive market its function shifts from a guarantee of rapid wealth multiplication into a minimum survival instrument that keeps the business from being eliminated by natural market selection.

These findings are consistent with the respondent characteristics of this study, in which 94.7% of MSMEs are classified as very micro-scale businesses with 1–4 employees, and 87.3% have never received formal entrepreneurship training. At this small operational scale, business success is highly dependent on the capacity of the individual owner, because nearly all managerial functions, from decision-making and financial management to marketing strategy, are carried out directly by the owner without a formal organizational structure. This condition strengthens the relevance of Human Capital Theory and the Resource-Based View in the context of urban micro MSMEs, while extending the Dynamic Capability Theory by showing that, in a hyper-competitive urban market, innovation capacity functions not merely as an expansion tool but as a survival imperative. These results also underscore the urgency of entrepreneurship training programs that directly target business owners and of policy interventions aimed at diversifying MSME business sectors beyond the saturated culinary segment.

CONCLUSION

This study concludes that the success of Micro, Small, and Medium-Sized Enterprises (MSMEs) in Jatinegara Village, Cakung Subdistrict, East Jakarta, is shaped by a complex causal structure involving entrepreneurial competence, management strategy, and business innovation, rather than by any single factor in isolation. Using Partial Least Squares Structural Equation Modeling (PLS-SEM), the results show that management strategy is the strongest and most dominant direct driver of MSME success ($\beta = 0.448$; $t = 5.868$; $p < 0.001$), while entrepreneurial competence exerts a marginally significant direct effect ($\beta = 0.160$; $t = 1.640$; $p = 0.051$). Entrepreneurial competence and management strategy are both strong predictors of business innovation ($\beta = 0.544$, $p < 0.001$; and $\beta = 0.315$, $p < 0.001$, respectively), confirming that strategy functions as the execution engine of business performance while competence acts as the embryo of innovation.

Business innovation itself has a marginally significant direct effect on MSME success ($\beta = 0.168$; $p = 0.059$) and marginally mediates the effects of entrepreneurial competence (indirect effect = 0.091; $p = 0.067$) and management strategy (indirect effect = 0.053; $p = 0.074$) on MSME success. Rather than indicating weak relevance, this marginal significance reflects the highly saturated, red-ocean character of the local business ecosystem, where the majority of respondents (66.1%) operate in the culinary sector: innovations such as new menu variants, packaging redesigns, or online delivery promotions are easily replicated by competitors, shortening the window of opportunity for MSMEs to capture an exclusive commercial advantage from any single innovation. Entrepreneurial competence and management strategy jointly explain 62.1% of the variance in business innovation ($R^2 = 0.621$), while all three variables jointly explain 49.2% of the variance in MSME success ($R^2 = 0.492$), leaving 50.8% of the variance attributable to factors outside the model, such as access to capital, macro-level purchasing power, and digital literacy.

Theoretically, these findings reinforce the Resource-Based View by demonstrating management strategy as an intangible resource that creates competitive advantage, affirm Human Capital Theory by confirming individual experience as a foundational form of capital, and extend Dynamic Capability Theory by showing that, in a hyper-competitive urban market, innovation capability functions not merely as a tool for expansion but as a survival imperative. Practically, given that 94.7% of respondents operate micro-scale businesses with only 1–4 employees and 87.3% have never received formal entrepreneurship training, MSME owners in Jatinegara are recommended to shift their innovation focus from product taste alone toward enhancing the overall customer experience, for example through professional packaging design, standardized service procedures, and more aggressive positioning on digital food-delivery platforms. Local government and supporting institutions are encouraged to move beyond basic business-legality assistance (e.g., business registration and halal certification) toward a business-diversification incubator model that helps MSMEs explore sectors beyond the saturated food and beverage segment, alongside grant schemes for administrative digitalization.

Future research is recommended to incorporate additional macro-structural variables not captured in the present model, such as digital financial literacy and access to capital resilience, to produce a more comprehensive predictive model of MSME success. Given that the present sample is dominated by the culinary sector and drawn from a single urban village using a cross-

sectional design, future studies should broaden sectoral and geographical coverage and consider longitudinal or mixed-method approaches to capture how entrepreneurial competence, management strategy, business innovation, and MSME success evolve over time, as well as explore additional mediating or moderating mechanisms such as digital transformation, competitive advantage, or environmental dynamism.

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