
The Role of Competitive Advantage as a Mediator of the Influence of Financial Aspects, Human Capital, and Innovation Capability on the Business Performance of SMEs (Empirical Study of SMEs in Manokwari Regency)

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ABSTRACT

KEYWORDS

Financial aspects, human capital, innovation capability, competitive advantage, and business performance

This research aims to analyze the direct and indirect influence of financial aspects, human capital, innovation capabilities and competitive advantage on the performance of MSME businesses in Manokwari Regency. This type of research is quantitative research using Structural Equation Modeling (SEM) analysis with the AMOS program version 25. The research population is all MSMEs in Manokwari district, totaling 1344 people. The sample in this research was 230 MSMEs. Data collection was carried out through distributing questionnaires online and offline. The research results show that the direct relationship between financial aspects, human capital, innovation capability has a positive and significant effect on competitive advantage and business performance. Competitive advantage has a positive and significant effect on business performance. For indirect relationships, financial aspects and human capital have a significant effect on business performance through competitive advantage, while innovation capability does not have a significant effect on business performance through competitive advantage.

INTRODUCTION

As an integral part of the Indonesian economy, the presence of Micro, Small, and Medium Enterprises (MSMEs) must receive special attention, from mentoring to ensuring sufficient working capital availability to compete with larger conglomerates. MSMEs are crucial for the community as they have the ability to provide employment opportunities, absorb productive-age labor reaching remote villages, increase income for the people, and have the potential to become regional and national economic activities.

The contribution of MSMEs to the Indonesian economy is undeniable. MSMEs absorb approximately 97% of the national workforce and contribute significantly to the Gross Domestic Product (GDP), around 57%. However, classic issues regarding financing and business development still persist. The government records show that in 2020, out of 56.4 million MSMEs across Indonesia, only 30% were able to access financing. From this percentage, 76.1% obtained credit from banks and 23.9% accessed non-bank sources including savings and loan businesses like cooperatives. In other words, about 60%-70% of the entire MSME sector still lacks access to financing through banking.

Internationally, MSMEs are recognized to play a vital role in economic development and growth, not only in developing countries but also in developed ones. Recognizing the importance of MSMEs, governments of almost all developing countries, including Indonesia, have long been initiating various programs, with subsidized credit schemes as the most important component, to support the development and growth of MSMEs. Additionally,

international institutions such as the World Bank, Asian Development Bank (ADB), United Nations Industrial Development Organization (UNIDO), and many donor countries through bilateral cooperation have been actively involved in capacity building efforts for MSMEs in developing countries.

In line with this, MSMEs need to be empowered to become the main driving force of economic development. The middle sector is increasingly recognized as a vehicle for economic development in both developed and developing countries. MSMEs have become a major asset in the economy because most countries in the world rely on the middle sector, which has increased in recent years. MSMEs in Indonesia play a crucial role, especially in creating/growing job opportunities or as a source of income for poor households. This is based on empirical evidence showing that this group employs far more people than those working in large enterprises.

According to the Law Number 20 of 2008, several important points are outlined as directions in the process of empowering MSMEs in Indonesia, namely: (a) creating a balanced, growing, and equitable economic structure for all, (b) developing small and medium enterprises to grow and become strong, independent businesses with an impact on society, and (c) increasing their function as partners in building the regional economy, creating jobs, providing equitable income, fostering economic growth, and being able to partner with the government in alleviating poverty in society.

Although the government's support for strengthening and empowering MSMEs is significant, MSMEs still face many challenges in the global environment, such as lack of financing, low productivity, lack of administrative capabilities, access to knowledge, and heavy regulatory burdens (Wang, S.D 2013). Additionally, based on the produced commodities, MSMEs also have weaknesses such as: 1) non-standard production quality, 2) limited product design, 3) limited product types, 4) limited product capacity and price list, 5) non-standard raw materials, 6) uncertain and incomplete product continuity.

Research by Ting, O.K (2004) in Kenya suggests that there is a high risk that MSMEs will close if they do not improve their competitiveness in the rapidly changing new world. It is acknowledged that the barriers faced by MSMEs in Kenya tend to weaken their performance, although the IMF report (2012) shows that in Kenya, MSMEs are crucial and this sector employs 74% of the workforce and contributes more than 18% to the Gross Domestic Product (GDP). This condition is similar to the problems faced by MSMEs in Indonesia, as seen in research conducted by Hasmirati (2022). Common problems experienced by MSMEs include low human resources, weak management, lack of competitive technology adoption, and weaknesses in developing market networks.

The problems faced by MSMEs require MSME players to be able to improve their business performance and be ready to compete with other MSMEs. This drives MSME players to create new and different businesses, certainly with good business performance. According to (Moeheriono, 2014), business performance is a representation of the level of achievement, implementation of a program or policy, a picture of the level of achievement of implementing a program or policy in realizing the vision and mission goals of an organization embodied through the strategic planning of an organization. A company's performance is determined by its business strategy. Many researchers have linked business strategy to performance, distinguishing between strategies related to high and low performance. Effective strategies are known to improve organizational performance (Potter & Perry, 2010).

To improve the business performance of MSMEs, many strategic factors can be implemented by both the government and the MSME players themselves, including how to

improve financial aspects, human capital, innovation capabilities, and competitive advantages of the MSMEs themselves. It is ensured that if these factors can be done and improved optimally, then it is expected that the business performance of MSMEs can significantly increase.

Financial aspects are believed to have an effect on competitive advantage and can also improve business performance because having financial capital will increase business performance (Resmi, 2021). (Okundaye et al., 2019) believe that the lack of adequate finance faced by small companies relative to large companies has a more significant effect on small companies than large companies, thus limiting the potential for business owners to build or maintain competitive advantages. Sufficient financial access will support competitive advantage strategies in the company (Castellaneta, 2016). Therefore, relevant access such as financial resources is one of the important factors that can bring competitive advantage and improve business performance. Financial capital plays a significant role in improving the performance of an MSME (Rapih, 2015).

The role of financial aspects in the performance of MSMEs can be seen from the research conducted by (Purwaningsih & Kusuma, 2015), where the results show that besides other factors, financial aspects as internal factors have a positive and significant influence on the performance of MSMEs. Munizu's research (2010) also concludes that financial factors have a significant influence on the business performance of MSMEs.

Borrowing from the intellectual capital theory proposed by Bontis (1998), it is agreed that one component of intellectual capital is human capital. Human capital is often referred to as an intangible resource closely related to knowledge and contributes to competitive advantage. Carmeli and Tishler (2008) illustrate human capital as one of the six intangible factors enhancing competitive advantage in 99 local companies in Israel. Human capital is often referred to as an intangible resource closely related to intelligence and plays a role in company performance or can also be explained as the knowledge, skills, and abilities of employees (Bhartesharyya and Bandyopadhyay, 2005). In other words, knowledge, experience, and talent are components of human capital inherent in every human being. Human capital is considered to have a greater role in a company because its contribution is significant in the success of wealth and becomes the main source of competitive advantage. This is in line with the argument from Koehestanie, et al., (2017) that human capital plays an important role in improving the performance of MSMEs.

In the context of MSMEs in Indonesia, the importance of improving human capital is inseparable from efforts to improve business performance. Research conducted by Putra, et al., (2020) proves that human capital has a significant influence on the performance of MSMEs in Indonesia. This means that the higher the quality of human capital in MSMEs, the better the business performance of MSMEs. Similarly, according to research by Agusman et al. (2016), human capital has a positive and significant effect on business performance.

Innovation is also a strategic factor that can improve business performance. Innovation is often referred to as one of the main driving factors for increasing competitiveness in the global era. Research conducted by Gupta (2019) concludes that innovation has a positive and significant effect on business performance. This means that the higher the level of innovation in a company, the better the business performance. Similar research was also conducted by Banu, et al. (2021), which proves that innovation has a positive and significant effect on business performance. The role of innovation in improving business performance is also supported by research conducted by Mustaqeem, et al. (2019) and Nasir, et al. (2018).

Lastly, the competitive advantage of MSMEs can be a strategic factor in improving business performance. Competitive advantage can be a source of strength for MSMEs in facing

competition and increasing business performance. Competitive advantage has a significant effect on business performance. This means that the higher the competitive advantage, the better the business performance. This is in line with research conducted by Utami, et al. (2019), which proves that competitive advantage has a positive and significant effect on business performance. Similar research was also conducted by Sinaga, et al. (2019), which proves that competitive advantage has a positive and significant effect on business performance. Furthermore, competitive advantage has a positive and significant effect on business performance, as evidenced by research conducted by Adi, et al. (2018) and Muluk, et al. (2018).

Based on the data presented, the research hypothesis is formulated as follows: First, financial aspects, human capital, and innovation capabilities have a positive and significant effect on competitive advantage. Second, aspects of finance, human capital, and innovation capabilities also have a positive and significant effect on business performance. Third, competitive advantage has a positive and significant effect on business performance. Thus, aspects of finance, human capital, and innovation capabilities have the potential to improve business performance through strengthening competitive advantage.

RESEARCH METHOD

This study used quantitative research methods. Sampling techniques are carried out randomly (*random sampling*), data collection using research instruments, quantitative/statistical data analysis using SEM-AMOS. The population of this study is the total owners / actors of MSMEs in Manokwari Regency totaling 1,344 units. Using the Slovin Formula, a sample of this study was obtained as many as 230 business units.

RESULTS AND DISCUSSION

Validity Test

The validity test of Financial Aspects obtained a correlation number ($R_{\text{calculate}}$) > the required r_{table} , which is 0.138. The value of Correction Item Total Correlation ($R_{\text{calculate}}$) Financial Aspect (X1) is between 0.511 - 684. This result shows that the $R_{\text{calculate}}$ value > 0.138 (R_{table}), so that all statement items on the financial aspect questionnaire are valid. The test of human capital validity obtained a correlation number ($R_{\text{calculate}}$) > r the required table which is 0.138. The value of Correction Item Total Correlation ($R_{\text{calculate}}$) Human Capital (X2) is between 0.247 - 581. This result shows that the $R_{\text{calculate}}$ value > 0.138 (R_{table}), so all items of the human capital statement are valid.

The validity test of innovation capability obtained a correlation number ($R_{\text{calculate}}$) > r the required table which is 0.138. The value of Correction Item Total Correlation ($R_{\text{calculate}}$) Innovation Capability (X3) is between 0.224 - 906. The results show that the $R_{\text{calculate}}$ value > 0.138 (R_{table}), so that all statement items on the Innovation capability questionnaire are valid. The competitive probability validity test obtained a correlation number ($R_{\text{calculate}}$) > r the required table which is 0.138. The value of Correction Item Total Correlation ($R_{\text{calculate}}$) Competitive Advantage (Y1) is between 0.253 - 928. This result indicates that the $R_{\text{calculate}}$ value > 0.138 (R_{table}), so all items of the competitive advantage statement are valid.

The validity test of business performance obtained a correlation number ($R_{\text{calculate}}$) > r the required table which is 0.138. The value of Correction Item Total Correlation ($R_{\text{calculate}}$) Business Performance (Y2) is between 0.208 - 731. The results show that the $R_{\text{calculate}}$ value > 0.138 (R_{table}), so all statement items on the business performance questionnaire are valid.

Reliability Test

The variable is said to be reliable if it gives a Cronbach Alpha value of > 0.60 (Ghozali, 2011). Alpha value which > 60% indicates that there are some respondents who answer inconsistently and Alpha increases (Ghozali, 2011) as in the following table.

Table 1. Instrument Reliability Test Results Research variables

No	Variable	Crombach's Alpha Value	Nilai Cut-Off	Analysis Results
1	Financial Aspect	0.697	0.6	Reliable
2	Human capital	0.663	0.6	Reliable
3	Innovation Capabilities	0.795	0.6	Reliable
4	Superiority Competitive	0.732	0.6	Reliable
5	Business Performance	0.683	0.6	Reliable

Source : Primary data processed SPSS 25, 2023

Based on the results of reliability tests on Financial Aspects of Human Capital, Innovation Capability, Competitive Advantage and Business Performance in table 1 produces an alpha coefficient (Cronbach's Alpha) of > 0.60 so that it can be concluded that the instrument used is reliable, meaning that the instrument used has a good level of consistency in producing the measured score.

Reliability Test and Variance Extracted

Based on the results of reliability calculations, it shows that the *construct reliability* of latent variables Financial Aspects 0.926, Human Capital 0.917, Innovation Capability 0.914, Competitive Advantage 0.900 and Business Performance of 0.917 meet the criteria for cut off value requirements of > 0.70. Likewise, the value of *variance extracted* latent variables Financial Aspect 0.714, Human Capital 0.649, Innovation Capability 0.681, Competitive Advantage 0.642 and Business Performance of 0.649 meet the *cut off value* > 0.50. So it can be concluded that each latent variable meets the reliability criterion.

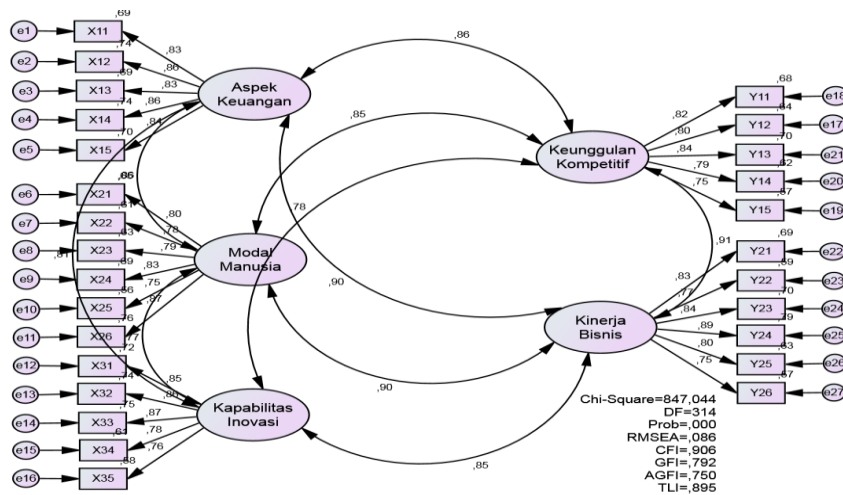


Figure 2. Model Confirmatory Factor Analysis

From the CFA model, it will produce an estimate of the correlation value between latent variables which is fully presented in the following table.

Table 2. Correlation between latent variables

Variable Correlation	Estimate	S.E.	C.R.	P	Information	
Financial Aspect	<--> Innovation Capabilities	0,450	0,056	8,038	0,000	Significant
Financial Aspect	<--> Human capital	0,509	0,063	8,073	0,000	Significant
Human capital	<--> Innovation Capabilities	0,331	0,043	7,677	0,000	Significant
Financial Aspect	<--> Superiority Competitive	0,525	0,064	8,196	0,000	Significant
Superiority Competitive	<--> Business Performance	0,549	0,065	8,425	0,000	Significant
Business Performance	<--> Innovation Capabilities	0,468	0,057	8,222	0,000	Significant
Human Capital	<--> Business Performance	0,527	0,064	8,174	0,000	Significant
Human Capital	<--> Superiority Competitive	0,399	0,050	7,964	0,000	Significant
Financial Aspect	<--> Business Performance	0,688	0,082	8,366	0,000	Significant
Superiority Competitive	<--> Innovation Capabilities	0,345	0,044	7,829	0,000	Significant

Source : Primary data processed by AMOS, 2023

Based on table 2 above, it shows that the estimated value of correlation between latent variables Financial Aspects, Human Capital, Innovation Capabilities, Competitive Advantage and Business Performance each has a value of (p) $0.000 < 0.05$ meaning that the correlation between latent variables is significant. From these results, structural model testing can be carried out in accordance with the hypothesis that has been developed.

Structural Equation Model

The results of the CFA test show that the model is acceptable because it meets the required criteria. Then from the CFA model is developed into a structural model according to the hypothesis and the model developed. The results of the complete structural model are presented in the following figure:

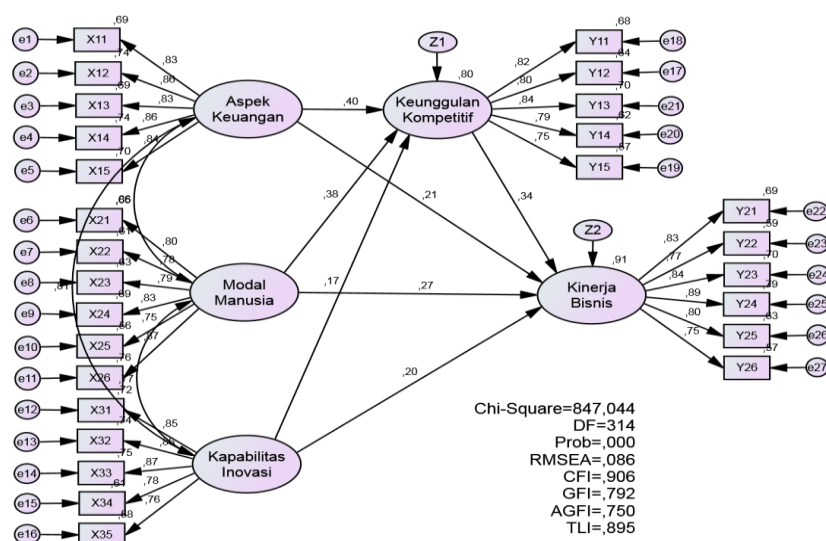


Figure 3. Structural Model

Source : Primary data processed by AMOS, 2023

Conformity Test and Empirical Model Test**Table 3. Absolute Fit Measures**

Goodness of Fit Index	Cut off value	Estimation	Information
Absolute Fit Measures			
χ^2 -Chi-square	Kecil	847.004	Fit
CMIN/DF	≤ 2.00	2.698	Moderat Fit
Probabilities	≥ 0.05	0.000	Not Fit
RMSEA	≤ 0.08	0.086	Moderat Fit
GFI	≥ 0.90	0.792	Moderat Fit

Source : Primary data processed by AMOS, 2023

Incremental fit MeasuresThe results of the *Incremental fit measures test* are presented in the following table.**Table 4. Incremental Fit Measures**

Goodness of Fit	Cut off value	Estimation	Information
Incremental fit Measures			
AGFI	≥ 0.90	0.750	Not Fit
TLI	≥ 0.95	0.895	Moderat Fit
CFI	≥ 0.95	0.906	Moderat Fit
NFI	≥ 0.90	0.859	Moderat Fit

Source : Primary data processed by AMOS, 2023

Hypothesis test

Hypothesis testing is basically to test theories based on empirical evidence in the field. From the results of data processing, it can be known the magnitude of the relationship of exogenous variables to endogenous variables, both direct relationships, indirect relationships and total relationships tested by looking at the level of significance using *the value of Critical Ratio* (CR) or (t-calculate). The relationship is said to have a significant effect if it meets the requirements, namely having a CR (t-count) value of ≥ 1.96 or having a p-value of ≤ 0.05 . The relationship can be seen in the following table:

Table 5. Direct Effect Test Results Research Variables

No	Direct influence		Estimate	S.E.	C.R.	P	Information
1	Financial Aspect	---> Superiority Competitive	0,313	0,085	3,705	0,000	Significant
2	Human Capital	---> Superiority Competitive	0,393	0,101	3,907	0,000	Significant
3	Innovation Capabilities	---> Superiority Competitive	0,182	0,087	2,087	0,037	Significant
4	Financial Aspect	---> Business Performance	0,205	0,086	2,380	0,017	Significant

No	Direct influence	Estimate	S.E.	C.R.	P	Information
5	Human Capital ---> Business Performance	0,347	0,106	3,285	0,001	Significant
6	Innovation Capabilities ---> Business Performance	0,278	0,086	3,252	0,001	Significant
7	Superiority Competitive ---> Business Performance	0,431	0,112	3,849	0,431	Significant

Source : Primary data processed by AMOS, 2023

Empirical Model Testing (*Derect Effect*)

Empirical model testing is carried out by testing the hypotheses developed from this research model. If the CR value > 1.96 or the p-value < 0.05 , then reject H_0 and accept H_1 if the CR value < 1.96 or the p-value > 0.05 . Hypothesis testing is as complete as follows:

1. Hipotesis 1

The results of statistical testing provide the estimated value of the influence of Financial Aspects on competitive advantage of 0.313, CR value 3.705 and p-value 0.000. Because the p-value of $0.000 < 0.05$ and the value of CR $3.705 > 1.96$, it is concluded that the Financial aspect has a positive and significant effect on Competitive Advantage.

2. Hipotesis 2

The results of statistical testing provide the estimated value of the effect of Human Capital on Competitive Advantage of 0.393, CR value of 3.907 and p-value of 0.000. Based on these results, because the p-value of $0.000 < 0.05$ and the value of CR $3.907 > 1.96$, it is concluded that human capital has a positive and significant effect on competitive advantage.

3. Hipotesis 3

The results of statistical testing provide the estimated value of the effect of Innovation Capability on Competitive Advantage of 0.182, CR value of 2.087 and p-value of 0.037. Based on these results, because the p-value of $0.037 < 0.05$ and the CR value of $2.087 > 1.96$, it is concluded that Innovation Capability has a positive and significant effect on Competitive Advantage.

4. Hipotesis 4

The results of statistical testing provide the estimated value of the influence of Financial Aspects on Business Performance of 0.205, CR value of 2.380 and p-value of 0.017. Based on these results, because the p-value of $0.017 < 0.05$ and the value of CR $2.380 > 1.96$, it can be concluded that the Financial Aspect has a positive and significant effect on Business Performance.

5. Hipotesis 5

The results of statistical testing provide the estimated value of the effect of Human Capital on Business Performance of 0.347, CR value of 3.285 and p-value of 0.001. Based on these results, because the p-value of $0.001 < 0.05$ and the value of CR $3.285 > 1.96$, it can be concluded that Human Capital has a positive and significant effect on Business Performance.

6. Hipotesis 6

The results of statistical testing provide the estimated value of the effect of Innovation Capability on Business Performance of 0.278, CR value 3.252 and p-value 0.001. Based on these results, because the p-value of $0.001 < 0.05$ and the CR value of $3.252 > 1.96$, it can be concluded that Innovation Capability has a positive and significant effect on Business Performance.

7. Hipotesis 7

The results of statistical testing provide the estimated value of the effect of Competitive Advantage on Business Performance of 0.417, CR value of 2.759 and p-value of 0.006. Based on these results because the p-value of $0.006 < 0.05$ and the value of CR $2.759 > 1.96$, it is concluded that Competitive Advantage has a positive and significant effect on Business Performance.

Empirical Model Testing (*indirect Effect*)

Indirect *effect* is an influence obtained through an intermediate variable / mediator.

1. Hipotesis 8

The coefficient of indirect influence of Financial Aspects on Business Performance through Competitive Advantage is $0.313 \times 0.431 = 0.135$. The z value of 2.661 is greater than Z 1.96 at a significance level of 0.05 it can be concluded that the indirect coefficient value of 0.135 is significant. Then accept H8, meaning that Financial Aspects have a significant effect on Business Performance through Competitive Advantage.

2. Hipotesis 9

The coefficient of indirect influence of Human Capital on Business Performance through Competitive Advantage is $0.393 \times 0.431 = 0.169$. The z value of 2.736 is greater than the Z value of 1.96 at the significance level of 0.05, it is concluded that the value of the indirect influence coefficient of 0.169 is significant. Then accept H9, meaning that human capital significantly affects Business Performance through Competitive Advantage.

3. Hipotesis 10

The coefficient of indirect influence of Innovation Capability on Business Performance through Competitive Advantage is $0.182 \times 0.431 = 0.079$. The calculation of the z value of the test sobel of 1.838 is smaller than Z 1.96 at the significance level of 0.05, it can be concluded that the value of the indirect coefficient of 0.078 is insignificant. So reject H10, meaning that Innovation Capability does not significantly affect Business Performance through Competitive Advantage.

Based on the results of the model analysis output, the value of each indirect influence of causality relationship in this study can be seen in table 5.24 below.

Table 6. Coefficient of indirect influence

No	Paths of Influence	Influence Indirect
1.	Financial Aspects ---> Competitive Advantage ---> Business Performance	0.135
2.	Human Capital ---> Competitive Advantage ---> Business Performance	0.169
3.	Innovation Capabilities ---> Competitive Advantage ---> Business Performance	0.078

Source : Primary data processed by AMOS, 2023

Based on the table above shows the magnitude of the value of the indirect influence coefficient, from the sobel test there are three tests showing a significant path of influence, namely from the financial aspect, and human capital. The highest indirect influence of human capital variables on business performance was 0.169. Then the indirect influence of the financial aspect is 0.135 and the lowest of the Innovation capability is only 0.078.

Total effect

Total *effect* is the influence of various relationships between variables, namely the relationship between direct and indirect influences. Based on the results of the model analysis output, the value of each effect of the total causality relationship is presented in the following table.

Table 7. Total Coefficient of Influence

No	Total Path of Influence	Direct influence	Influence Indirect	Total Influence
1	Financial Aspects ---> Business Performance	0.205	0.135	0.340
2	Human Capital ---> Business Performance	0.347	0.169	0.516
3	Innovation Capabilities ---> Business Performance	0.278	0.078	0.356

Sumber : Data primer diolah AMOS, 2023

Based on the table above, it shows that the highest total influence of human capital variables on business performance is 0.516. Then the total influence of innovation capabilities on business performance is 0.356. Then the lowest total influence on the financial aspect path on business performance was 0.340. Thus, it can be concluded that the influence of human capital on business performance is quite large, namely 0.516, following the innovation capability on business performance by 0.356 and the financial aspect on business performance by 0.340.

Discussion of Research Findings

Influence of Financial Aspects on Competitive Advantage

The analysis results indicate that financial aspects have a positive and significant impact on competitive advantage, in line with the hypothesis statement suggesting a direct positive and significant influence of financial aspects on competitive advantage. This implies that SMEs implementing sound financial practices tend to improve their competitive advantage. Field observations demonstrate that effective financial management contributes positively to SMEs in the Manokwari District, particularly due to limited access to bank loans, prompting them to rely on self-funding. This indicates that the implementation of financial aspects internally is influenced by the perception of SME actors in Manokwari District, who manage their financial assets wisely, effectively, and efficiently due to the use of their own funds and the need to manage financial assets well due to difficulties in accessing bank loans. Consequently, SME actors must strive to increase profitability to enhance capital accumulation. These findings support the research of Purwaningsih (2014) and Munizu (2010), indicating that financial aspects significantly impact SME business performance. Several studies have shown that appropriate financial management motivates companies to improve their competitive positions in the market, thereby positively impacting business performance.

Influence of Human Capital on Competitive Advantage:

The analysis results indicate that human capital has a positive and significant impact on competitive advantage, in line with the coefficient that corresponds to the hypothesis statement suggesting a direct positive and significant influence of human capital on competitive advantage. This suggests that human capital is one of the factors that can determine the level of competitive advantage of SMEs in the Manokwari District. These findings support the research of (Baroroh, 2013), stating that high human capital can drive improvements in business and financial performance. Human capital is a combination of knowledge, skills, innovation, and an individual's ability to perform tasks, thus creating value. It can be depicted that human capital is human resources with superior knowledge, skills, and competencies, which can enhance company performance to achieve competitive advantage. This research supports the findings of (Coff, 1997; Delery & Roumpi, 2017; Paulus, 2017; Qamariah & Muchtar, 2019), who agree that human capital can provide promising sources of competitive

advantage for a business. Conversely, this research does not support the study by Reniata (2016), stating that human capital does not affect competitive advantage. It also contradicts the research by (Jin et al., 2018), and Qamariah & Muchtar (2019), stating that human capital does not significantly affect competitive advantage and SME business performance. Additionally, research by Wardhani et al. (2021) indicates that the role of human capital and innovation capability is very low in influencing business performance, only at 11.4%.

Influence of Innovation Capability on Competitive Advantage:

Innovation capability has a positive and significant impact on competitive advantage. This is consistent with the coefficient corresponding to the hypothesis statement that innovation capability has a direct positive and significant influence on competitive advantage. This means that innovation capability is one of the factors determining the level of competitive advantage of SMEs in the Manokwari District in conducting their businesses. The findings of this research align with the studies of Budiastuti (2011) and (Zainurrafiqi & Amar, 2021), stating that innovation capability has a positive and significant impact on competitive advantage. The Blue Ocean Strategy has a positive and significant impact on Competitive Advantage, and Competitive Advantage has a positive and significant impact on business performance. The research by (Ferreira et al., 2018) demonstrates a direct and indirect positive influence of dynamic capabilities on competitive advantage and performance variables, with a direct impact on marketing capability and innovation capability. This study contributes to filling the gap in existing research on the direct impact of dynamic capabilities on competitive advantage and performance, considering the mediating role of marketing capability and innovation capability. Meanwhile, Troilo et al. (2010) found that innovation has an insignificant impact on company business performance. (Liao et al., 2008) showed that failed innovation can damage brand reputation even if the brand has high brand equity. Sarstedt et al. (2020) found that the influence of innovation capability, especially product innovation, is not significant in improving company business performance.

Influence of Financial Aspects on Business Performance:

The analysis results indicate that financial aspects have a positive and significant impact on SME business performance. This is consistent with the coefficient corresponding to the hypothesis statement that financial aspects have a direct positive and significant influence on SME business performance in the Manokwari District. This suggests that financial aspects are one of the factors that play a role in determining the level of SME business performance. The better the financial aspects are managed, the higher the business performance of SMEs will be. This research aligns with the findings of Musran Munizu (2010), stating that factors influencing SME performance include human resources, financial aspects, technical production and operations, market and marketing aspects, government policy aspects, social, cultural, and economic aspects, as well as the role of related institutions. This study also supports the research by Hery Hermawan and Domy Cahyo Damai (2012), indicating that financial aspects and human resource aspects significantly affect MSME performance. Research by (Kristanto, 2021) mentions that significant factors influencing SME performance are human resource aspects. Other studies supporting this research, conducted by (Resmi et al., 2021), show that financial literacy affects competitive advantage and SME performance. Research by (Pergelova & Angulo-Ruiz, 2014) also reveals that financial support seems to only have a significant impact on competitive advantage, while its role in business performance is relatively small. Research by Syahsudarmi (2018) found that financial aspects have a negative impact on business performance.

Influence of Human Capital on Business Performance:

The analysis results indicate that human capital has a positive and significant impact on SME business performance, as shown by the coefficient value. This is consistent with the coefficient corresponding to the hypothesis statement that human capital has a direct positive and significant influence on SME business performance in the Manokwari District. Human capital is one of the factors determining the level of SME business performance in the Manokwari District. The better the human capital, the higher the performance of MSMEs, and vice versa. This research supports the studies by (Syahsudarmi, 2018; Tjahjadi et al., 2021), stating that human capital has a positive and significant impact on performance, and human capital has a significant positive impact on financial aspects. This researcher also supports previous studies stating that with good human capital, not only will competitive advantage be obtained, but it will also lead to an increase in business performance (Chahal & Bakshi, 2015; Hasmirati & Akuba, 2022; Muda & Rahman, 2015).

Influence of Innovation Capability on Business Performance:

Innovation capability has a positive and significant impact on business performance as indicated by the coefficient value. This is consistent with the coefficient corresponding to hypothesis 6, which states that innovation capability has a direct positive and significant influence on business performance. This suggests that innovation capability is one of the factors that can determine the level of business performance conducted by SMEs in the Manokwari District. The higher the innovation capability, the higher the business performance of SMEs will be. The results of this research are supported by the studies of (Homburg et al., 2022; Sok et al., 2013), stating that innovation and innovation capability significantly affect SME performance. According to Tatoi (2017); Anh (2017); and Alamsjah (2019), there is a relationship between innovation capability and business performance. Effective innovation capability management helps provide more effective innovation outcomes to produce better performance and will be beneficial for management. Earlier research showing similar findings is the study by Subrahmanya (2005), which concluded that innovation in relation to performance is often found in SMEs. This study also confirms the findings of Sok et al., (2013) regarding the influence of innovation capability and company performance. Research conducted by Rahim & Zainuddin (2019) found that innovatn capability only affects competitive advantage, while its influence on company business performance is not significant.

Influence of Competitive Advantage on Business Performance:

Competitive advantage has a positive and significant impact on business performance, as indicated by the coefficient value. This is consistent with the coefficient corresponding to hypothesis 7, which states that competitive advantage has a direct positive and significant influence on business performance. Competitive advantage is one of the factors that can determine the level of SME business performance. The higher the competitive advantage, the higher the business performance of SMEs in the Manokwari District. The findings of this study are in line with the research by Hitt, et al. (2016), stating that advantage as the organization's ability to utilize resources and connect them to achieve predetermined goals. Competitive advantage can drive companies to create and exploit external opportunities as well as the resources possessed by the organization. Competitive Advantage reflects the competitive conditions of a product and is based on the amount of funds and creates even larger fund alliances (Morgan & Hunt, 1994). Several previous studies have proven that competitive advantage has a positive influence on organizational performance (Baah & Jin, 2019; Chaghooshi et al., 2015; Kuo et al., 2017). Competitive advantage becomes one of the factors for an organization to compete with competitors and can improve organizational performance. SMEs can have sustainable competitive advantages in the market when they have implemented

strategies that cannot be immediately imitated by competitors, and when other companies find it difficult to obtain the resources needed to implement business strategies. (Porter, 2008) explains that competitive advantage is the organization's ability to gain economic advantages over its competitors.

Influence of Financial Aspects on Business Performance through Competitive Advantage:

The test results on the influence of financial aspects on business performance through competitive advantage are indicated by the Sobel test coefficient. This is consistent with the coefficient corresponding to the hypothesis statement, indicating a significant influence, thus showing that financial aspects have a positive and significant impact on SME business performance in the Manokwari District through competitive advantage. The findings of this study indicate that the higher the financial aspects, the better the business performance of SMEs, mediated by competitive advantage. This further reinforces that the positive impact of financial aspects on the process of improving business performance is significant in operating and developing SMEs in the Manokwari District, when done through competitive advantage. The results of the mediation variable test indicate that competitive advantage can partially mediate, meaning that the implementation of financial aspects can directly affect business performance and when mediated by competitive advantage. The coefficient direction obtained a positive value, indicating that competitive advantage can improve SME business performance. When SMEs implement competitive advantage well, it can improve the business performance of SMEs in the Manokwari District.

Influence of Human Capital on Business Performance through Competitive Advantage:

The test results on the influence of human capital on business performance through competitive advantage are indicated by the Sobel test coefficient. This is consistent with the coefficient corresponding to the hypothesis statement, indicating a significant influence, thus showing that human capital has a positive and significant impact on SME business performance through competitive advantage. The findings of this study are in line with the research by Qamariah & Muchtar, (2019), which shows that only human capital significantly affects SME Competitive Advantage, while Social Capital does not affect SME Competitive Advantage. Furthermore, both social capital and competitive advantage significantly affect SME business performance, while human capital does not affect SME business performance. Moreover, competitive advantage does not mediate the relationship between human capital and social capital on business performance. The results of this study indicate that the higher the human capital, the better the business performance of SMEs, mediated by competitive advantage. This further reinforces that the positive impact of human capital on the process of improving business performance is significant in operating and developing SMEs when done through competitive advantage. The results of the competitive advantage test can partially mediate, meaning that the implementation of human capital can directly affect business performance and when mediated by competitive advantage, competitive advantage can improve SME business performance.

Influence of Innovation Capability on Business Performance through Competitive Advantage:

The test results on the influence of innovation capability on business performance through competitive advantage are indicated by the Sobel test coefficient. This is consistent with the coefficient corresponding to the hypothesis statement, indicating a significant influence, thus showing that innovation capability does not significantly affect SME business performance through competitive advantage. This further reinforces that the positive impact of

innovation capability on the process of improving business performance is not significant in operating and developing SMEs in the Manokwari District. These results are not in line with the research conducted by Rahim, et al., (2019), which indicates that R&D capabilities and network capabilities increase competitive advantage and company performance. However, manufacturing capability only improves company performance, unlike human resource innovation capability, which only affects competitive advantage. The research also found that competitive advantage significantly impacts company performance but does not mediate the influence of TIC dimensions (R&D capability, manufacturing capability, network capability, and human resource capability) on company performance. The results of the mediation variable test indicate that competitive advantage cannot partially mediate, meaning that the implementation of innovation capability cannot directly affect business performance and when mediated by competitive advantage. The coefficient direction obtained a positive value, indicating that competitive advantage can improve SME business performance. When SMEs implement competitive advantage well, it can improve the business performance of SMEs in the Manokwari District.

CONCLUSION

In conclusion, the research findings highlight the significant impact of financial, human capital, and innovation capability on competitive advantage and business performance among SMEs in the Manokwari District. These variables play a crucial role in enhancing competitiveness and productivity within the region. Notably, the use of self-funding due to limited access to bank loans has spurred effective financial asset management among SMEs, leading to increased business profits and capital accumulation. Additionally, recommendations are proposed to prioritize improvements in financial aspects, human capital, innovation capability, and competitive advantage to boost SME competitiveness and productivity. Moreover, strategies focusing on product, process, market, service, and marketing innovation are suggested to enhance business performance. Establishing partnerships with banking institutions and regulatory agencies, along with empowering SMEs through cluster development strategies, is essential for fostering growth and sustainability in the Manokwari District, West Papua Province.

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