Journal of Posthumanism
2025
Volume: 5, No: 7, pp. 1105–1114
ISSN: 2634-3576 (Print) | ISSN 2634-3584 (Online)
posthumanism.co.uk

DOI: https://doi.org/10.63332/joph.v5i7.2897

The Influence of Business Capital, Innovation, and Market Orientation through Competitive Advantage and Government Support

Rita Noratni[1], Tri Andjarwati[2], I Made Suparta[3]

Abstract

This study examines the influence of business capital, innovation, and market orientation on the performance of Small and Medium Enterprises (SMEs) in Berau Regency, East Kalimantan, Indonesia, with competitive advantage as a mediating variable and government support as a moderating factor. Using a quantitative, causal-explanatory research design and Partial Least Squares-Structural Equation Modeling (PLS-SEM), data were collected from 120 SMEs across 13 sub-districts. The findings reveal that both business capital and innovation significantly impact SME performance and competitive advantage. However, competitive advantage mediates only the relationship between innovation and performance—not business capital. Market orientation also positively contributes to competitive positioning. Although government support is conceptually critical, its practical impact remains limited by bureaucratic and alignment challenges. The study recommends strengthening managerial capacity, technology access, and policy responsiveness to improve SME competitiveness and sustainability.

Keywords: *SME Performance, Innovation, Competitive Advantage, Business Capital, and SEM-PLS.*

Introduction

As stated in the 1945 Constitution, one of the primary objectives of the Indonesian state is to establish a prosperous, just, united, and sovereign society. National economic development founded on the idea of economic democracy is used to achieve this aim. According to this framework, the government has prioritized the empowerment of SMEs as a means of promoting a more sustainable and inclusive economy. Since gaining independence, SMEs have been an essential part of Indonesia's economic base. Historically, government initiatives have promoted private involvement and a socially conscious economy. Support for SMEs has expanded since the 1998 reform era in the form of protective rules, training, company development, and capital aid. SMEs are acknowledged for their ability to withstand economic downturns and for their contribution to job creation and poverty reduction.

Notwithstanding their potential, SMEs have considerable obstacles in improving their performance, especially in regions like East Kalimantan's Berau Regency. These difficulties include a lack of market orientation, poor innovation capacity, and restricted access to business finance. Many SMEs continue to use traditional business methods, have little access to

[1] Economics and Business Doctoral Program, Faculty of Economics, University of 17 August 1945 Surabaya, Email: shafirar3t4@gmail.com
[2] Economics and Business Doctoral Program, Faculty of Economics, University of 17 August 1945 Surabaya. Email: triandjarwati@untag-sby.ac.id, (Correspondence Author)
[3] Economics and Business Doctoral Program, Faculty of Economics, University of 17 August 1945 Surabaya, Email: madesuparta@untag-sby.ac.id

technology and market data, and rely largely on local markets without adapting to the needs and trends of their customers.

One important moderating factor that could close these differences is government funding. Although there are a number of government initiatives to assist SMEs, their efficacy is frequently limited by inadequate distribution, intricate red tape, and a failure to take into account the real needs of SMEs in the field (Khattak et al., 2023). Through the mediating function of competitive advantage, this study seeks to investigate the effects of business capital, innovation, and market orientation on the performance of SMEs, with government support serving as a moderating variable. By highlighting the need for more responsive, focused policies and support systems that are adapted to the realities of SMEs in the industry, this study aims to close the gap. It is anticipated that the results would offer insights that guide the creation of policies and workable plans to improve SMEs' competitiveness and long-term performance.

Indonesia's economy is directly impacted by the prosperity of SMEs. While some SMEs flourish, some don't. In addition to raising the GDP, SMEs have made a substantial contribution to lowering unemployment and poverty, claims Gunartin (2017). One of the most important elements in starting and growing a business is capital. The amount of cash has an impact on SMEs' ability to grow their businesses and generate revenue, claims Riyanto (2001).

Working capital, development capital, and initial investment are all considered forms of capital during corporate operations. Previous research confirms that adequate business capital boosts production and marketing capabilities, which speeds up SME growth (Hidayat et al., 2021). For SMEs in Berau Regency to successfully compete with larger companies, they must have access to reasonably priced capital and finance support. In order to get a competitive edge, innovation is also essential. SMEs that can innovate in their products, processes, and marketing typically do better, according to research by Purnomo et al. (2020). In dynamic marketplaces, innovation helps SMEs stay relevant and creates value. But a lot of Berau's SMEs still don't have access to the data and tools that encourage creativity.

Another significant factor influencing SME competitiveness is market orientation. SMEs that comprehend consumer demands and market trends are better positioned to endure and expand, claim Sari et al. (2022). Regretfully, a large number of SMEs in Berau continue to rely largely on local markets and are unclear on how to broaden their customer base. The effects of market orientation, innovation, and business capital on the competitiveness and performance of SMEs are strengthened by government support. SME capacity can be increased by well-targeted initiatives like business mentoring, funding access, and training. Effective government policies, such as financial facilities and product promotion, boost SME competitiveness and performance, according to research by Wibowo et al. (2019). However, because of complicated bureaucratic processes, inadequate socialization, and a lack of alignment with SME needs, many SMEs in Berau find it difficult to take advantage of these initiatives

Literatur Review

The following is a literature review of the article "The Influence of Business Capital, Innovation, and Market Orientation Through Competitive Advantage and Government Support" which has been summarized and arranged systematically:

1. Businesses Capital

One of the most important factors influencing the growth and performance of small and medium-sized businesses is business capital. Capital is a crucial piece of information available to launch or grow a firm, claims Riyanto (2001). Signs, loans, and joint ventures are among sources of capital (Mardiyanto, 2008; Musselman et al., 1996). SMEs are more equipped to innovate, expand their market share, and boost productivity when they have access to more modalities.

2. Innovation

Innovation is the process of turning an idea into a viable product, procedure, or service. According to Luecke (2003), innovation is a systematic business that creates new knowledge. According to Suryana (2013), innovation may be divided into two categories: process innovation and product innovation. Innovation enables SMEs to create differentiation that serves as a guiding principle (Stephen, 1994).

3. Market Orientation

Market orientation is a management philosophy that emphasizes the importance of understanding customer needs, competitor strategy, and coordination among functions (Narver & Slater, 1990). According to Kohli and Jaworski (1990), market orientation is composed of three primary components: interfunctional coordination, competitor orientation, and consumer orientation. In the context of SMEs, market orientation allows for quick adaptation to market dynamics and increases the relevance of products and services.

4. Competitive Advantage

According to Narver and Slater (1990), market orientation is a management philosophy that places a strong emphasis on comprehending customer wants, competitor strategy, and function coordination. Three main elements make up market orientation, according to Kohli and Jaworski (1990): consumer orientation, competitor orientation, and interfunctional coordination. Market orientation raises the relevance of goods and services in the context of SMEs and enables prompt response to market dynamics.

5. Government Support

Financing, training, technology, simplified licensing, and market access are all examples of the government's environment (Law No. 20 of 2008). According to Aghion et al. (2022), government initiatives like microcredit help SMEs deal with modalities. According to Mulyana et al. (2023), digitalization improves competitiveness. Government support also functions as a moderating variable that can strengthen the relationship between SMEs' performance and competitive advantage.

6. SME Performance

SME performance refers to the results achieved within a certain period of time, including turnover growth, number of workers, marketing areas, and profits (Aribawa, 2016; Bruck Da Evens, 2010). Good performance is influenced by managerial ability, production efficiency, and competitiveness. Comprehensive performance assessment is important as a benchmark for the success of a business strategy.

Objectives

1. To examine how business capital affects SMEs' competitive edge.

2. To examine how innovation affects SMEs' competitive advantage.

3. To examine how market orientation affects SMEs' competitive advantage.

4. To investigate how competitive advantage affects SMEs' success.

5. To look into how competitive advantage affects SMEs' performance in the link between market orientation, innovation, and business capital.

6. To examine how government assistance influences the link between SME performance and competitive advantage.

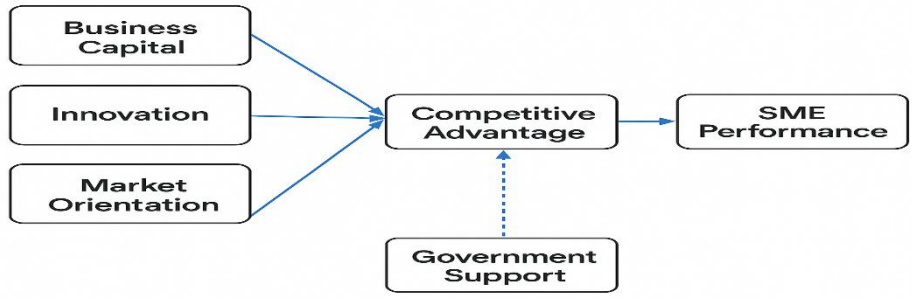

Figure 1. Conseptual Framework

This study uses a quantitative approach using the survey method. Distribution of questionnaires to Small and Medium Enterprises (SMEs), which serves as the study object, is how the initial data is obtained. Population: Every UKM active in the Berau, Kalimantan Timur, Kabupaten. The sample size is determined by the Slovin or Hair et al. rumus (minimum 5–10 respondents per indicator in the SEM/PLS model).

Sampling technique Purposive sampling with the following criteria:

(1) UKM active for at least two years

(2) Possessing at least two employees

(3) Having received access to training or guidance from the government.

Materials and Methods

Research Design

This study employed a quantitative research approach with a causal explanatory design. The purpose of this design is to examine cause-and-effect relationships among the variables: business capital, innovation, market orientation, competitive advantage, and SME performance, with government support as a moderating variable.

Population and Sample

The population in this study consisted of 303 Small and Medium Enterprises (SMEs) located in 13 sub-districts in Berau Regency, East Kalimantan, Indonesia. The sample was determined

using the Slovin formula or Hair et al.'s SEM-PLS rule of thumb, requiring a minimum of 5–10 respondents per indicator. The final sample included 120 SMEs.

Sampling Technique

A purposive sampling method was used, with the following inclusion criteria:

1. SMEs must have been operational for at least two years.
2. Must employ at least two workers.
3. Must have received training or mentoring from the government.

Data Collection

Primary data was collected through questionnaires distributed to the SMEs. The survey was designed to capture data on business capital, innovation, market orientation, competitive advantage, government support, and SME performance.

Data Analysis Method

The collected data were analyzed using Partial Least Squares - Structural Equation Modeling (PLS-SEM). The software SmartPLS 4.0 was utilized for statistical analysis to evaluate the direct and indirect effects among the research variables, including testing for mediation and moderation effects.

Respondent Profile Variables

The study also described the respondents' characteristics, including:

1. Gender (63% male, 37% female)
2. Age group (Majority aged 25–35 years)
3. Education level (Most had Senior or Junior High School education)
4. Business age (Most businesses had operated for 11–20 years)
5. Geographical distribution (Covering all 13 sub-districts, with the highest number in Tanjung Redeb)

Key Informants

Although this study primarily employed a quantitative approach, selected key informants were consulted to complement the survey data with contextual understanding. These informants provided insights into the challenges and enabling factors related to SME development in Berau Regency.The key informants were selected based on their relevance, experience, and engagement in the SME ecosystem.

Criteria for Selection of Key Informants

Key informants were purposively selected based on the following criteria :

1. Have experience in SME development for at least 5 years.
2. Represent government institutions, SME associations, or financial institutions.
3. Have actively participated in policy implementation, business mentoring, or SME financing.

No	Position	Institution	Role in Study
1	Head of SME Division	Berau Regency Office of Cooperatives & SMEs	Policy implementation and government support
2	Chairperson	Berau SME Association	Practical issues and needs of SMEs
3	SME Development Officer	Local Bank (e.g., BRI or BPD Kaltimtara)	Capital access and financing mechanisms
4	Business Consultant	Local Entrepreneurship Training Center	Innovation and market orientation strategies

Results

Understanding and analyzing respondent characteristics is made easier with the help of the respondent profile. These variables in this study include age, gender, education level, and business age in small and medium-sized enterprises.

Profile Description	Frequency	Percentage
Gender		
Male	76	0,63
Female	44	0,37
Age		
17-25 years old	27	0,23
25-35 years old	61	0,51
35-45 years old	24	0,20
> 45 yeard old	8	0,07
Education Level		
Elementary Scholl	17	0,14
Junior High School	41	0,34
Senior High School/Vocational School	43	0,36
Diploma	17	0,14
Bachelor's Degree (S1)/Master's Degree (S2)	1	0,01

No School	1	0,01
Business Age		
<5 years old	9	0,08
5-10 years old	21	0,18
11-20 years old years old	46	0,38
21-30 years old	27	0,23
>30 years old	17	0,14
Domicilie		
Kelay	6	5,00%
Talisayan	7	5.83%
Tabalar	8	6.67%
Biduk Biduk	10	8.33%
Pulau Derawan	8	6.67%
Maratua	11	9.17%
Sambaliung	9	7.50%
Tanjung Redeb	16	13.33%
Gunung Tabur	9	7.50%
Segah	8	6.67%
Teluk Bayur	9	7.50%
Batu Putih	7	5.83%
Biatan	12	10.00%

Table 2. Respondent Description

Source: Output data processed with SmartPLS 4.0, 2025

The majority of the 120 respondents, or 50.83% or 61 people, were in the 25–35 age range, according to Table 1 respondents by age distribution. Being the most prevalent group, they represent an early-adult and generally productive stage of life that is frequently linked to social and professional stability. Twenty-seven respondents, or 22.5% of the sample, were in the 17–25 age range, which is generally associated with people who are still in school or just starting their professions. In contrast, 24 responses (20%) were between the ages of 35 and 45, indicating a notable level of involvement from those who are perhaps more established in both their personal and professional life. The opinions of older and more seasoned people were provided by the 8 respondents (6.67%) who were over 45.

The majority, including 43 people or 36% of the total respondents, had a high school or technical school education (SMA/SMK). 41 respondents (34%) who had completed junior high school (SMP) came next. Furthermore, 17 respondents had only finished primary school, and another 17 had either a bachelor's degree or a diploma (D3), making about 14% of the total. Less than

1% of the sample consisted of respondents with no formal education and one with a doctoral degree (S2/S3).

Reveals the business age of the respondents, showing that 46 respondents, or 38% of the total, had been in company for 11 to 20 years. Companies between the ages of 21 and 30 came next, with 27 responders, or 23%. Of the respondents, 17 (14%), had been in business for more than 30 years, while 21 (18%) had been in business for 5 to 10 years. Just 9 companies (8%) had been in operation for less than 5 years. According to these findings, the majority of companies had been in business for more than ten years, indicating a degree of sustainability and acquired experience.

The distribution of respondents by domicile, encompassing all 13 sub-districts in Berau Regency, is finally displayed in Table 1. Tanjung Redeb had the most responders (16 people, or 13%), followed by Biatan (12 people, or 10%), and Maratua (11 people, or 9%). Sambaliung and Biduk-Biduk had nine and ten responders, respectively (about 8%), as did Gunung Tabur and Teluk Bayur. Talisayan and Batu Putih had seven responders (6%), while Pulau Derawan, Segah, and Tabalar each had eight (7%). Kelay had the fewest, with just 6 responders (5%). This distribution shows that SME actors are evenly distributed throughout all of Berau's districts.

Hypothesis	Path	P-Value	Conclusion
H1	Business Capital → Competitive Advantage	0.001	Accepted
H2	Business Capital → SME Performance	0.030	Accepted
H3	Innovation → Competitive Advantage	0.000	Accepted
H4	Innovation → SME Performance	0.046	Accepted
H5	Competitive Advantage → SME Performance	0.024	Accepted
H6	Business Capital → Competitive Advantage → Performance	0.065	Not Accepted
H7	Innovation → Competitive Advantage → Performance	0.026	Accepted

Table 3. The Influence of Business Capital, Innovation, and Market Orientation through Competitive Advantage and Government Support

Source: Output data processed with SmartPLS 4.0, 2025

Key Findings Synopsis :

1.Innovation and business capital have a big impact on SME performance and competitive advantage.

2.Innovation's impact on performance is mediated by competitive advantage, but not by business capital.

3.The current results table does not include government support as a tested moderating variable, despite its conceptual presence (may need extra model run or clarification).

Discussion

1. Business Capital → Competitive Advantage

The results show that business capital has a significant effect on competitive advantage. Well-

managed capital allows SMEs to increase production capacity and improve product quality. However, this success is highly dependent on managerial skills and access to training.

2. Business Capital → SME Performance

The performance of SMEs is also significantly impacted directly by business capital. The effect isn't necessarily straightforward, though. Infrastructure, management abilities, and policy support all affect capital effectiveness in the Berau Regency.

3. Innovation → Competitive Advantage

Innovation has proven to play an important role in driving competitive advantage. Product, process, and marketing innovations can increase the attractiveness of SME products. However, limited access to technology and resources is a major obstacle.

4. Innovation → SME Performance

The impact of innovation on SME performance is significant, but not always immediately visible. Support such as technology training and digitalization is needed so that innovation can truly impact business growth.

5. Competitive Advantage → SME Performance

A key link between performance success and internal resources is competitive advantage. Competitive pricing, high-quality services, and distinctive products boost client loyalty and market expansion.

6. Mediasi Competitive Advantage

a. *Business Capital → Competitive Advantage → SME Performance*: a. not significant. This shows that although capital can increase competitive advantage, it does not automatically have a big impact on performance without good management.

b. *Innovation → Competitive Advantage → SME Performance.* significant. The innovation that is implemented is a positive contribution to the growth of the workplace.

Acknowledgments

The authors would like to express their deepest gratitude to the Faculty of Economics, University of 17 August 1945 Surabaya for their academic and administrative support during this research. Special thanks are extended to the Berau Regency Office of Cooperatives and SMEs for granting access to valuable data and facilitating coordination with local business actors.

We also sincerely thank all the Small and Medium Enterprises (SMEs) who participated in this study by providing their time and insights. Finally, appreciation is given to all colleagues and peer reviewers who offered constructive feedback and guidance in improving this research article.

References

Azlina, N., and S. Fatimah (2021). how innovation and information technology affect small and medium-sized businesses' (SMEs') success. Research on banking and accounting.

Fathurrahman, M., and S. P. Dewi (2022). how innovation affects company success and growth in Indonesia's manufacturing industry. 29(2), 105-118, International Journal of Innovation and Technology Management. 10.1142/S0219877022500143 is the DOI

Fillanov, M. F., and Fitriani, L. K. (2023). the impact of market and entrepreneurial orientations on marketing performance using competitive advantage as a mediating factor. Business Research Journal.

Khattak, M. N., Al-Taie, M. Z., Ahmed, I., & Muhammad, N. (2023). Interplay between servant leadership, leader-member-exchange and perceived organizational support: a moderated mediation model. Journal of Organizational Effectiveness: People and Performance, 11(2), 237-261.

Kurniawati, E., and Bastomi, A. (2021). the impact of market orientation and innovation on SMEs' performance in relation to sustainable growth. Journal of Enterprise Development and Small Business, 28(3), 410-430. 10.1108/JSBED-06-2020-0181 is the DOI.

Mustofa, R., and Hadi, S. (2020). Performance, innovation, and market orientation: Data from Indonesian small and medium-sized businesses. 26(3), 154-169, Journal of Business and Economic Studies.

Oktaviani, R., and Kurniawan, P. (2023). A case study on how government support affects small firms' ability to survive in the creative sector. 15(2), 45-59, International Journal of Entrepreneurship and Small Business.

Rehman, R., Hunjra, A., Khan, M., Jasra, J., & Azam, R. (2011). factors that influence small and medium-sized businesses' ability to succeed. Journal of Business and Social Science International, 2(20).

Raharjo, S. T., and Kurniawan, M. H. (2021). the impact of the industrial environment and market orientation on the performance of SMEs, as well as the influence of ERP and market orientation on marketing performance through competitive advantage. Journal of Management in Diponegoro.

Putra, D. A., and Anwar, M. (2021). A research on SMEs in the hospitality sector focuses on innovation in service businesses. 14(4), 125-136, Journal of Service Science and Management.

Sidi, A. P., and W. D. Anjaningrum (2018). the impact of product innovation, market orientation, and innovation on the creative industry's ability to gain a competitive edge. Journal of Asian Business and Economics.

Suryanto, S., and R. Budianto (2021). the impact of financial literacy and business capital on the success of small and medium-sized businesses. 23(2), 172-183, Journal of Management and Entrepreneurship.

Syifa Fadhilah Laely. (2020). the impact of market and entrepreneurial focus on SMEs' competitive advantage throughout the Fourth Industrial Revolution. Thesis, Purwokerto, State Institute of Islamic Studies.

Setyowati, E., and Halim, M. (2022). the effect of managerial abilities and capital investment on the performance of small businesses in emerging nations. 5(1), 15-28; Asian Business & Management Review.

Y. A. Ciptaningrum (2019). the impact of innovation, learning orientation, market orientation, and competitive advantage on Yogyakarta small business success. The Islamic University of Indonesia's repository.