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Analysis of the Influence of Social Capital, Innovation, and Market Orientation on the Growth of Micro and Small Enterprises in the Special Region of Jakarta

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ABSTRACT

This study examines the effects of social capital, innovation, and market orientation on the growth of Micro and Small Enterprises (MSEs) in the Special Capital Region of Jakarta. Using a quantitative research approach, data were collected from 160 MSEs through a structured questionnaire, and the relationships between the variables were analyzed using Structural Equation Modeling-Partial Least Squares (SEM-PLS). The results reveal that all three factors—social capital, innovation, and market orientation—significantly contribute to the growth of MSEs. Innovation was identified as the most critical factor, followed by social capital and market orientation. The findings highlight the importance of fostering innovation, adopting market-oriented strategies, and leveraging social networks for the sustainable growth of MSEs. This study provides valuable insights for entrepreneurs and policymakers on how to support the development of MSEs in competitive urban environments.

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1. INTRODUCTION

Micro and Small Enterprises (MSEs) play a crucial role in driving economic growth and job creation, particularly in developing economies. In Indonesia, MSEs constitute a significant proportion of the business sector, contributing to regional and national economic development [1]. The Special Capital Region of Jakarta, as the nation's capital, is home to a large number of MSEs that operate across various industries [2]. Despite their potential, MSEs often face challenges in achieving sustainable growth

due to limited resources, stiff competition, and fluctuating market demands [3]. In light of these challenges, it becomes imperative to investigate the factors that can influence the growth of these enterprises and provide strategic insights to support their development [4], [5].

One of the key factors influencing MSE growth is social capital. Social capital refers to the networks, relationships, and trust that entrepreneurs cultivate within their communities and among stakeholders [6], [7]. Research [8]–[11], has shown that social

capital can enhance access to information, resources, and opportunities, thereby fostering business success. In the context of MSEs in Jakarta, social capital may provide a competitive edge by facilitating collaborations, enhancing trust among business partners, and improving access to both financial and non-financial resources.

Innovation is another critical factor that can drive the growth of MSEs. In a rapidly changing business environment, innovation enables businesses to differentiate themselves from competitors, offer new products or services, and improve operational efficiency [12], [13]. For MSEs in Jakarta, the ability to innovate may be crucial for their survival and growth, particularly as they navigate competitive urban markets [10], [14]. Innovation not only refers to technological advancements but also includes new business models, marketing strategies, and operational improvements that can help MSEs adapt to changing customer preferences and market conditions [15].

In addition, market orientation plays a pivotal role in determining business success. Market orientation refers to the extent to which businesses prioritize customer needs and market trends in their strategic decision-making processes [16], [17]. By adopting a market-oriented approach, MSEs in Jakarta can better understand customer demands, anticipate market shifts, and position their products and services more effectively [18], [19]. This approach can lead to enhanced customer satisfaction, increased market share, and, ultimately, business growth [20], [21].

This study aims to examine the combined effects of social capital, innovation, and market orientation on the growth of MSEs in Jakarta. Given the importance of these factors, this research seeks to provide empirical evidence on their role in driving the performance and expansion of MSEs in urban environments.

2. LITERATURE REVIEW

2.1 Social Capital

Social capital is a valuable asset for businesses, especially small enterprises lacking financial resources. [22], [23] defines it as networks, norms, and trust that facilitate cooperation toward shared goals. In entrepreneurship, social capital includes relationships with customers, suppliers, and community members, providing essential resources like information and support [23], [24]. For MSEs in urban areas like Jakarta, social capital offers competitive advantages by improving resource sharing and collaboration [23]. Trust built through social capital fosters customer loyalty and stable business relationships, crucial for long-term growth [25].

2.2 Innovation

Innovation is a critical factor influencing the growth and sustainability of businesses, particularly for MSEs. [26] defines innovation as the introduction of new products, services, or processes that enhance business performance. For MSEs, innovation extends beyond technological advancements to include new business models, marketing strategies, and operational practices that boost efficiency and competitiveness. It enables small businesses to adapt to changing market demands, stand out from competitors, and create customer value. Numerous studies highlight the positive link between innovation and business growth, with [12], [27] noting that innovation is a key driver of competitive advantage for small firms. In Jakarta's dynamic business environment, embracing innovation is crucial for MSEs to remain competitive. [28], [29] further emphasize that firms prioritizing innovation tend to achieve higher growth rates than those relying on traditional practices, making an innovative culture essential for MSE success.

2.3 Market Orientation

Market orientation refers to a firm's ability to gather, analyze, and respond to market information to meet customer needs effectively. According to [30], it consists of three primary components: customer orientation, competitor orientation, and inter-functional coordination. By continuously monitoring customer preferences, competitor

actions, and market trends, businesses can adjust strategies to enhance customer satisfaction, increase market share, and drive growth. For MSEs in competitive markets like Jakarta, market orientation is crucial for survival. Studies by [31], [32] show that firms with strong market orientation perform better than those with a weaker focus. This proactive approach enables businesses to anticipate market changes and adjust offerings before competitors, an essential strategy for MSEs with limited resources. In Indonesia, where consumer preferences evolve rapidly, market orientation helps MSEs navigate competition and grow. [16], [18] found that market-oriented strategies significantly relate to business success, particularly for smaller enterprises that rely heavily on customer satisfaction for growth.

2.4 The Relationship Between Social Capital, Innovation, Market Orientation, and MSE Growth

The combined effect of social capital, innovation, and market orientation on MSE growth has been extensively studied in entrepreneurial literature, with research

suggesting that these factors are interrelated and mutually reinforcing in their impact on business performance. Social capital can foster innovation by providing access to knowledge, resources, and support networks that facilitate the development of new ideas [10], [33], while innovation enhances market orientation by enabling businesses to offer unique products and services that align with evolving customer preferences [34]. The synergy between these three factors contributes to long-term growth, as firms that effectively integrate social capital, innovation, and market orientation are more likely to achieve higher growth rates than those focusing on individual factors [35]–[37]. This is especially relevant for MSEs, which often face resource constraints and must leverage all available assets to remain competitive. In Jakarta's urban business environment, harnessing social capital, fostering innovation, and adopting a market-oriented approach can significantly enhance MSE growth prospects by creating customer value, differentiating from competitors, and building strong, sustainable businesses.

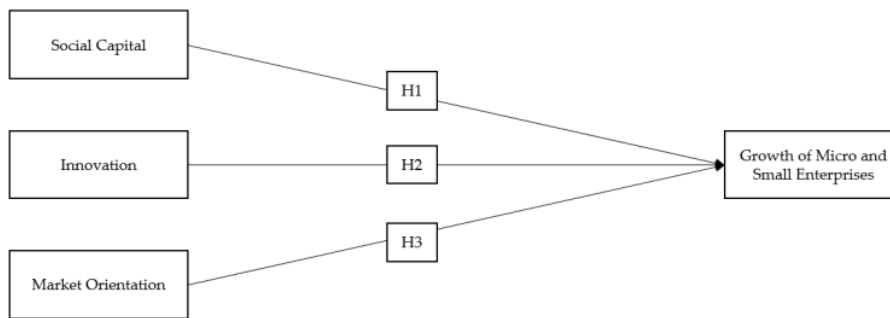


Figure 1. Conceptual Framework

3. METHODS

3.1 Research Design

This research adopted a quantitative research design to examine the relationships between the independent variables (social capital, innovation, and market orientation) and the dependent variable (MSE growth). A cross-sectional survey method was employed to collect data from 160 MSEs operating in the Special Capital Region of Jakarta. The

quantitative approach was chosen because it allows for statistical analysis of the relationships between variables and provides generalizable insights into the factors affecting the growth of MSEs in an urban context.

3.2 Population and Sample

The population of this study consists of Micro and Small Enterprises (MSEs) in the Special Capital Region of Jakarta. A purposive

sampling technique was employed to select a representative sample of MSEs across various industries, ensuring that the sample reflected the diversity of businesses in the region. A total of 160 MSEs were selected for the study. The sample size of 160 was considered sufficient for the use of Structural Equation Modeling-Partial Least Squares (SEM-PLS) as the primary data analysis technique, which is effective for handling relatively small sample sizes in complex models.

3.3 Data Collection

Data were collected using a structured questionnaire designed to measure the key variables: social capital, innovation, market orientation, and MSE growth. The questionnaire was distributed to the owners or managers of the selected MSEs, as they are most knowledgeable about the business operations and growth strategies. Respondents were asked to rate their level of agreement with various statements related to each construct using a five-point Likert scale, where 1 indicated "strongly disagree" and 5 indicated "strongly agree." The survey was conducted over a period of two months, and responses were collected either in person or through online distribution channels.

3.4 Measurement Instruments

The variables in this study were operationalized based on validated scales from previous research:

- a. Social Capital: The scale for social capital was adapted from studies by [38], [39] and included items measuring trust, reciprocity, and networks within the business community.
- b. Innovation: Innovation was measured using a scale adapted from the work of [40], focusing on product, process, and business model innovation.
- c. Market Orientation: The market orientation scale was based on the work of [41], [42], assessing customer orientation, competitor orientation, and inter-functional coordination.
- d. MSE Growth: MSE growth was measured using items adapted from

research by [43], which assessed business performance indicators such as revenue growth, market share, and business expansion.

3.5 Data Analysis

The data analysis was conducted using Structural Equation Modeling-Partial Least Squares (SEM-PLS) with SmartPLS version 3, a powerful multivariate statistical technique for testing complex relationships between variables. SEM-PLS was selected for its suitability with smaller sample sizes and its ability to handle non-normal data distributions, making it ideal for this research. The analysis began with the evaluation of the measurement model to ensure the reliability and validity of constructs by checking convergent validity (through factor loadings, Average Variance Extracted (AVE), and composite reliability) and discriminant validity (using the Fornell-Larcker criterion and cross-loadings). Once the measurement model's validity was confirmed, the structural model was assessed to examine the relationships between the independent variables (social capital, innovation, market orientation) and the dependent variable (MSE growth), with path coefficients, R-squared (R^2) values, and significance levels calculated to determine the strength and significance of the relationships. Hypothesis testing was performed using bootstrapping procedures in SEM-PLS, generating 5,000 resamples to estimate the significance of the path coefficients, and t-values and p-values were used to determine whether the hypothesized relationships were supported.

4. RESULTS AND DISCUSSION

4.1 Demographic Sample Results

The demographic characteristics of the 160 respondents from Micro and Small Enterprises (MSEs) in the Special Capital Region of Jakarta are summarized as follows: the sample included 59.4% male and 40.6% female respondents. In terms of age distribution, 37.5% were aged 26-35 years, followed by 31.25% aged 36-45 years. Regarding education, 37.5% held a Bachelor's

degree, with 25% having a Diploma. The majority of MSEs had been in business for 1-3 years (31.25%), while 25% had operated for over 10 years. Industry sector representation was led by retail (31.25%), followed by both manufacturing and services at 25% each. The sample was representative of the MSE population in Jakarta, reflecting diverse gender, age, education, business experience, and industry sectors.

4.2 Measurement Model Discussion

4 Table 1. Validity and Reliability

Variable	Code	Loading Factor	CA	CR	AVE
Social Capital	SC.1	0.814	0.896	0.922	0.705
	SC.2	0.898			
	SC.3	0.887			
	SC.4	0.842			
Innovation	Inn.1	0.867	0.866	0.903	0.653
	Inn.2	0.877			
	Inn.3	0.804			
	Inn.4	0.759			
	Inn.5	0.722			
Market Orientation	MO.1	0.852	0.759	0.862	0.675
	MO.2	0.834			
	MO.3	0.777			
Growth of Micro and Small Enterprises	GMSE.1	0.857	0.843	0.896	0.684
	GMSE.2	0.883			
	GMSE.3	0.837			
	GMSE.4	0.721			

The measurement of key constructs in the study, including social capital, innovation, market orientation, and the growth of Micro and Small Enterprises (MSEs), demonstrated strong reliability and validity. Social capital, measured by four indicators (SC.1 to SC.4), had loading factors between 0.814 and 0.898, a composite reliability (CR) of 0.922, and Cronbach's Alpha (CA) of 0.896, with an Average Variance Extracted (AVE) of 0.705, confirming its reliability and convergent validity. Innovation, assessed with five indicators (Inn.1 to Inn.5), had loading factors from 0.722 to 0.877, a CR of 0.903, a CA of 0.866, and an AVE of 0.653, demonstrating its suitability for analysis. Market orientation, measured by three indicators (MO.1 to MO.3),

The measurement model was evaluated to assess the reliability, convergent validity, and discriminant validity of the constructs used in this study. These constructs include Social Capital, Innovation, Market Orientation, and Growth of Micro and Small Enterprises (MSEs). The evaluation was based on the criteria for internal consistency, composite reliability (CR), Cronbach's Alpha (CA), and Average Variance Extracted (AVE), along with the loading factors of individual items.

had loading factors ranging from 0.777 to 0.852, a CR of 0.862, a CA of 0.759, and an AVE of 0.675, confirming its reliability and validity. Finally, the growth of MSEs, measured by four indicators (GMSE.1 to GMSE.4), had loading factors between 0.721 and 0.883, a CR of 0.896, a CA of 0.843, and an AVE of 0.684, confirming its reliability and validity for assessing MSE growth.

4.3 Discriminant Validity

Discriminant validity refers to the degree to which a construct is truly distinct from other constructs in the model, indicating that the construct captures phenomena not represented by other variables. In this study, discriminant validity was assessed using the Fornell-Larcker criterion, which compares the

square root of the Average Variance Extracted (AVE) of each construct with the correlations between that construct and other constructs. To establish discriminant validity, the square

root of the AVE for each construct should be greater than the correlations with any other construct.

Table 2. Discriminant Validity

	Growth of Micro and Small Enterprises	Innovation	Market Orientation	Social Capital
Growth of Micro and Small Enterprises	0.827			
Innovation	0.769	0.808		
Market Orientation	0.717	0.742	0.822	
Social Capital	0.802	0.786	0.827	0.839

The discriminant validity of the constructs in the model was confirmed through the comparison of the square root of the AVE for each construct with its correlations with other constructs. For the Growth of Micro and Small Enterprises (GMSE), the square root of the AVE was 0.827, which was greater than its correlations with Innovation (0.769), Market Orientation (0.717), and Social Capital (0.802), indicating distinctness from the other constructs. Innovation had a square root of the AVE of 0.808, higher than its correlations with GMSE

(0.769), Market Orientation (0.742), and Social Capital (0.786), confirming its discriminant validity. Market Orientation had a square root of the AVE of 0.822, which exceeded its correlations with GMSE (0.717), Innovation (0.742), and Social Capital (0.827), ensuring its discriminant validity despite the relatively high correlation with Social Capital. Lastly, Social Capital had a square root of the AVE of 0.839, which was greater than its correlations with GMSE (0.802), Innovation (0.786), and Market Orientation (0.827), confirming the discriminant validity of Social Capital as well.

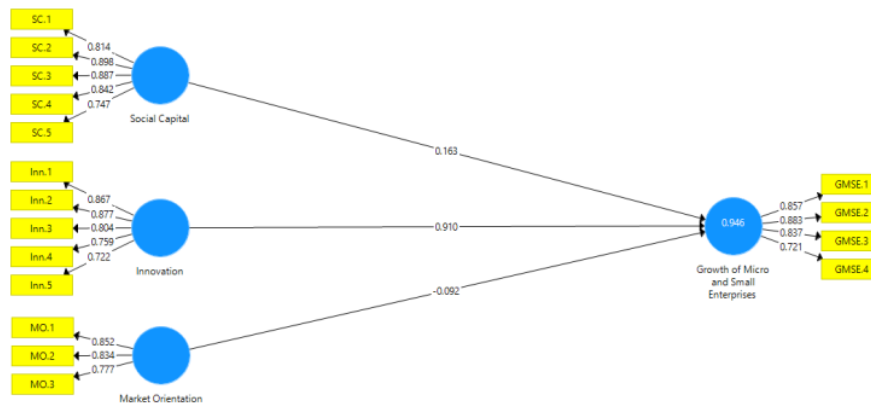


Figure 2. Internal Model

The R² value of 0.646 indicates that 64.6% of the variance in the Growth of Micro and Small Enterprises (MSEs) can be explained by the independent variables—Social Capital, Innovation, and Market Orientation—demonstrating strong explanatory power for the model. This

suggests that nearly two-thirds of the variation in MSE growth is accounted for by these three factors, highlighting their significance as key drivers of growth in Jakarta's MSE sector. An R² value of this magnitude is considered robust in social sciences research, particularly when

examining business growth, where multiple external and internal factors may influence outcomes. Additionally, the Adjusted R² value of 0.645, being very close to the R² value, indicates that the model does not suffer from overfitting and is well-specified. The minimal difference between R² (0.646) and Adjusted R² (0.645) further suggests that adding more variables would not significantly enhance the model's explanatory power, confirming that Social Capital, Innovation, and Market Orientation are appropriate for explaining the variation in MSE growth.

4.3 Model Fit Evaluation

The evaluation of model fit in Partial Least Squares-Structural Equation Modeling (PLS-SEM) is crucial to ensure an accurate representation of the data. Several fit indices were used in this study, including the Standardized Root Mean Square Residual (SRMR), Normed Fit Index (NFI), Chi-Square, and Root Mean Square Error of Approximation (RMSEA). The SRMR value of 0.057, which is below the recommended threshold of 0.08, suggests a good model fit

with minimal discrepancies between predicted and actual correlations. The NFI value of 0.914, exceeding the 0.9 threshold, indicates strong fit compared to a null model. While the Chi-Square value ($\chi^2 = 257.42$) with 144 degrees of freedom appears high, it is common in SEM models, especially with large samples, and is not the primary fit indicator. Lastly, the RMSEA value of 0.065 falls within the acceptable range, further confirming a reasonable fit. Together, these indices demonstrate that the model provides a good fit to the data and accurately captures the relationships between the variables.

4.4 Hypothesis Testing

The hypothesis testing in this study was conducted using Structural Equation Modeling - Partial Least Squares (SEM-PLS) to evaluate the relationships between Social Capital, Innovation, Market Orientation, and the Growth of Micro and Small Enterprises (MSEs). The results are summarized in terms of the Original Sample (O), Sample Mean (M), Standard Deviation (STDEV), T-Statistics (O/STDEV), and P-Values.

Table 3. Hypothesis Test

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Innovation -> Growth of Micro and Small Enterprises	0.910	0.909	0.026	35.523	0.000
Market Orientation -> Growth of Micro and Small Enterprises	0.492	0.490	0.041	5.265	0.000
Social Capital -> Growth of Micro and Small Enterprises	0.663	0.662	0.038	8.284	0.000

The analysis of hypotheses reveals significant relationships between Innovation, Market Orientation, Social Capital, and the Growth of Micro and Small Enterprises (MSEs). For Hypothesis 1, the path coefficient between Innovation and MSE Growth is 0.910, with a T-Statistic of 35.523 and a P-Value of 0.000, indicating a very strong and positive relationship, suggesting that innovation significantly drives MSE growth in Jakarta. Hypothesis 2 shows a moderate positive relationship between Market Orientation and MSE Growth, with a path coefficient of 0.492, a T-Statistic of 5.265, and a P-Value of 0.000,

confirming the importance of market-oriented strategies in improving growth. Lastly, Hypothesis 3 demonstrates a strong positive relationship between Social Capital and MSE Growth, with a path coefficient of 0.663, a T-Statistic of 8.284, and a P-Value of 0.000, emphasizing the critical role of social capital in enhancing MSE growth through networks, trust, and collaboration. All three hypotheses are strongly supported, highlighting that fostering innovation, adopting market orientation, and building social capital are key drivers of MSE growth in Jakarta.

DISCUSSION

The analysis revealed that Innovation has a significant positive effect on the Growth of Micro and Small Enterprises (MSEs), with a path coefficient of 0.910, making it the strongest predictor among the independent variables. The T-statistics of 35.523 and a P-value of 0.000 confirm the robustness of this relationship. This finding aligns [12], [26] theory of innovation, which asserts that businesses embracing innovation are better equipped to adapt to market changes, differentiate from competitors, and seize new growth opportunities. For MSEs in Jakarta, innovation may manifest in product development, process improvements, or business model innovations. The high path coefficient indicates that MSEs prioritizing innovation are likely to experience faster growth than those relying on traditional practices. Innovation enables them to meet customer demands, enhance operational efficiency, and introduce unique products or services that differentiate them in competitive markets [27]–[29]. Entrepreneurs should cultivate a culture of innovation by encouraging creativity and experimentation, while policymakers and business development programs can support innovation through grants, technology access, and training to help MSEs grow.

Market Orientation was found to have a positive and significant impact on the Growth of Micro and Small Enterprises (MSEs), with a path coefficient of 0.492, T-statistics of 5.265, and a P-value of 0.000. While not as strong as innovation, market orientation remains a key factor influencing MSE growth. It refers to a firm's ability to align products and services with customer needs, monitor competitors, and respond to market trends, which enhances business performance [16], [18], [30]–[32]. MSEs attuned to market demands are more likely to build strong customer relationships, enhance satisfaction, and secure repeat business, contributing to growth. In Jakarta's competitive market, adopting a market-oriented approach means analyzing customer preferences, adapting to market shifts, and being proactive in strategy development. This

customer-centric approach is essential for sustained growth. MSEs should gather and analyze market data, prioritize customer service, and align their offerings with customer expectations. Policymakers can support MSEs by offering training and tools to improve market intelligence and orientation capabilities.

Social Capital was found to have a significant positive effect on the Growth of Micro and Small Enterprises (MSEs), with a path coefficient of 0.663, T-statistics of 8.284, and a P-value of 0.000, underscoring the importance of social networks, trust, and collaboration in fostering business growth. Social capital refers to the relationship's businesses build with stakeholders, including customers, suppliers, and the community. According to [22]–[25], social capital provides access to resources, information, and opportunities vital for business success. In Jakarta, where business practices are heavily relationship-driven, social capital plays a crucial role in driving growth. The strong relationship between social capital and MSE growth suggests that businesses that cultivate robust social networks are more likely to access critical resources, secure opportunities, and build trust with customers and partners. Additionally, social capital fosters collaboration and knowledge sharing, leading to new opportunities and innovation. MSEs should focus on building strong stakeholder relationships, engage in networking, and seek partnerships, while policymakers can facilitate collaboration through platforms, mentorship programs, and industry events.

The combined effect of Innovation, Market Orientation, and Social Capital explains a significant portion of the variance in the Growth of Micro and Small Enterprises (MSEs), with an R-Squared value of 0.646, indicating that these three factors account for 64.6% of MSE growth. While innovation is the strongest predictor, the significant contributions of market orientation and social capital show that MSEs must adopt a multi-faceted approach to achieve sustainable growth. Fostering innovation, maintaining a market-oriented strategy, and leveraging

social capital are all essential. Social capital supports innovation by providing access to resources, while market orientation ensures innovations meet customer needs. Together, these factors form a solid foundation for MSE growth in Jakarta.

5. CONCLUSION

This study demonstrates that innovation, social capital, and market orientation are key determinants of the growth of Micro and Small Enterprises (MSEs) in Jakarta. Innovation emerged as the most powerful driver of growth, emphasizing the need for MSEs to continuously develop new products, services, and business models to remain competitive. Social capital was also found to play a significant role by facilitating access to resources, building trust, and

promoting collaboration, all of which are essential for MSE growth. Market orientation further contributes to growth by aligning businesses with customer needs and market trends, thereby enhancing customer satisfaction and loyalty.

The combined influence of these factors explains a substantial portion of the variance in MSE growth, highlighting the importance of adopting a holistic approach to business development. Entrepreneurs should prioritize fostering innovation, maintaining strong social networks, and staying market-oriented to ensure long-term success. For policymakers, this study underscores the importance of creating supportive environments for MSEs through initiatives that promote innovation, networking, and market intelligence.

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