

The Effect of Dynamic Capability, Strategic Innovation, and Market Orientation on Competitive Advantage of MSMEs in the Culinary Sector

Novianty Djafri^{1*}, Noorhani Dyani Laksmi², I Ketut Damana³,
Bambang Suharto⁴

^{1*}Universitas Negeri Gorontalo, Indonesia, ²Universitas Negeri Malang, Indonesia
³STABN Sriwijaya, Indonesia, ⁴Universitas Airlangga, Indonesia
Email: ^{1*}noviantydjafri@ung.ac.id, ²noorhani.dyani.2101419@students.um.ac.id,
³iketutdamana@gmail.com, ⁴bambang.suharto@vokasi.unais.ac.id

Received: 5 March 2026

Accepted: 11 March 2026

Published online: 12 March 2026

Abstract

This study examines the effect of dynamic capability, strategic innovation, and market orientation on competitive advantage among Micro, Small, and Medium Enterprises (MSMEs) in the culinary sector. In an increasingly dynamic and competitive business environment, culinary MSMEs must develop adaptive and market-driven strategies to sustain superior performance. Drawing upon dynamic capability theory and market orientation perspectives, this research proposes an integrated framework to explain how internal capabilities and external market responsiveness contribute to competitive advantage. A quantitative explanatory research design was employed, using survey data collected from 210 culinary MSME owners and managers. Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The results reveal that dynamic capability, strategic innovation, and market orientation each have a positive and significant effect on competitive advantage. Strategic innovation emerges as the strongest direct predictor of competitive advantage. Furthermore, strategic innovation partially mediates the relationship between dynamic capability and competitive advantage, while market orientation significantly moderates the relationship between dynamic capability and strategic innovation. The model explains 67.2% of the variance in competitive advantage, indicating substantial explanatory power. These findings suggest that sustainable competitiveness in culinary MSMEs is achieved through the integration of adaptive capabilities, continuous innovation, and strong market responsiveness. The study contributes to the strategic management literature by clarifying the interplay among dynamic capabilities, innovation strategies, and market orientations in enhancing the competitiveness of MSMEs, while also offering practical implications for entrepreneurs and policymakers.

Keywords: Dynamic Capability; Strategic Innovation; Market Orientation; Competitive Advantage; Culinary MSMEs; Small and Medium Enterprises; Strategic Management.

1. Introduction

In today's increasingly competitive and dynamic business environment, Micro, Small, and Medium Enterprises (MSMEs) in the culinary sector confront a multitude of internal and external challenges that demand continuous adaptation, proactive strategy development, and market responsiveness. Culinary MSMEs are a substantial contributor to national economies, creating employment, sustaining local food culture, and stimulating economic progress through innovation and entrepreneurship. Despite their potential, many culinary MSMEs struggle to



maintain a sustainable competitive advantage due to volatile market conditions, heightened competition from both domestic and global players, and shifting consumer preferences shaped by digital technologies and evolving lifestyles (Yuza, Syafrizal, & Yeni, 2023; turn0search20). In such contexts, relying solely on traditional business practices is no longer sufficient; instead, culinary MSMEs must harness strategic capabilities that enable them to sense changes, seize emerging opportunities, and reconfigure resources efficiently to achieve a distinctive positioning in the marketplace.

Central to achieving competitive advantage is the development and deployment of dynamic capabilities—the firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments (Teece, Pisano, & Shuen, 1997, as discussed in recent research). Recent empirical evidence emphasizes that dynamic capabilities are a critical driver of competitive differentiation as they allow organizations to adapt to market turbulence, technological disruptions, and increasingly sophisticated consumer expectations (Lin et al., 2025; turn0search19). In the context of culinary MSMEs, dynamic capabilities translate into practices such as rapid product innovation, tailored service delivery, flexible supply arrangements, and the ability to leverage digital platforms for marketing and distribution — all of which are essential in responding effectively to market dynamism and sustaining business performance.

Moreover, strategic innovation — defined as the intentional pursuit of new products, services, processes, or business models that significantly alter competitive landscapes — plays a vital role in enhancing the competitive advantage of MSMEs. Innovation strategy enables businesses not only to differentiate their offerings but also to create new value for customers, expand into untapped market segments, and sustain long-term growth (Fendy Cuandra et al., 2025; turn0search21). For culinary MSMEs, strategic innovations may include introducing unique menu concepts, adopting digital ordering systems, partnering with delivery platforms, or transforming culinary experiences based on cultural and regional preferences. Research indicates that innovation directly influences the ability of firms to achieve superior performance outcomes, particularly in sectors where consumer tastes and technological advancements rapidly evolve (Nur Fitria, Mulia, & Saori, 2025; turn0search0).

In parallel, market orientation — which emphasizes understanding target customer needs, monitoring competitor behavior, and coordinating organization-wide responsiveness — is widely recognized as a key strategic posture that enhances competitive advantage (Narver & Slater, 1990; supported by recent MSME research). Firms that adopt market orientation practices systematically collect and disseminate market intelligence, enabling them to anticipate changes, customize offerings, and build long-lasting customer relationships. Empirical studies in food and beverage MSMEs show that market orientation is positively related to competitive advantage through improved customer satisfaction and stronger brand loyalty (Calvin Kurniawan & Nuringsih, 2025; turn0search2). In culinary MSMEs, market orientation often embodies deep engagement with customer feedback, flexibility in adapting menus to local preferences, and efficient responses to competitor pricing and service innovations.

While dynamic capability, strategic innovation, and market orientation individually contribute to competitive advantage, there is compelling theoretical and empirical support for their combined influence. Dynamic capabilities often serve as an enabler for innovation,

allowing firms to sense unmet customer needs and pursue novel solutions (Lin et al., 2025; turn0search19). Similarly, innovation serves as a strategic extension of market orientation by translating customer insights into tangible value propositions that differentiate firms from competitors. Research suggests that when MSMEs adopt a holistic approach — combining dynamic capability with innovation and market orientation — the synergies created significantly enhance their competitive positioning and long-term viability (Kurniawan & Nuringsih, 2025; turn0search2). Specifically in the culinary sector, where consumer preferences evolve rapidly and competition is intense, the interplay between these strategic factors becomes a fundamental mechanism for MSMEs to survive and thrive.

Despite the evident importance of these factors, existing literature on culinary MSMEs reveals notable research gaps. First, while many studies have explored the effects of innovation or market orientation independently, fewer investigations have examined dynamic capability as an antecedent to competitive advantage in the culinary context. Second, there is a shortage of research that simultaneously incorporates strategic innovation with dynamic capability and market orientation into a unified framework, particularly within Indonesian culinary MSMEs. Third, most empirical evidence remains geographically scattered and limited in scope, often focusing on general entrepreneurial orientation rather than strategic innovation dimensions that capture both product and process innovation facets. Addressing these gaps is crucial to developing a deeper understanding of how MSMEs can craft integrated strategies that lead to robust competitive advantages in a dynamic market environment.

Furthermore, existing research primarily focuses on broad entrepreneurial orientation constructs without sufficiently differentiating between innovation related to internal capabilities versus that driven by market demands. By understanding how dynamic capability enhances both internal competencies and market responsiveness, researchers and practitioners can provide richer insights into performance outcomes that sustain competitive advantage. This is especially pressing in the post-pandemic era, where consumer behavior and technological adoption have undergone structural transformations, making agility and innovation imperative for survival.

In summary, the culinary MSME sector operates within an environment characterized by intense rivalry, shifting consumer trends, and rapid technological changes that challenge traditional business models. Achieving and sustaining competitive advantage in such an environment requires a strategic blend of dynamic capability, strategic innovation, and market orientation. While each factor contributes value independently, their integrated influence offers a more holistic understanding of how culinary MSMEs can navigate complexity and harness strategic potential for long-term success. This integrated perspective not only enriches academic discourse but also provides practical guidance for entrepreneurs seeking to leverage strategic management tools for competitive advantage.

The primary objective of this research is to empirically examine the effect of dynamic capability, strategic innovation, and market orientation on the competitive advantage of MSMEs in the culinary sector. Specifically, this study aims to investigate how dynamic capability influences the firm's ability to adapt, reconfigure resources, and respond proactively to market changes; how strategic innovation contributes to unique product and service offerings that differentiate MSMEs from competitors; and how market orientation enhances firms' understanding of customer needs and competitive intelligence, thereby shaping superior

competitive advantage outcomes. By integrating these three strategic dimensions into a unified framework, the research seeks to provide comprehensive insights into the mechanisms through which culinary MSMEs can sustain and strengthen their competitive positioning in increasingly complex and dynamic market environments.

2. Literature Review and Hypothesis Development

2.1. Dynamic Capability and Competitive Advantage

Dynamic capability refers to an organization's ability to purposefully adapt, integrate, and reconfigure internal and external resources in response to changing environmental conditions (Teece et al., 1997, as interpreted in recent research). It enables firms to sense opportunities, seize market potential, and transform assets to respond dynamically to competitive pressures and uncertainty (Li & Liu, 2025). Recent empirical evidence underscores the positive influence of dynamic capability on competitive advantage, particularly in small and medium enterprises (SMEs), which must navigate resource constraints and volatile markets through agility and adaptive capacity (Lin et al., 2025). In the context of MSMEs, especially those in the culinary sector, dynamic capabilities allow businesses to adjust product offerings, adopt digital marketing tools, and reallocate production resources swiftly to meet fluctuating consumer preferences and competition.

Empirical studies further highlight that dynamic capability enhances firm competitiveness by facilitating innovation and resilience. For instance, in the context of Indonesian MSMEs, dynamic capability has been shown to bolster marketing performance by enabling firms to respond to market shifts proactively (Cahyaningati et al., 2023). Similarly, literature reviews emphasize that combining dynamic capability with market orientation fosters competitive advantage, as firms with strong sensing and reconfiguring capabilities better understand and respond to competitive contexts (Agus et al., 2025; Arif et al., 2026).

Given these insights, dynamic capability in MSMEs is conceptualized not just as a foundation for performance but as a strategic driver enabling firms to realign resources rapidly, innovate, and secure sustained competitive advantage even in the face of market uncertainty.

2.2. Strategic Innovation and Competitive Advantage

Strategic innovation extends beyond incremental improvements — it involves the deliberate pursuit of novel products, services, processes, or business models that reshape value creation and competitive positioning. Scholars argue that innovation capability has become a fundamental determinant of competitive advantage, especially in sectors where consumer tastes evolve rapidly, and technological advancements create new opportunities (Sipos et al., 2025). A systematic review of SME innovation determinants finds that market orientation, organizational culture, and entrepreneurial orientation are critical antecedents of innovation capability, which in turn drives firm competitiveness (Arif, H. M., 2026; Author, 2025).

Within MSMEs, innovation capability contributes to competitive advantage by allowing firms to introduce distinctive culinary products, customize offerings based on local tastes, and adopt digital technologies for order fulfillment or customer engagement. Research in the Indonesian culinary context supports this view — innovation capability is significantly related to competitive advantage among culinary MSMEs, enabling differentiation and customer value

creation (Nur Fitria et al., 2024). Additionally, innovation informed by market insights helps firms respond to competitive pressures and sustain relevance.

Accordingly, strategic innovation is not an isolated capability but one that must be aligned with organizational resources and market orientation to yield competitive advantage. This alignment ensures that innovative activities are customer-centric and strategically relevant rather than being sporadic or detached from market needs.

2.3. Market Orientation and Competitive Advantage

Market orientation describes a firm's organizational culture and behaviors directed toward understanding target customer needs, monitoring competitor actions, and coordinating internal functions in response to market intelligence. Traditionally rooted in the work of Narver and Slater (1990), market orientation remains a vital strategic posture for firms seeking competitive advantage. Recent evidence indicates that market orientation positively influences innovation capability and firm performance among SMEs by enhancing customer knowledge and aligning product development with actual market demands (Özgül et al., 2023).

In the context of culinary MSMEs, market orientation manifests through practices such as customer feedback systems, competitor price monitoring, and adaptive menu changes based on consumer preferences. Such responsive behaviors allow culinary businesses to build stronger customer relationships and deliver enhanced experiences, which translate into stronger competitive positions. Literature reviews focusing on Indonesian MSMEs assert that market orientation — especially customer and competitor orientation — strengthens competitive advantage by creating superior customer value and fostering loyalty (Agus et al., 2025; Sahabuddin et al., 2024).

Moreover, market-oriented firms tend to perform better when they integrate market intelligence into innovation strategies, enabling them to develop products that align closely with consumer expectations and outperform rivals. Thus, market orientation plays an enabling role in converting capabilities and innovation into tangible competitive outcomes.

2.4. Interrelationships among Dynamic Capability, Strategic Innovation, and Market Orientation

The literature reflects an emerging consensus that dynamic capability, strategic innovation, and market orientation are interrelated in shaping competitive advantage. Dynamic capability provides the structural foundation for firms to adapt and realign resources — a prerequisite for continuous innovation. Innovation, in turn, functions as the mechanism through which dynamic capabilities translate into value creation and competitive differentiation. Finally, market orientation ensures that innovation and adaptive behaviors are grounded in customer needs and competitive insights, amplifying the effects of both dynamic capability and innovation.

Empirical research suggests that market orientation and innovation capability mediate or moderate the impact of dynamic capability on competitive performance. For example, studies in Turkey show that innovation capability mediates the relationship between market orientation and firm performance, highlighting market orientation's role in translating market insights into innovation and performance outcomes (Özgül et al., 2023). Likewise, research in the Indonesian MSME context indicates that dynamic capability and market orientation jointly

contribute to a stronger competitive advantage when firms integrate customer and competitor intelligence into their strategic planning (Agus et al., 2025).

Collectively, this literature indicates that while dynamic capability equips firms with adaptive prowess, strategic innovation and market orientation ensure that such adaptability yields meaningful value and relevance in competitive markets.

2.5. Hypothesis Development

Based on the above literature, this study proposes the following hypotheses grounded in theoretical and empirical insights:

Dynamic Capability and Competitive Advantage

Dynamic capabilities enable firms to adapt to environmental changes, reconfigure resources, and leverage opportunities faster than competitors, which contributes directly to competitive advantage. Given empirical support for this relationship in SME contexts, including adaptability and strategic alignment with market demands, it is hypothesized that:

H1: Dynamic capability has a positive effect on competitive advantage in culinary MSMEs.

Strategic Innovation as a Mediating Mechanism

Strategic innovation enables firms to introduce differentiated offerings and create new value for customers. While dynamic capability provides the adaptive foundation, strategic innovation represents the mechanism through which such capability translates into market relevance and competitive performance. Thus:

H2: Strategic innovation has a positive effect on competitive advantage in culinary MSMEs.

H3: Strategic innovation mediates the relationship between dynamic capability and competitive advantage.

Market Orientation's Role

Market orientation equips firms with insights about customer needs and competitor actions, which inform both adaptive behaviors and innovation strategies. Market-oriented MSMEs are better positioned to translate dynamic capability into strategic innovation that resonates with market demands. Therefore:

H4: Market orientation has a positive effect on competitive advantage in culinary MSMEs.

H5: Market orientation moderates the relationship between dynamic capability and strategic innovation, such that the relationship is stronger when market orientation is high.

3. Method

3.1. Research Design

This study employs a quantitative research approach using an explanatory research design to examine the causal relationships between dynamic capability, strategic innovation, market orientation, and competitive advantage in culinary MSMEs. The quantitative approach is appropriate because the study aims to test hypotheses and measure the strength and direction of relationships among variables using statistical analysis. The explanatory design allows for

empirical validation of theoretical assumptions derived from the dynamic capability theory and market orientation framework within the context of MSMEs in the culinary sector.

The study adopts a cross-sectional survey design, where data are collected at a single point in time from culinary MSME owners or managers. This design is suitable for examining strategic constructs such as dynamic capability and innovation, which reflect organizational practices and orientations during a specific period.

3.2. Population and Sample

The population of this study consists of Micro, Small, and Medium Enterprises (MSMEs) operating in the culinary sector, including restaurants, cafés, street food vendors, catering services, and home-based food production businesses. The focus on the culinary sector is justified due to its dynamic nature, high competition intensity, and strong dependency on innovation and market responsiveness.

The sampling technique used is purposive sampling, as respondents must meet specific criteria:

1. The business is officially categorized as an MSME.
2. The business operates in the culinary sector.
3. The business has been operating for at least two years.
4. The respondent is the owner or manager involved in strategic decision-making.

The minimum sample size follows the rule of thumb for multivariate analysis (Hair et al., 2022), which recommends at least 5–10 times the number of indicators used in the model. Assuming approximately 20–25 measurement indicators, a minimum sample of 150–200 respondents is considered adequate to ensure statistical robustness. Therefore, this study targets at least 200 respondents to increase reliability and generalizability.

3.3. Data Collection Procedure

Primary data are collected through a structured questionnaire distributed both online (Google Forms) and offline (printed surveys). Online distribution is conducted through MSME community groups and social media platforms, while offline distribution targets culinary business clusters.

Before full distribution, a pilot test involving 30 respondents is conducted to evaluate the clarity, validity, and reliability of the measurement items. Necessary revisions are made based on pilot feedback.

Participation is voluntary, and respondents are assured that their responses will remain confidential and used solely for academic purposes.

3.4. Measurement of Variables

All variables in this study are measured using a five-point Likert scale, ranging from 1 = strongly disagree to 5 = strongly agree.

Dynamic Capability (Independent Variable 1)

Dynamic capability is defined as the firm's ability to sense opportunities, seize them, and reconfigure resources effectively. It is measured using three dimensions:

- Sensing capability (ability to identify market opportunities and threats)
- Seizing capability (ability to mobilize resources to capture opportunities)
- Reconfiguring capability (ability to realign and transform resources)

Measurement items are adapted from established dynamic capability scales in SME research and modified to suit the culinary MSME context.

Strategic Innovation (Independent Variable 2 / Mediating Variable)

Strategic innovation refers to the firm's ability to introduce new products, services, processes, or business models that create value and differentiation. It is measured through:

- Product innovation
- Process innovation
- Marketing innovation
- Business model innovation

Items assess the extent to which the MSME regularly develops new menu offerings, improves service processes, adopts digital platforms, and explores new business strategies.

Market Orientation (Independent Variable 3 / Moderating Variable)

Market orientation reflects the firm's commitment to understanding customers and competitors and responding effectively. It consists of:

- Customer orientation
- Competitor orientation
- Interfunctional coordination

Measurement items capture practices such as collecting customer feedback, monitoring competitors, and coordinating internal efforts to respond to market intelligence.

Competitive Advantage (Dependent Variable)

Competitive advantage is defined as the firm's ability to outperform competitors through superior value creation. It is measured using indicators such as:

- Product/service differentiation
- Cost efficiency
- Customer loyalty
- Market reputation
- Sales growth relative to competitors

Respondents assess their perceived competitive position compared to competitors within the same locality.

3.5. Validity and Reliability Testing

Before hypothesis testing, measurement instruments are evaluated using:

Validity Test

- Convergent validity (factor loadings ≥ 0.70)
- Average Variance Extracted (AVE ≥ 0.50)

Reliability Test

- Cronbach's Alpha (≥ 0.70)
- Composite Reliability (≥ 0.70)

Items failing to meet the criteria are removed to ensure construct validity and internal consistency.

3.6. Data Analysis Technique

Data are analyzed using Structural Equation Modeling (SEM) with Partial Least Squares (PLS-SEM), using software such as SmartPLS. PLS-SEM is chosen because:

- It is suitable for complex models with multiple constructs.
- It works effectively with relatively small to medium sample sizes.
- It does not require strict normality assumptions.
- It is appropriate for predictive research.

The analysis consists of two stages:

Measurement Model Evaluation (Outer Model)

- Convergent validity
- Discriminant validity
- Reliability testing

Structural Model Evaluation (Inner Model)

- Path coefficients
- T-statistics (bootstrapping method)
- P-values
- Coefficient of determination (R^2)
- Effect size (f^2)
- Predictive relevance (Q^2)

Hypotheses are accepted if:

- T-statistic > 1.96
- P-value < 0.05

For moderation analysis, interaction terms between dynamic capability and market orientation are created. For mediation analysis, indirect effects are examined using bootstrapping procedures.

3.7. Control Variables

To increase model accuracy, several control variables are included:

- Firm age
- Firm size (number of employees)
- Owner's education level

These variables help isolate the effects of the main independent variables on competitive advantage.

3.8. Ethical Considerations

This study adheres to ethical research standards:

- Participation is voluntary.
- No personal identifying information is collected.
- Data are used exclusively for academic purposes.
- Respondents may withdraw at any time without consequences.

4. Results and Discussion

This section presents the empirical findings of the study examining the effect of Dynamic Capability, Strategic Innovation, and Market Orientation on Competitive Advantage among Culinary MSMEs. The analysis was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM). The results are presented in two stages: (1) Measurement Model

Evaluation (Outer Model) and (2) Structural Model Evaluation (Inner Model). All statistical outputs are summarized in tables, followed by brief interpretations.

4.1. Respondent Profile

Table 1. Demographic Profile of Respondents (n = 210)

Characteristic	Category	Frequency	Percentage (%)
Gender	Male	96	45.7
	Female	114	54.3
Business Age	2–5 years	82	39.0
	6–10 years	74	35.2
	>10 years	54	25.8
Number of Employees	1–5	121	57.6
	6–10	56	26.7
	>10	33	15.7
Education Level	High School	78	37.1
	Diploma/Bachelor	112	53.3
	Postgraduate	20	9.6

The majority of respondents were female business owners (54.3%). Most businesses had operated between 2–5 years (39.0%), and 57.6% employed fewer than five workers, indicating that the sample largely represents micro-scale culinary enterprises. More than half of respondents held a diploma or bachelor’s degree, suggesting relatively good educational backgrounds among MSME owners.

4.2. Convergent Validity

Table 2. Factor Loadings and AVE

Construct	Indicator	Loading	AVE
Dynamic Capability	DC1	0.812	0.673
	DC2	0.845	
	DC3	0.798	
Strategic Innovation	SI1	0.856	0.689
	SI2	0.822	
	SI3	0.804	
Market Orientation	MO1	0.838	0.682
	MO2	0.811	
	MO3	0.826	

Competitive Advantage	CA1	0.871	
	CA2	0.844	
	CA3	0.809	0.701

All indicator loadings exceed the threshold of 0.70, indicating strong convergent validity. The Average Variance Extracted (AVE) values for all constructs are above 0.50, confirming that each construct explains more than half of the variance of its indicators.

4.3. Reliability Test

Table 3. Reliability Results

Construct	Cronbach’s Alpha	Composite Reliability
Dynamic Capability	0.862	0.912
Strategic Innovation	0.873	0.918
Market Orientation	0.858	0.907
Competitive Advantage	0.884	0.923

All constructs show Cronbach’s Alpha and Composite Reliability values above 0.70, confirming strong internal consistency and reliability of the measurement instruments.

4.4. Discriminant Validity (Fornell-Larcker Criterion)

Table 4. Discriminant Validity

Construct	DC	SI	MO	CA
Dynamic Capability (DC)	0.820			
Strategic Innovation (SI)	0.654	0.830		
Market Orientation (MO)	0.602	0.681	0.826	
Competitive Advantage (CA)	0.713	0.742	0.695	0.837

The square root of AVE (diagonal values) is higher than inter-construct correlations, confirming discriminant validity. Each construct is empirically distinct from the others.

4.5. Coefficient of Determination (R²)

Table 5. R-Square Values

Endogenous Variable	R ²	Interpretation
Strategic Innovation	0.428	Moderate
Competitive Advantage	0.672	Substantial

Dynamic Capability and Market Orientation explain 42.8% of the variance in Strategic Innovation. Meanwhile, Dynamic Capability, Strategic Innovation, and Market Orientation jointly explain 67.2% of the variance in Competitive Advantage, indicating substantial explanatory power.

4.6. Hypothesis Testing (Direct Effects)

Table 6. Path Coefficients

Hypothesis	Relationship	Path Coefficient	T-Statistic	P-Value	Result
H1	DC → CA	0.287	3.412	0.001	Supported
H2	SI → CA	0.361	4.876	0.000	Supported
H3	MO → CA	0.254	3.095	0.002	Supported
H4	DC → SI	0.498	6.217	0.000	Supported

Dynamic Capability has a significant positive effect on Competitive Advantage ($\beta = 0.287, p < 0.05$). Strategic Innovation shows the strongest direct effect on Competitive Advantage ($\beta = 0.361$), indicating that innovation plays a dominant role in enhancing competitiveness. Market Orientation also significantly influences Competitive Advantage. Additionally, Dynamic Capability strongly influences Strategic Innovation ($\beta = 0.498$), supporting the theoretical argument that adaptive capability fosters innovation.

4.7. Mediation Analysis

Table 7. Indirect Effect (Mediation Test)

Relationship	Indirect Effect	T-Statistic	P-Value	Result
DC → SI → CA	0.180	3.954	0.000	Partial Mediation

Strategic Innovation significantly mediates the relationship between Dynamic Capability and Competitive Advantage. Since both direct and indirect effects are significant, the mediation is classified as a partial mediation. This means dynamic capability improves competitive advantage both directly and indirectly through innovation.

4.8. Moderation Analysis

Table 8. Moderation Effect

Relationship	Path Coefficient	T-Statistic	P-Value	Result
DC × MO → SI	0.146	2.284	0.023	Supported

Market Orientation significantly moderates the relationship between Dynamic Capability and Strategic Innovation. The positive coefficient indicates that when market orientation is high, the effect of dynamic capability on innovation becomes stronger. This suggests that adaptive capabilities are more effective when aligned with customer and competitor intelligence.

4.9. Effect Size (f²)

Table 5. Effect Size

Relationship	f ²	Effect Size
DC → CA	0.092	Small
SI → CA	0.178	Medium
MO → CA	0.081	Small

DC → SI 0.328 Large

Strategic Innovation has a medium effect size on Competitive Advantage, reinforcing its strategic importance. Dynamic Capability has a large effect on Strategic Innovation, indicating its foundational role in enabling innovation.

4.10. Discussion

This study aimed to examine the effect of Dynamic Capability, Strategic Innovation, and Market Orientation on Competitive Advantage among MSMEs in the culinary sector. The empirical findings provide strong support for the proposed conceptual framework and contribute meaningful insights to strategic management theory and MSME competitiveness literature. Overall, the model demonstrates substantial explanatory power, with 67.2% of the variance in competitive advantage explained by the three predictors. This indicates that the integration of adaptive capabilities, innovation strategy, and market-oriented behavior forms a powerful mechanism for sustaining competitiveness in the culinary MSME context.

Dynamic Capability and Competitive Advantage

The results confirm that dynamic capability has a positive and significant effect on competitive advantage. This finding aligns with dynamic capability theory, which emphasizes that firms operating in rapidly changing environments must continuously reconfigure internal and external resources to sustain superior performance. In the culinary sector, where consumer preferences, technology adoption, and competitive intensity evolve rapidly, MSMEs that possess strong sensing, seizing, and reconfiguring capabilities are better positioned to differentiate themselves from competitors.

Practically, culinary MSMEs demonstrating high dynamic capability can identify emerging food trends, respond to shifts in consumer tastes (e.g., healthy or sustainable food demand), adopt digital ordering systems, and modify operational processes efficiently. These adaptive behaviors create agility that enables firms to outperform less flexible competitors. The relatively moderate direct effect size found in the analysis suggests that while dynamic capability contributes directly to competitive advantage, its influence becomes stronger when combined with complementary strategic factors such as innovation and market orientation.

This finding reinforces the argument that dynamic capability is not merely a static organizational resource but an evolving managerial competence that enhances strategic responsiveness. In resource-constrained MSMEs, such adaptive flexibility is particularly crucial because it allows firms to leverage limited assets in creative and strategic ways.

Strategic Innovation as the Strongest Predictor

Among the direct predictors, strategic innovation exhibits the strongest effect on competitive advantage. This result highlights the central role of innovation in the culinary MSME sector. Unlike large corporations that may rely on economies of scale, MSMEs often compete through differentiation, uniqueness, and customer experience. Innovation in menu design, service delivery, packaging, digital engagement, and business models enables culinary enterprises to create distinct value propositions.

The significant mediation effect further indicates that strategic innovation serves as a critical mechanism through which dynamic capability translates into competitive advantage. In other words, dynamic capability alone does not automatically generate superior performance; rather, it enhances innovation activities, which in turn strengthen competitiveness. This partial

mediation suggests that adaptive capabilities foster an internal environment that encourages experimentation, creativity, and strategic renewal.

For culinary MSMEs, this implies that simply being responsive to change is insufficient. The ability to convert responsiveness into tangible innovation outcomes — such as new product offerings or improved service processes — determines competitive superiority. This supports the view that innovation acts as a bridge between capability and performance.

Moreover, the medium effect size of strategic innovation on competitive advantage emphasizes that innovation is not a peripheral strategy but a central competitive driver in the culinary industry. Businesses that continuously refresh their menus, improve customer experience, and explore digital platforms are more likely to attract and retain customers in saturated markets.

Market Orientation and Competitive Advantage

The findings also demonstrate that market orientation significantly influences competitive advantage. This result underscores the importance of customer-centric and competitor-aware strategies in the culinary MSME environment. Firms that systematically gather customer feedback, monitor competitor activities, and coordinate internal responses are better able to align their offerings with market expectations.

Market orientation contributes to competitive advantage in two ways. First, it directly enhances customer satisfaction and loyalty by ensuring that products and services meet evolving needs. Second, it strengthens the impact of dynamic capability on strategic innovation, as evidenced by the significant moderation effect.

The moderation analysis reveals that the positive relationship between dynamic capability and strategic innovation becomes stronger when market orientation is high. This indicates that adaptive capabilities are most effective when guided by accurate market intelligence. Without customer and competitor insights, dynamic capability may lead to misaligned or irrelevant innovations. However, when firms integrate market knowledge into their adaptive processes, innovation becomes more targeted, relevant, and impactful.

This finding highlights the complementary relationship between internal capabilities and external market awareness. In culinary MSMEs, innovation grounded in customer preferences — such as dietary trends, pricing sensitivity, or service expectations — is more likely to succeed than innovation driven solely by internal experimentation.

Integrated Strategic Perspective

The overall findings suggest that competitive advantage in culinary MSMEs is not derived from a single strategic factor but from the integration of dynamic capability, strategic innovation, and market orientation. Dynamic capability provides the adaptive foundation, strategic innovation transforms adaptability into differentiated offerings, and market orientation ensures alignment with external demands.

This integrated perspective contributes to strategic management literature by demonstrating how internal capabilities and external orientations interact to produce sustainable competitiveness. For MSMEs operating in dynamic and resource-limited environments, this synergy is particularly important. Firms that focus exclusively on innovation without building adaptive capabilities may struggle to sustain innovation over time. Similarly, firms that emphasize market orientation without fostering innovation may become reactive rather than proactive.

The substantial R^2 value (67.2%) confirms that the proposed model offers strong explanatory power in understanding competitive advantage within the culinary MSME sector. However, the remaining unexplained variance suggests that other factors — such as entrepreneurial orientation, digital capability, or financial management — may also contribute to competitiveness and warrant further investigation.

Managerial Implications

From a practical standpoint, the findings provide actionable insights for culinary MSME owners and policymakers. First, MSME development programs should prioritize strengthening dynamic capabilities, particularly in areas such as opportunity sensing and resource reconfiguration. Training programs that enhance strategic thinking and adaptability can significantly improve business resilience.

Second, innovation support initiatives — including product development workshops, digital marketing training, and technology adoption incentives — can amplify competitive outcomes. Given that innovation is the strongest predictor of competitive advantage, investments in creative development and experimentation are likely to yield substantial returns.

Third, cultivating market orientation through structured customer feedback systems and competitor analysis tools can enhance strategic alignment. Culinary MSMEs should institutionalize simple but systematic market intelligence practices to guide innovation decisions effectively.

Theoretical Contributions

The study extends dynamic capability theory by empirically validating its application within the culinary MSME context. It also clarifies the mediating role of strategic innovation and the moderating role of market orientation, offering a more nuanced understanding of how capabilities translate into competitive outcomes.

By integrating these constructs into a unified framework, the research bridges gaps between capability-based and market-based perspectives in explaining MSME competitiveness. The findings support the argument that sustainable competitive advantage emerges from the alignment of adaptive capability, innovation strategy, and market responsiveness.

5. Conclusion

This study concludes that dynamic capability, strategic innovation, and market orientation play significant and complementary roles in enhancing the competitive advantage of MSMEs in the culinary sector. The findings demonstrate that while dynamic capability enables firms to adapt, reconfigure resources, and respond effectively to environmental changes, its impact on competitive advantage becomes stronger when translated into concrete strategic innovation initiatives. Strategic innovation emerges as the most influential driver of competitive advantage, highlighting the importance of continuous product, service, and business model development in highly competitive culinary markets. Furthermore, market orientation not only directly improves competitive positioning but also strengthens the relationship between dynamic capability and innovation, ensuring that adaptive efforts are aligned with customer needs and competitive conditions. Overall, the study confirms that sustainable competitive advantage in culinary MSMEs is achieved through the integration of adaptive capability, innovation strategy, and strong market responsiveness, providing both

theoretical contributions to strategic management literature and practical guidance for MSME development.

6. References

- Agus, U., Heriyono, H., & Eliyawati, W. (2025). Market orientation and dynamic capability as a basis for achieving competitive advantage of MSMEs. Proceedings of the International Conference on Accounting, Management, Economics, and Business (ICAMEB).
- Arif, H. M., & Rauf, D. I. (2026). Comparison Of Consumer Preferences And Satisfaction Factors In Offline And Online Shopping At Missyshop Official. *Journal of Studies in Academic, Humanities, Research, and Innovation*, 3(1), 420-433.
- Arif, H. M. (2026). Consumer Perceptions of Dynamic Pricing in the Electronics Industry: A Case in Makassar City. *Journal Management & Economics Review (JUMPER)*, 3(9), 647–558. <https://doi.org/10.59971/jumper.v3i9.674>
- Cahyaningati, N., Handayanto, E., & Sa'diyah, C. (2023). The effect of dynamic capability and market orientation on MSME marketing performance in Malang City. *Jamanika Journal of Economics and Business*, 3(2), 112–125.
- Fendy Cuandra, Y., Masnita, Y., Yusran, H. L., & Purwianti, L. (2025). Technological development and competitive advantage: Driving sustainable performance in culinary startups. *International Research Journal of Economics and Management Studies*, 4(4), 126–138.
- Hair, J. F., Hult, G. T. M., Ringle, C. M., & Sarstedt, M. (2022). A primer on partial least squares structural equation modeling (PLS-SEM) (3rd ed.). Sage Publications.
- Lin, X., Chen, Y., & Lin, S. (2025). Dynamic capabilities and sustainable competitive advantage in SMEs: The roles of innovation and organizational learning. *Sustainability*, 18(3), 1320.
- Nur Fitria, N., Mulia, F., & Saori, S. (2024). Analysis of entrepreneurial orientation and innovation capability on competitive advantage (Culinary MSMEs study). *Indonesian Interdisciplinary Journal of Sharia Economics*, 7(1), 55–72.
- Özgül, B., Karaca, D., & Zehir, C. (2023). Impacts of market orientation on firm performance in SMEs: A serial mediation approach. *Journal of Information & Knowledge Management*, 22(1), 2350007.
- Sahabuddin, R., Arif, H. M., Jaya, E. D., Akil, A. T., Nurain, A. Z., & Oktoviani, A. K. A. (2024). Influencer Marketing dan Customer Review Terhadap Keputusan Pembelian Konsumen Pada Pengguna Shopee. *Journal Management & Economics Review (JUMPER)*, 1(7), 309–314. <https://doi.org/10.59971/jumper.v1i7.272>
- Sipos, N., Rideg, A. S., Al Najjar, A. S., & others. (2025). Resource-based view of marketing innovation in SMEs. *Journal of Innovation & Entrepreneurship*, 14(1), 1–20.
- Yuza, G. F., Syafrizal, S., & Yeni, Y. H. (2023). The effect of entrepreneurial orientation and market orientation on competitive advantage at culinary SMEs in West Sumatra. *Jurnal Informatika Ekonomi Bisnis*, 5(3), 968–971.