

The Influence of Entrepreneurial Competence and Innovation on the Business Sustainability of MSMEs in Kendari City

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Abstract

Micro, Small, and Medium Enterprises (MSMEs) act as the driving force of regional economic growth through job creation and income generation. In Kendari City, approximately 41,939 active MSMEs were recorded in the Online Data System (ODS) in 2024, showing a post-pandemic growth trend. However, challenges in sustaining MSME performance remain, particularly due to limited entrepreneurial competence and weak innovation capabilities among business owners. This study analyzes the influence of entrepreneurial competence and innovation on MSME business sustainability in Kendari City. A quantitative approach was applied using a survey method, involving 100 MSME owners selected through purposive sampling. The research instrument employed a Likert-scale questionnaire with indicators measuring entrepreneurial competence, innovation, and business sustainability. Data were analyzed using multiple linear regression with SPSS. Results show that entrepreneurial competence and innovation simultaneously have a significant effect on business sustainability ($F = 103.138$; $p < 0.001$). Partially, entrepreneurial competence has a positive effect ($t = 3.470$; $p = 0.001$), while innovation is the strongest factor influencing business sustainability ($t = 10.848$; $p < 0.001$). These findings imply that MSMEs in Kendari City require managerial skills supported by innovation-based capabilities to remain competitive and maintain long-term operations. Strengthened innovation-oriented entrepreneurship programs and government digital support are recommended to enhance sustainability outcomes.

Keywords: *Business Sustainability, Entrepreneurial Competence, Innovation, MSMEs,*

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) serve as a driving force of community-based economic activity and contribute significantly to regional development. In the context of business development, two essential factors influencing MSME success are entrepreneurial competence and innovation. Entrepreneurial competence refers to the ability of business actors to identify opportunities, manage resources, and make strategic decisions (Sarwoko & Nurfarida, 2021). Meanwhile, innovation encompasses the renewal of products, processes, and marketing strategies that create added value and enhance business competitiveness (Felix, 2021).

In Kendari City, the MSME sector continues to grow and has become one of the key drivers of the local economy. The local government has recorded an increase in MSME activities through various training and mentoring programs aimed at strengthening business capacity within the community. Sectors such as culinary, handicrafts, and services dominate the landscape, broadly supporting household-based economic activities (Marsalena & Wati, 2025). This growth indicates that MSMEs in Kendari possess great

potential for development; however, their long-term survival remains an important concern.

Field observations reveal that a large proportion of MSME actors in Kendari still face limitations in management skills, adaptability, and the ability to innovate in their products and marketing strategies. These challenges contribute to low business competitiveness and cause many MSMEs to struggle to sustain their operations in the long term. This implies that business sustainability is not solely determined by the increasing number of MSMEs, but is heavily influenced by the entrepreneurial competence and innovation capacity of the business owners themselves.

Previous studies have generally emphasized that competence and innovation significantly influence MSME performance (Siregar et al., 2021). However, most of the literature has focused on short-term performance rather than targeting long-term business sustainability. In addition, research specifically examining MSMEs in the Kendari region remains limited, highlighting the need for a study that investigates the influence of entrepreneurial competence and innovation on MSME business sustainability in Kendari City.

Theoretically, this research is grounded in: (1) the Theory of Entrepreneurial Competence, which underscores the importance of business actors' capabilities in managing their ventures (Sarwoko & Nurfarida, 2021); (2) Innovation Theory, which explains that innovation drives business growth (Felix, 2021); and (3) the framework of Business Sustainability, which refers to the ability of MSMEs to survive and grow in the long term through adaptive strategies (Hidayah, 2024). Therefore, this study is essential to provide empirical understanding and practical contributions to both the local government and MSME actors in formulating strategies to strengthen sustainable business development.

LITERATURE REVIEW

Entrepreneurial Competence

Entrepreneurial competence refers to an individual's capacity to effectively manage a business, identify opportunities, and implement appropriate strategies. Competence becomes a key foundation for MSMEs to survive in competitive environments (Sakib et al., 2022). Indicators (adapted from Wulani et al., 2019):

1. Opportunity identification
2. Business management capacity
3. Planning and decision-making
4. Leadership and organizing ability
5. Problem-solving and risk handling

Innovation

Innovation is the process of creating or modifying products, processes, and marketing activities to improve business performance and sustainability (Lu Ranjamandi & Situmorang, 2024). Indicators (OECD – Oslo Manual):

1. Product innovation
2. Process innovation
3. Marketing innovation (including digital)
4. Service innovation

Business Sustainability

Business sustainability refers to the long-term ability of enterprises to maintain financial, operational, market, and growth performance. Indicators:

1. Stable or increasing revenue
2. Continuity of business operations
3. Customer retention and growth
4. Plans for business expansion

Relationship Between Variables, Conceptual Framework, and Hypotheses

1. Competence → Sustainability

Entrepreneurs with high levels of competence can design strategies and manage their businesses more effectively, which in turn influences business sustainability (Sakib et al., 2022).

2. Innovation → Sustainability

The ability to create product and process innovations has an impact on competitiveness, thereby enhancing business sustainability (Lu Ranjamandi & Situmorang, 2024).

3. Simultaneous Influence

Entrepreneurial competence enables business actors to effectively identify and take advantage of opportunities, while innovation acts as the tool for execution. The combination of both simultaneously increases the likelihood of businesses surviving and experiencing long-term growth.

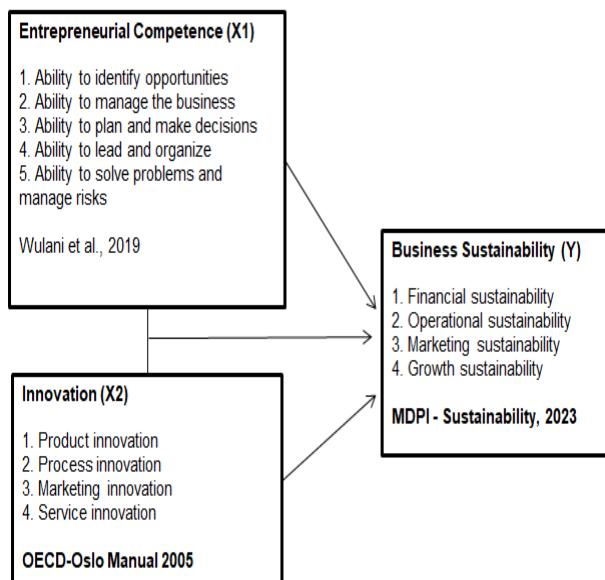


Figure 1. Conceptual Framework

H1: Entrepreneurial competence and innovation simultaneously affect MSME business sustainability.

H2: Entrepreneurial competence positively affects business sustainability.

H3: Innovation positively affects business sustainability.

METHODS

Type of Research and Approach

This study employs a quantitative approach, as the data are collected in numerical form and analyzed statistically. The type of research used is explanatory research, which aims to explain the causal relationships between variables, specifically entrepreneurial competence and innovation, toward the business sustainability of MSMEs.

Research Location, Population, and Sample

The research was conducted on Micro, Small, and Medium Enterprises (MSMEs) in Kendari City, Southeast Sulawesi Province. Based on data released by the Department of Trade, Cooperatives, and MSMEs of Kendari City, the number of MSME actors in Kendari City has increased significantly in the post-pandemic period, reaching approximately 41,939 active business units recorded in the Online Data System (ODS) and the latest administrative records of the related governmental agency.

Considering the relatively large population of MSMEs, this study applies a purposive sampling technique, namely selecting respondents based on specific criteria that align with the research objectives. The selected criteria include MSME actors who have operated their businesses for at least 3–5 years, are willing to complete the questionnaire, and possess clear and verifiable business data.

To determine the number of samples, the Slovin formula is used with a margin of error of 10% ($e = 0.10$), which is commonly applied in social and business research. Thus, the total number of samples taken in this study is approximately ± 100 MSME respondents in Kendari City. This approach was selected to ensure that the representation of MSME actors is sufficiently adequate for statistical analysis, assuming an acceptable margin of error within quantitative research standards.

Data Collection Techniques

Primary Data: questionnaire/Google Form survey and brief supporting interviews. Secondary Data: documents from the Department of Cooperatives and MSMEs, Central Bureau of Statistics (BPS), journal articles, and MSME reports.

Research Instrument and Operational Definitions

The measurement of variables in this study was conducted using a questionnaire instrument with a Likert scale ranging from 1 to 5, where 1 = Strongly

Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly Agree.

Data Analysis Technique

The data analysis technique used in this study applies a quantitative approach with the assistance of SPSS software, employing a Multiple Linear Regression model to determine the extent of the influence of entrepreneurial competence and innovation on the business sustainability of MSMEs in Kendari City.

The analysis procedure is conducted through multiple linear regression testing using the following formula:

$$Y = a + b_1 X_1 + b_2 X_2 + e$$

where Y represents business sustainability, X_1 denotes entrepreneurial competence, X_2 represents innovation, a is the constant, b_1 and b_2 are the regression coefficients, and e is the error term. The effect testing is performed both partially using the t-test, which measures the influence of each independent variable (X_1 and X_2) individually on Y , and simultaneously using the F-test, which assesses whether entrepreneurial competence and innovation collectively have a significant effect on business sustainability. In addition, the coefficient of determination (R^2) is examined to determine the extent to which the independent variables explain the variance in the dependent variable.

Thus, the overall analytical technique ensures that the data obtained are not only valid and statistically reliable but also capable of providing an empirical illustration of the strength and magnitude of the influence of entrepreneurial competence and innovation in supporting the sustainability of MSMEs in Kendari City.

RESULTS AND DISCUSSION

This chapter presents the research findings obtained based on the quantitative data collected through questionnaires administered to MSME actors in Kendari City. The analyses conducted include a descriptive overview of respondent characteristics, instrument testing, and the analysis of the influence of entrepreneurial competence and innovation on business sustainability. All findings are systematically described to provide an empirical picture of the phenomena under investigation.

Respondent Characteristics

The description of respondents in this study aims to present general information regarding the identity of the individuals who served as the research sample.

Table 1. Respondent Characteristics

Respondent Characteristics	Frequency (persons)	Percentage (%)
1. Gender		
Male	82	82.83
Female	18	18.18
Total	100	100
2. Age		
< 20 years	0	0.00
20–30 years	34	24.24
30–40 years	54	54.55
40–50 years	9	18.18
> 50 years	3	3.03
Total	100	100
3. Education Level		
Senior High School or equivalent	39	39.38
Diploma	4	4.04
Bachelor's degree (S1)	57	57.58
Total	100	100
4. Length of Business Operation		
< 5 years	29	29.29
5–9 years	61	61.62
10–14 years	10	10.09
Total	100	100

Source: Processed primary data, 2025

Based on Table 1, a total of 100 MSME respondents participated in this study. In terms of gender, the majority are male (82.83%), while only 18.18% are female. This indicates that MSME business activities in Kendari are still predominantly led by men. In terms of age, most respondents fall within the 30–40 year age range (54.55%), followed by the 20–30 year group (24.24%). Thus, it can be concluded that MSME actors in Kendari City are largely within productive age groups. Regarding educational background, the largest proportion of respondents are Bachelor's degree (S1) graduates (57.58%), followed by high school graduates (39.38%), indicating that many business owners possess adequate educational qualifications to support business management.

In terms of business duration, the majority of MSMEs have been operating for 5–9 years (61.62%), while those established for less than 5 years account for 29.29%. This suggests that most business owners are experienced and have operated their enterprises for a considerable period. These characteristics suggest that MSME actors in Kendari are relatively well-educated, fall within productive age categories, and have operated their businesses for several years. Logically, this implies that they are in a favorable position to

possess strong entrepreneurial competence and innovation capabilities.

Hypothesis Testing

Multiple linear regression is a statistical analysis technique used to examine or test the influence of independent variables on the dependent variable.

Table 2. Results of Multiple Linear Regression Analysis

Regression Output			
Variabel	Coefisien korelasi	t hitung	t sig
Entrepreneurial Competence (X ₁)	0,234	3,47	0,001
Innovation (X ₂)	0,732	10,848	0,000
Constant	= 15,747		N = 73
F hitung	= 103,138		$\alpha = 0,05$
t sig	= 0,000		
R	= 0,864		
R Square	= 0,747		
Adjusted R Square	= 0,737		

Source: Processed Primary Data using SPSS, 2025

Constant = 15.747

This means that if entrepreneurial competence and innovation are assumed to be zero, the business sustainability score remains at a baseline level of 15.747.

Effect of Entrepreneurial Competence (X₁)

Correlation coefficient = 0.234, t-value = 3.47, sig. = 0.001 (< 0.05). There is a positive and significant influence between entrepreneurial competence and business sustainability. This indicates that the better the skills, business management, and decision-making abilities of MSME actors, the higher the level of business sustainability.

Effect of Innovation (X₂)

Correlation coefficient = 0.732, t-value = 10.848, sig. = 0.000 (< 0.05) Innovation has a stronger and more significant influence on business sustainability compared to entrepreneurial competence. Product innovation, process innovation, digital marketing, and service enhancement are the primary drivers enabling MSMEs to sustain their operations.

Simultaneous Test (F-Test)

F-value = 103.138, sig. = 0.000 (< 0.05). Entrepreneurial competence and innovation simultaneously exert a significant influence on business sustainability.

Coefficient of Determination ($R^2 = 0.747$)

A total of 74.7% of the variation in business sustainability is explained by entrepreneurial competence and innovation, while the remaining 25.3% is influenced by other factors (such as capital, digitalization, government support, and business networks). The research discussion integrates theoretical foundations, prior research findings, and empirical facts observed in the field to verify and contextualize the results of this study.

H1 – Entrepreneurial Competence and Innovation Simultaneously Have a Significant Influence on the Business Sustainability of MSMEs

The simultaneous test results show an F-value of 103.138 with a significance level of 0.000 (< 0.05), indicating that entrepreneurial competence and innovation jointly exert a significant influence on the business sustainability of MSMEs in Kendari City. This suggests that MSMEs are able to survive and continue growing only when both aspects are present; entrepreneurial skills in managing a business must be accompanied by the capacity to create continuous improvements and innovations.

This finding aligns with Sakib et al. (2022), who explain that business sustainability is not merely determined by the owner's ability to operate the business but also by their capacity to continuously adapt through product and process innovation. Furthermore, Wulani et al. (2019) emphasize that entrepreneurial competence serves as the foundation for determining business strategies, while innovation functions as the main driving force that ensures continuity. Therefore, sustainability indicators such as income stability, customer retention, and business growth represent outcomes of the combined effects of both factors.

H2 – Entrepreneurial Competence Significantly Influences the Business Sustainability of MSMEs

The partial test results indicate that the t-value for entrepreneurial competence is 3.470 with a significance level of 0.001 (< 0.05), confirming that entrepreneurial competence has a positive and significant impact on business sustainability. The better the business owners' skills in managing capital, formulating sales strategies, managing resources, and making decisions, the greater the likelihood that their business will survive and thrive in the long term.

This finding is consistent with the entrepreneurial competence theory proposed by Wulani et al. (2019),

which states that personal, managerial, and innovative capabilities are essential components of entrepreneurial success. In the context of MSMEs in Kendari, most business actors are within productive age groups and have operated their enterprises for more than five years, conditions that enhance experience-based entrepreneurial competence, thus contributing to business sustainability.

However, although entrepreneurial competence is significant, its partial contribution is lower than that of innovation. This indicates that in a dynamic market environment, managerial capabilities alone are insufficient without creativity and adaptive changes that meet evolving market needs.

H3 – Innovation Significantly Influences the Business Sustainability of MSMEs

The partial test results show a t-value of 10.848 with a significance level of 0.000 (< 0.05), which is the highest among the independent variables, indicating that innovation is the most dominant factor in enhancing business sustainability. Innovation in this context includes product innovation, production process innovation, technological innovation in marketing (such as the utilization of social media), and customer service innovation.

The strong influence of innovation supports the findings of Lu Ranjamandi & Situmorang (2024), who conclude that MSMEs capable of adjusting products to market demands, adopting digital technologies, and improving production methods are more likely to survive economic changes in the post-pandemic period. Thus, innovation is identified as the key determinant of business sustainability among MSMEs in Kendari, particularly because the majority of respondents have been operating for more than five years, implying a pressing need for continuous renewal to avoid being outcompeted by new market entrants.

CONCLUSION

1. MSME actors in Kendari City are predominantly male, within the productive age range of 30–40 years, mostly holding a bachelor's degree (S1), and have operated their businesses for approximately 5–9 years; thus, they generally possess strong business management capacity.
2. Entrepreneurial competence has a positive and significant influence on business sustainability.

3. Innovation has a stronger and more significant influence on business sustainability compared to entrepreneurial competence.
4. Simultaneously, entrepreneurial competence and innovation explain 74.7% of the variation in business sustainability.

Recommendations

1. For MSME Owners

It is necessary to develop continuous innovation, particularly in digital marketing, service model improvements, and product diversification. Business actors are also encouraged to participate in entrepreneurship and business management training to strengthen planning and decision-making abilities.

2. For Government and Stakeholders

It is recommended to expand business incubation programs and innovation-based digital mentoring, as well as to provide financial access and online marketing facilities for MSMEs.

3. For Future Research

Future researchers are advised to include additional variables such as social capital, government support, and digital adoption to obtain a more comprehensive understanding of factors that contribute to business sustainability.

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