

The Influence of Dynamic Capability Competence and Innovation Performance on the Sustainable Competitive Advantage of MSMEs in Papua

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ABSTRACT

This study is novel in its holistic approach to the influence of dynamic capability competency and innovation performance on the sustainable competitive advantage of MSMEs in Papua. This focus fills the gap in the literature that tends to ignore the local context of Papua, especially regarding the adaptation of MSMEs to limitations in infrastructure, technology, and market access. By prioritizing the dimensions of economic, social, and environmental sustainability, this study not only provides academic contributions but also practical recommendations for the long-term development of MSMEs. This study uses a quantitative approach with a survey design. A total of 200 MSME actors were selected through purposive sampling, with the criteria of having implemented technology in their marketing strategies. Primary data were collected through questionnaires, while secondary data came from annual reports and government publications. The main variables—dynamic capability competency, innovation performance, and sustainable competitive advantage—were measured using a Likert scale. The analysis was conducted using path analysis with SPSS and AMOS. The results show that marketing and R&D competencies have a positive influence on innovation performance, which in turn increases sustainable competitive advantage. Innovation performance acts as a mediator in this relationship. The relationship found is unidirectional, emphasizing that competency drives performance, not the other way around. The practical implications of these findings indicate the importance of MSME investment in strengthening internal competencies, especially in marketing and R&D, to create sustainable innovation and strengthen competitive positions amidst Papua's unique limitations.

Keywords: *Dynamic capabilities, competencies, innovation performance, sustainable competitive advantage.*

ABSTRAK

Penelitian ini memiliki kebaruan dalam pendekatannya yang holistik terhadap pengaruh kompetensi kapabilitas dinamis dan kinerja inovasi terhadap keunggulan kompetitif berkelanjutan UMKM di Papua. Fokus ini mengisi kesenjangan literatur yang cenderung mengabaikan konteks lokal Papua, terutama terkait adaptasi UMKM terhadap keterbatasan infrastruktur, teknologi,

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dan akses pasar. Dengan mengedepankan dimensi keberlanjutan ekonomi, sosial, dan lingkungan, penelitian ini tidak hanya memberi kontribusi akademik, tetapi juga rekomendasi praktis bagi pengembangan jangka panjang UMKM. Penelitian ini menggunakan pendekatan kuantitatif dengan desain survei. Sebanyak 200 pelaku UMKM dipilih melalui purposive sampling, dengan kriteria telah menerapkan teknologi dalam strategi pemasaran. Data primer dikumpulkan melalui kuesioner, sementara data sekunder berasal dari laporan tahunan dan publikasi pemerintah. Variabel utama—kompetensi kapabilitas dinamis, kinerja inovasi, dan keunggulan kompetitif berkelanjutan—diukur menggunakan skala Likert. Analisis dilakukan menggunakan path analysis dengan SPSS dan AMOS. Hasil menunjukkan bahwa kompetensi pemasaran dan litbang memiliki pengaruh positif terhadap kinerja inovasi, yang selanjutnya meningkatkan keunggulan kompetitif berkelanjutan. Kinerja inovasi berperan sebagai mediator dalam hubungan ini. Hubungan yang ditemukan bersifat searah, menekankan bahwa kompetensi mendorong kinerja, bukan sebaliknya. Implikasi praktis dari temuan ini menunjukkan pentingnya investasi UMKM dalam penguatan kompetensi internal, terutama pada pemasaran dan litbang, untuk menciptakan inovasi yang berkelanjutan dan memperkuat posisi bersaing di tengah keterbatasan khas Papua.

Kata kunci: Kemampuan dinamis, kompetensi, kinerja inovasi, keunggulan kompetitif berkelanjutan

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in Papua's economy, especially as the main driver of the local economy, job creator, and contributor to regional income (Kurniawan et al., 2024; Lubis & Salsabila, 2024). With limited infrastructure and geographical challenges such as remote areas and diverse demographic conditions, MSMEs in Papua are able to adapt by utilizing the potential of local natural resources, such as plantation products, fisheries, and traditional culture-based handicrafts (Makarim & Dewi, 2024). The existence of MSMEs also strengthens the economy of indigenous communities by integrating local wisdom in their products and services, thus contributing to cultural preservation while improving community welfare (Kambuaya & Kambuaya, 2024; Rahman & Hakim, 2024). Based on data released by the Ministry of Cooperatives and Small and Medium Enterprises (Kemenkop UMKM), throughout 2022, MSMEs in the country have recorded very good growth, the figure has reached 8.71 million units. Based on province, West Java is still in first place with the largest number of MSMEs with a total of 1.49 million business units. Meanwhile, the smallest area is occupied by Papua with a total of 3.9 thousand units. The number of MSMEs in West Papua is 4,602 (second lowest) and Papua 3,932 (lowest) (Putri, 2023). This shows that efforts need to be made so that Papua as a whole requires more attention so that it continues to improve.

MSMEs in Papua face complex challenges, ranging from limited infrastructure, technology, and market access. Hard-to-reach geographical conditions often hamper product distribution and access to raw materials, while the lack of modern technology limits operational efficiency and innovation (Budiarto et al., 2018; Juhro & Ridwan, 2021). In addition, many MSME actors in Papua lack managerial skills, resulting in suboptimal business management and business development strategies. In the context of globalization, MSMEs in Papua are also faced with sustainability issues, both in maintaining product quality and competing with more competitive products from outside the region (Wenda & Sedyono, 2023; Suharyanto et al., 2024). Dynamic capabilities are an important competency for MSMEs in dealing with the rapidly changing business environment, especially in Papua which has unique challenges. These capabilities include the capacity to sense opportunities and threats (sensing), adapt resources (seizing), and change or reconfigure internal assets and processes (transforming) to remain relevant and competitive (Eikelenboom & de Jong, 2019; Fabrizio et al., 2022). In the context of Papua, dynamic capabilities are particularly

relevant as MSMEs must be able to overcome geographical constraints, infrastructure limitations, and market access, while still utilising local potential such as natural resources and cultural wisdom.

Sustainable competitive advantage is the ability of MSMEs to create added value that is not only orientated towards economic profit, but also includes environmental sustainability and positive social impact (Morioka et al., 2017). This concept emphasizes efficient use of resources, innovation based on local wisdom, and active participation in empowering the surrounding community (Kurniawan et al., 2023). In Papua, sustainability is key to ensuring the long-term survival of MSMEs, given their dependence on natural resources that are sensitive to overexploitation. By implementing environmentally friendly business practices and paying attention to social welfare, MSMEs can strengthen their role as responsible drivers of the local economy while maintaining ecosystem sustainability and harmonious relationships with indigenous communities (Huang et al., 2015; Kuncoro & Suriani, 2018). Previous research shows that dynamic capability competence and innovation performance have an important role in creating sustainable competitive advantage. Warner & Wäger (2019) explained that dynamic capabilities, such as sensing, seizing, and transforming, are key for organizations to respond to changes in the business environment. Another study by Ferreira et al. (2020) found that dynamic capabilities can drive innovation that contributes to competitive advantage. In the context of MSMEs, a study by Vanpoucke et al. (2014) and Fainshmidt et al. (2019) confirmed that the development of dynamic capabilities can effectively improve competitiveness, especially in the face of market challenges. Nonetheless, studies that specifically explore this relationship in the context of MSMEs in Papua are limited.

The novelty of this research lies in its focus on holistically analysing the influence of dynamic capability competencies and innovation performance on the sustainable competitive advantage of MSMEs in Papua. This research fills a gap in the literature that has tended to ignore the local context of Papua, especially in understanding how MSMEs can adapt and compete amidst limited infrastructure, technology, and market access. By emphasizing economic, social and environmental sustainability, this research also provides a new dimension in evaluating competitive advantage, so the results are expected to not only provide academic contributions, but also practical recommendations for the long-term development of MSMEs in Papua. The purpose of this study is to analyze the influence of dynamic capability competencies and innovation performance on the sustainable competitive advantage of MSMEs in Papua. This research aims to understand the extent to which the ability of MSMEs to adapt to change, take advantage of opportunities, and manage resources can improve innovation performance and create a competitive advantage that is not only oriented towards economic aspects, but also includes social and environmental sustainability. In addition, this research aims to provide strategic insights and recommendations relevant to the development of MSMEs in Papua, taking into account the unique local context and challenges faced.

LITERATURE REVIEW

Dynamic capabilities refer to an organization's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments (Teece et al., 1997). For Micro, Small, and Medium Enterprises (MSMEs), especially in geographically and economically challenged regions like Papua, dynamic capabilities are crucial for survival and growth. According to Eikelenboom & de Jong (2019), dynamic capabilities enable firms to adapt to sustainability challenges by fostering innovation and flexibility. Fabrizio et al. (2022) emphasize the importance of sensing, seizing, and transforming as core components of dynamic capability, enabling businesses to detect environmental shifts, capture new opportunities, and realign resources effectively.

Marketing competence and research & development (R&D) competence are considered strategic dimensions of dynamic capability. Marketing competence entails the ability to understand customer needs, analyze competitors, and devise strategic plans to access target markets (Adam et al., 2020). Ko & Liu (2017) found that SMEs with advanced marketing strategies are better equipped to drive innovation and adapt to environmental changes. Meanwhile, R&D competence supports the development of new products, technologies, and processes, allowing firms to stay competitive through continuous innovation (Faccin et al., 2019). Denford (2013) established a typology of knowledge-based dynamic capabilities, stressing that knowledge acquisition, assimilation, transformation, and exploitation are essential for maintaining innovation flow. MSMEs that can implement these dimensions effectively have greater potential to innovate and sustain their competitive position.

Innovation performance refers to an enterprise's ability to develop new products, processes, or ideas that contribute to business performance and market success. Han & Li (2015) argue that intellectual capital and dynamic capabilities significantly influence innovation outcomes. Ferreira et al. (2020) noted that dynamic capabilities fuel innovation by promoting creativity and enabling firms to respond to new challenges. Khan et al. (2021) highlighted the role of dominant logic, particularly information processing and learning orientation, as vital for boosting innovation performance among SMEs. In the context of MSMEs, especially those operating under resource constraints, innovation becomes a survival strategy. Rashidirad & Salimian (2020) suggest that innovation enhances value creation and supports strategic differentiation, leading to competitive advantages even in volatile environments.

Sustainable competitive advantage refers to a firm's ability to maintain superiority over its competitors in the long term. This involves not only economic performance but also social and environmental contributions (Morioka et al., 2017). The resource-based view (RBV) posits that resources must be valuable, rare, inimitable, and non-substitutable (VRIN) to create a lasting competitive edge (Barney, 1991). In the MSME context, dynamic capabilities and innovation act as enablers of these resources. Studies by Vanpoucke et al. (2014) and Fainshmidt et al. (2019) confirm that firms with well-developed dynamic capabilities are more likely to achieve a sustainable competitive advantage. This is particularly relevant for MSMEs in Papua, where traditional business models need to evolve to address infrastructure gaps and limited market access. While the literature strongly supports the relationship between dynamic capabilities, innovation, and competitive advantage, empirical studies focusing on MSMEs in Papua remain scarce. Most existing research emphasizes developed economies or industrialized regions, overlooking the contextual uniqueness of remote areas. This study, therefore, contributes to filling this gap by investigating how MSMEs in Papua can harness dynamic capabilities and innovation to overcome structural limitations and build sustainable competitive advantage.

Research result Hermawati & Gunawan (2021) shows that managers must be able to adapt innovation to a rapidly changing environment and continuously update previously made plans. In innovation, a learning process is needed, namely a continuous process, then support from the knowledge resulting from this learning is needed. And it can be concluded that learning is needed in the dynamic capability process. Nuhu et al. (2023) in his research stated that the role of organizational dynamic capabilities requires strategic flexibility and employee empowerment. There is mediation between Management Control Systems (MCS), especially interactive and diagnostic to use controls, with organizational change and performance. Han & Li (2015) states that to determine the effect of intellectual capital on the innovative performance of a company, strategic environmental analysis is carried out. Denford (2013) has identified more than 80 knowledge-based dynamic capabilities in a literature review, namely a framework identified and integrated into a typology of eight knowledge-based dynamic capabilities to cover existing literature. The development result of this research is to determine whether dynamic capabilities have a strong relationship with performance.

Based on Khan et al. (2021) research shows that the dominant logic (information filter and learning orientation) provides a strong basis for improving innovation performance in SMEs. In order to achieve success in the market, SMEs need to invest well in managerial skills. Innovation can involve the creation of new products (either in terms of goods or services), new structures, new relationships and even new cultures. Technological innovation helps companies to build competitive advantages, more effective services and processes, new businesses, and so on (Rashidirad & Salimian, 2020).

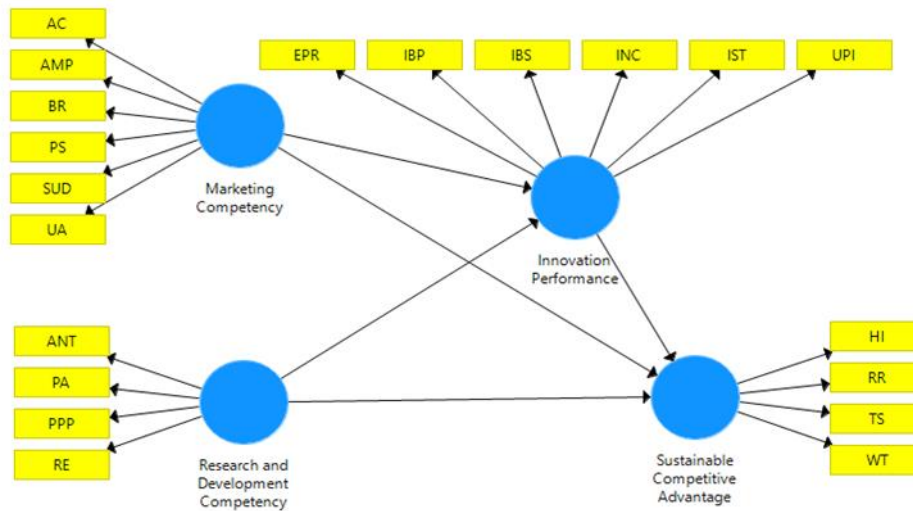


Figure 1. Research Framework

METHODS

This study uses a quantitative approach with a survey design to examine the effect of dynamic capability competency on the sustainable competitive advantage of MSMEs in Papua, with innovation performance as a mediating variable. Primary data were obtained by distributing questionnaires to 200 purposively selected MSME actors, especially those who have integrated technology into their marketing strategies. The sample was distributed proportionally to reflect regional representation throughout Papua. Secondary data were obtained from supporting documents such as annual reports and government publications. The research instrument used a five-point Likert scale to measure the main variables, namely dynamic capability competency, innovation performance, and sustainable competitive advantage. Dynamic capability competency includes marketing competency which includes market assessment, customer relations, distribution strategy, advertising utilization, competitor analysis, and pricing strategy. Meanwhile, research and development competency includes new technology evaluation, activity planning, recruitment of experts, and production process management. Innovation performance reflects achievements such as product expansion, increased sales, strengthening brand identity, product renewal, increased profits, and new customer acquisition. Sustainable competitive advantage is measured using the VRIN framework, which includes value, rarity, uniqueness, and irreplaceability. Construct validity was tested using Average Variance Extracted (AVE), while instrument reliability was tested through Cronbach's alpha. Data were analyzed using path analysis techniques using SPSS and AMOS. Mediation tests were also conducted to identify the role of innovation performance as a mediator.

RESULTS

Validity and reliability tests are important stages in research to ensure that the instruments used can measure exactly what is intended and produce consistent data. The validity test aims to measure the extent to which research instruments (such as

questionnaires) actually measure the concepts to be researched, such as dynamic capability competence, innovation performance, or competitive advantage. This validity can be tested through AVE, AVE is an indicator that measures the proportion of variance explained by the indicators in a construct compared to the total variance available. An AVE value greater than 0.50 is considered to indicate good convergent validity, which means that more than 50% of the variance in the construct can be explained by its indicators. Meanwhile, the reliability test measures the consistency of measurement results, which is often tested using the Cronbach's Alpha coefficient. A Cronbach's Alpha value higher than 0.70 indicates that the instrument has good reliability, which means the results can be repeated and trusted in research. These two tests ensure that the data obtained is valid and reliable for further analysis.

Table 1. Results of Validity and Reliability Test Analysis

Variable	Indicator	Outer Loading	P Values	AVE	Information	Composite Reliability	Information
Marketing Competency	AC	0.731	0.000	0.734	Valid	0.843	Reliable
	AMP	0.963					
	BR	0.821					
	PS	0.765					
	SUD	0.954					
	UA	0.835					
Research and Development Competency	ANT	0.742	0.000	0.710	Valid	0.745	Reliable
	PA	0.962					
	PPP	0.913					
	RE	0.852					
Innovation Performance	EPR	0.998	0.000	0.844	Valid	0.917	Reliable
	IBP	0.907					
	IBS	0.998					
	INC	0.889					
	IST	0.853					
	UPI	0.874					
Sustainable Competitive Advantage	HI	0.908	0.000	0.834	Valid	0.908	Reliable
	RR	0.931					
	TS	0.928					
	WT	0.749					

The research structural model is valid as evidenced by the outer loading values of all variable indicators being greater than 0.5 with the P values of all indicators being less than 0.05 and the AVE values of the variables marketing competency, research and development competency, innovation performance and sustainable competitive advantage is greater than 0.5. Based on table 1, it also shows that the research structural model is reliable because the composite reliability value of the marketing competency, research and development competency, innovation performance and sustainable competitive advantage variables is more than 0.7.

Hypothesis testing in this study aims to test whether there is a significant influence between the independent variables, namely dynamic capability competence and innovation performance, on the dependent variable, namely sustainable competitive advantage of MSMEs. Hypothesis testing was carried out using path analysis, which allows researchers to test the direct and indirect relationships between these variables. Hypothesis testing was carried out using the t test to measure the significance of the path coefficient, with the significance level set at the 0.05 level. If the p value is smaller than 0.05, then the hypothesis is accepted, which means that there is a significant influence between the tested variables.

Table 2. Hypothesis Testing

Hypothesis	Relationship Between Variables	Relationship Coefficient	P Values	Information
H1	Marketing Competency - Innovation Performance	0,441	0,000	Significant
H2	Marketing Competency - Sustainable Competitive Advantage	0,506	0,000	Significant
H3	Research and Development Competency - Innovation Performance	0,446	0,000	Significant
H4	Research and Development Competency - Sustainable Competitive Advantage	0,533	0,000	Significant
H5	Innovation Performance - Sustainable Competitive Advantage	0,560	0,000	Significant

The results of hypothesis 1 testing show that marketing competence has a significant effect on innovation performance with a unidirectional relationship with a coefficient value of 0.441 and a significance level of 0.000. This means that if marketing competence increases, innovation performance will also increase. The results of hypothesis 2 testing show that marketing competence has a significant effect on sustainable competitive advantage with a unidirectional relationship with a coefficient value of 0.506 and a significance level of 0.000. This means that if marketing competence increases, it will increase sustainable competitive advantage. The results of hypothesis 3 testing show that Research and Development Competency has a significant effect on innovation performance with a direct relationship with a coefficient value of 0.446 and a significance level of 0.000.

This means that if marketing competence in research and development increases, it will improve innovation performance for MSMEs in Papua. The results of hypothesis 4 testing show that Research and Development Competency has a significant effect on Sustainable Competitive Advantage with a unidirectional relationship with a coefficient value of 0.533 and a significance level of 0.000. This means that if marketing competence in research and development increases, it will increase sustainable competitive advantage. The results of hypothesis 5 testing show that Innovation Performance has a significant effect on sustainable competitive advantage with a unidirectional relationship with a coefficient value of 0.560 and a significance level of 0.000. This means that innovation performance involves expanding product range, increasing sales turnover, increasing business profits, increasing brand strength, updating product information and increasing new consumers. then MSMEs in Papua will achieve a sustainable competitive advantage.

DISCUSSION

Marketing Competence Has a Significant Influence on Innovation Performance with a Unidirectional Relationship

The results showed that marketing competence has a significant influence on innovation performance with a unidirectional relationship. In this study, marketing competence is defined as the ability of MSMEs to understand market needs, design effective marketing strategies, and adapt their products or services to dynamic market demands and trends. This research confirms that good marketing competence not only makes it easier for companies to create new products, but also becomes a catalyst for innovation that can increase the competitiveness of MSMEs in an increasingly competitive market. The results of this study are in line with research (Chen et al., 2014; Ko & Liu, 2017; Adam et al., 2020).

The unidirectional relationship between marketing competence and innovation performance indicates that marketing competence is a factor that drives innovation performance, but not vice versa. By having strong marketing competencies, MSMEs can more easily identify market opportunities, develop innovative products or services, and introduce new solutions relevant to consumer needs. This leads to improved innovation performance that ultimately provides a competitive advantage for MSMEs. However,

innovation performance has no direct effect in improving marketing competence, which makes marketing competence a more dominant element in driving innovation.

In the context of MSMEs in Papua, marketing competence plays a particularly important role, given the geographic and demographic challenges that affect their competitiveness. MSMEs in Papua are often faced with infrastructure limitations and more limited market access compared to other regions. Therefore, good marketing competencies enable MSMEs in Papua to understand and respond to local needs more effectively, as well as develop products or services that are innovative and suited to market characteristics in the region. This research suggests that MSMEs that improve their marketing competencies will be better able to drive relevant innovations, strengthen the sustainability of their businesses, and gain competitive advantage in the long run.

Marketing Competence Has a Significant Effect on Sustainable Competitive Advantage With a Unidirectional Relationship.

The results showed that marketing competence has a significant influence on sustainable competitive advantage with a unidirectional relationship. In this study, marketing competence is defined as the ability of MSMEs to understand the market, conduct appropriate analyses, manage customer segmentation, and design marketing strategies that are responsive to changing market needs. With strong marketing competence, MSMEs in Papua can create a lasting competitive advantage, as they are better able to adapt to market dynamics and introduce products or services that are relevant to consumer preferences. The results of this study are in line with research (Han & Li, 2015; Hermawati & Gunawan, 2021).

The unidirectional relationship in this case indicates that marketing competence serves as the main driver of the creation of sustainable competitive advantage, but conversely, competitive advantage does not directly affect the improvement of marketing competence. MSMEs with high marketing competence can easily identify market opportunities that have not been exploited by competitors, so they are able to offer products or services that are more innovative and in line with market needs. This creates differentiation that makes MSMEs more resilient to competitive pressures, even in highly dynamic markets such as those in Papua, without having to rely on pre-existing strengths or advantages.

In the context of MSMEs in Papua, which are faced with geographical challenges and limited market access, marketing competencies are crucial in creating sustainable competitive advantage. The development of good marketing competencies allows MSMEs in Papua to capitalize on local strengths and understand more deeply the characteristics of the local market. By understanding the market thoroughly, MSMEs can design products and services that better suit the specific needs of Papuan consumers, thereby maintaining their competitive position in the long run. This research emphasizes the importance of strengthening marketing competencies to ensure business sustainability and competitiveness of MSMEs in Papua amidst challenges.

Research and Development Competency Has a Significant Effect on Innovation Performance With a Direct Relationship

The results show that competence in research and development (R&D) has a significant influence on innovation performance with a direct relationship. R&D competence includes the ability to conduct market research, develop new products, and adopt more efficient technologies and processes. In Papua, MSMEs that have good R&D competence can create innovations that are relevant to local needs, thus being able to compete better with products that already exist in the market. The results of this study are in line with (Ko & Liu, 2017).

The direct relationship between R&D competence and innovation performance indicates that the better the R&D competence of MSMEs, the higher their ability to generate innovation. R&D competence enables MSMEs to experiment with new

products, introduce different features or services, and adapt to rapid technological changes. In the context of MSMEs in Papua, which are often faced with limited resources, having a capable R&D competency is key to creating more innovative products that can be accepted by the market. Innovations created from R&D also help MSMEs to maintain their relevance and overcome existing challenges.

Strong R&D competencies have a direct impact on innovation performance by enabling MSMEs to introduce superior products or services and meet evolving consumer needs. This provides an important competitive advantage for MSMEs in Papua, especially in markets that have their own characteristics and challenges, such as limited access to resources and inadequate infrastructure. This research emphasizes that investment in R&D competencies is not only important for short-term innovation, but also for creating sustainable competitiveness in the long term, ensuring the sustainability of MSME businesses in Papua.

Research and Development Competency Has a Significant Effect on Sustainable Competitive Advantage With a Unidirectional Relationship

The results show that competence in research and development (R&D) has a significant influence on sustainable competitive advantage with a unidirectional relationship. This means that the R&D competence possessed by MSMEs in Papua can directly create a sustainable competitive advantage, but conversely, the competitive advantage does not directly improve the R&D competence itself. Effective R&D allows MSMEs to create differentiated innovations, introduce new products or services, and provide better solutions to local market needs. The results of this study are in line with research (Denford, 2013; Han & Li, 2015; Faccin et al., 2019).

R&D competence acts as a key driver of sustainable competitive advantage as it enables MSMEs to innovate consistently. With this competency, MSMEs can develop products that are more in line with market demand, improve the quality of existing products, and respond to changing consumer preferences. In Papua, which has geographical challenges and limited market access, high R&D competencies help MSMEs to maintain competitiveness in the local market and increase the potential for expansion into wider markets. This creates a competitive advantage that is difficult for competitors to replicate and sustain in the long run.

However, the unidirectional relationship in this context suggests that while R&D competence can create sustainable competitive advantage, competitive advantage itself does not directly improve R&D competence. Sustainable competitive advantage is more influenced by continuous efforts in research and development that enable MSMEs to remain relevant and competitive. Therefore, MSMEs in Papua should continue to develop and optimize their R&D competencies in order to create sustainable innovations, which in turn will strengthen their position in the market and improve long-term competitiveness.

Innovation Performance Has a Significant Effect On Sustainable Competitive Advantage With A Unidirectional Relationship

The results showed that innovation performance has a significant influence on sustainable competitive advantage with a unidirectional relationship. This means that innovation performance can improve competitive advantage directly, but the competitive advantage obtained does not directly improve the innovation performance itself. Innovation performance refers to the ability of MSMEs to produce new products, update business processes, and adapt technologies that can meet changing market needs. Thus, high innovation performance plays an important role in creating sustainable competitiveness. The results of this study are in line with (Rashidirad & Salimian, 2020).

Good innovation performance enables MSMEs to maintain relevance in an increasingly competitive market. In Papua, which has geographical challenges and limited resources, MSMEs that successfully develop and launch innovative products or services can capitalize on the opportunity to dominate the local market and differentiate

themselves from competitors. These innovations include not only new products, but also new ways of marketing products, managing operations, and providing customer service. Consistent innovation performance creates a sustainable advantage, making MSMEs more resilient to market fluctuations and other external challenges.

However, this unidirectional relationship emphasizes that while innovation performance can lead to sustainable competitive advantage, competitive advantage itself does not directly improve innovation performance. Instead, to continue to create impactful innovations, MSMEs must continue to invest in research and development, and adapt strategies that are responsive to changing market needs. In the context of MSMEs in Papua, which operate in a challenging environment, it is important that they continue to innovate to remain competitive in the long term. Continuous innovation is key to surviving and thriving in a dynamic market.

CONCLUSION

This study concludes that there is a strong and mutually supportive relationship between dynamic capability competencies, innovation performance, and sustainable competitive advantage. Dynamic capabilities significantly improve the innovation performance of Micro, Small, and Medium Enterprises (MSMEs), which ultimately leads to sustainable competitive advantage. In particular, competencies in research and development, marketing, and the ability to adapt to market changes are critical to ensuring that MSMEs in Papua can remain competitive over time. This study highlights the importance of continued investment in dynamic capabilities and innovation as a strategic response to the unique challenges faced by MSMEs in Papua, such as limited infrastructure and market access. Such efforts are critical for MSMEs in Papua because they not only survive but also thrive amidst increasing global competition. Contextually, this study offers a new perspective on how MSMEs can achieve sustainable competitive advantage through competency strategies. However, this study has limitations. This study only focuses on MSMEs in Papua, making it difficult to generalize the findings to other regions in Indonesia. In addition, this study does not explore in depth the external factors that can influence competitive advantage. Future research should consider examining these external influences, including government policies and global market dynamics, and expand the scope to include MSMEs from other regions for comparative analysis. This will enrich the understanding and practical application of dynamic capability and innovation competencies in different environments.

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