

The Competitiveness of MSMEs in the Tourism Sector: The Role of Social Capital and Innovation

Arie Frits Kawulur^{1*}, Tinneke E. M. Sumual², Nikolas F. Wuryaningrat³

Manado State University^{1,2,3}

Jl. Kampus Unima di Tondano, 95619, Indonesia

Corresponding Author: ariekawulur@unima.ac.id¹

ORCID ID: <https://orcid.org/0000-0001-5046-6800>¹

ARTICLE INFORMATION

ABSTRACT

Publication information

Research article

HOW TO CITE

Kawulur, A. F., Sumual, T. E. M., & Wuryaningrat, N. F. (2025). The competitiveness of MSMEs in the tourism sector: The role of social capital and innovation. *Journal of the Community Development in Asia*, 8(1), 131-145.

DOI:

<https://doi.org/10.32535/jcda.v8i1.3684>

Copyright © 2025 owned by Author(s).
Published by JCDA



This is an open-access article.

License:

Attribution-Noncommercial-Share Alike (CC BY-NC-SA)

Received: 16 November 2024

Accepted: 19 December 2024

Published: 20 January 2025

Competitiveness among Micro, Small, and Medium Enterprises (MSMEs) is a critical issue for various stakeholders across industries, yet the tourism sector has received limited attention, particularly concerning the roles of social capital and innovation. This study seeks to explore the relationship between social capital, innovation, and their collective impact on enhancing the competitiveness of MSMEs in Indonesia's super-priority tourism areas. Using the survey method and purposive sampling of 40 MSMEs in the tourism sector in Likupang, North Sulawesi, the findings demonstrate that dimensions of social capital—namely trust, networks, and norms—along with innovation, significantly contribute to improving MSME competitiveness. Notably, networks are found to play a central role in fostering innovation within tourism MSMEs, enhancing both their capacity for collaboration and ability to adapt to market changes. The research underscores the importance of cultivating social capital and promoting innovation as essential strategies for boosting MSME performance. These insights provide valuable guidance for policymakers seeking to create a more sustainable and competitive business environment, with a specific focus on strengthening social capital and innovation in the tourism sector.

Keywords: Competitiveness; Innovation; MSMEs; Network; Social Capital

INTRODUCTION

The issue of competitiveness within Micro, Small, and Medium Enterprises (MSMEs), particularly in the tourism sector, is both highly relevant and pressing, given its critical role in bolstering national economic resilience ([Lombogja et al., 2022](#)). The tourism industry, distinct from other sectors, encompasses an extensive range of business entities, including small souvenir shops, travel agencies, restaurants, hotels, and other forms of accommodation services. This inherent diversity provides a wealth of opportunities for growth and innovation. However, it also introduces unique challenges, particularly for MSMEs, which often operate with constrained resources and face stiff competition from both local and international players. These enterprises are frequently hindered by structural and operational limitations, such as restricted access to financial resources, outdated technological infrastructure, and insufficient investment in research and development ([Khodadadi, 2016](#); [Thomas et al., 2011](#)). Such limitations underscore the importance of enhancing MSME competitiveness to secure sustainable business operations and long-term growth ([Devi & Ramachandran, 2011](#)).

The criticality of addressing these challenges is further reinforced by international frameworks, such as the United Nations' Sustainable Development Goals (SDGs), which explicitly promote poverty alleviation and economic inclusivity through the enhancement of business competitiveness ([Rana & Choudhary, 2019](#)). MSMEs play a pivotal role in achieving these goals by generating employment opportunities, fostering innovation, and contributing to economic stability. However, this potential is often undermined by systemic issues within the sector, including limited capacity for scaling operations, inadequate infrastructure, and a lack of adaptive strategies to respond to dynamic market demands. These challenges are particularly pronounced in the tourism sector, where businesses must continually innovate to meet the evolving preferences of global travelers while maintaining affordability and quality standards.

Despite their indispensable role in economic development, MSMEs in Indonesia have faced persistent challenges in maintaining competitiveness, as evidenced by data from the Indonesian Chamber of Commerce. The performance of Micro and Small Industries (IMK) showed a steady decline throughout 2020 and 2021, primarily due to the economic shocks triggered by the COVID-19 pandemic. Even in 2023, IMK data reflected fluctuations across all four quarters, indicating that the sector continues to grapple with the lingering effects of the pandemic and broader economic uncertainties. These fluctuations highlight the need for targeted interventions to address issues such as disrupted supply chains, reduced consumer spending, and heightened competition.

Moreover, the pandemic has exposed vulnerabilities within the sector, particularly for MSMEs operating in tourism-dependent regions. Restrictions on travel, shifts in consumer behavior, and the rapid adoption of digital technologies have forced many businesses to reevaluate their operational strategies. For instance, the accelerated digital transformation observed during the pandemic has created both opportunities and challenges for MSMEs. While digital platforms offer avenues for reaching wider audiences and streamlining operations, many small enterprises lack the technical expertise and financial resources required to capitalize on these technologies effectively ([Khodadadi, 2016](#)).

Addressing the challenges faced by MSMEs in the tourism sector necessitates prioritizing creativity and innovation in business operations, which are critical drivers of competitiveness and sustainability ([Latifah et al., 2021](#)). Promoting economic growth within MSMEs requires integrating diverse types of knowledge, including financial

literacy, production skills, creativity, and innovation, to achieve long-term success ([Centrova, 2020](#); [Satrovic et al., 2020](#)). Enterprises that exhibit high levels of innovation are better equipped to adapt to dynamic market conditions and gain competitive advantages, as they can respond effectively to evolving consumer demands and industry trends ([Musneh & Roslin, 2021](#)). In this context, social capital—comprising relationships, networks, and institutional trust—emerges as a pivotal element in fostering innovation and enhancing competitiveness among MSMEs ([Hamsani et al., 2021](#)). Through the cultivation of strong social ties and collaborative networks, businesses can access critical resources, share valuable knowledge, and develop innovative solutions that address market challenges.

Previous studies on competitiveness have predominantly concentrated on large organizations, analyzing factors such as business strategy, innovation, and knowledge sharing as primary determinants of success ([Liu, 2018](#); [Luo et al., 2022](#); [Morris & Venkatesh, 2010](#); [Putro & Ilmaniati, 2020](#); [Sagar et al., 2019](#); [Tigu et al., 2013](#)). These studies have consistently highlighted the role of strategic alignment, advanced technology adoption, and robust innovation ecosystems in driving organizational performance. However, research focusing on MSMEs has adopted a more diversified approach, examining competitiveness from perspectives such as the adoption of information technology ([Haug et al., 2024](#)), strategic planning ([Latifah et al., 2021](#); [Musneh & Roslin, 2021](#)), and the role of innovation in achieving sustainable growth ([Devi & Ramachandran, 2011](#); [Latifah et al., 2021](#); [Musneh & Roslin, 2021](#)). Despite these contributions, the intersection of social capital, innovation, and competitiveness in MSMEs within the tourism sector remains underexplored ([Martínez-Pérez et al., 2016](#); [Thomas et al., 2011](#)). This gap underscores the need for targeted research to uncover the unique dynamics that characterize MSMEs operating in tourism-dependent regions.

The present study addresses this critical gap by conducting a comprehensive analysis of the relationship between social capital and innovation, and their collective impact on the competitiveness of MSMEs operating within Indonesia's super priority tourism area, Likupang. This region represents a burgeoning hub for tourism activity, making it an ideal context for examining the interplay between these factors.

Theoretically, this research contributes to the expanding body of knowledge on the intersections of social capital, innovation, and business performance, particularly within the tourism industry. By addressing the underexplored relationship between these factors, the study provides a nuanced understanding of how MSMEs can navigate the challenges of a competitive market environment, thereby filling an important gap in the existing literature.

LITERATURE REVIEW

Social Capital and Innovation

Social capital is an internal factor that significantly influences the innovation capability of MSMEs ([Kasseeah, 2013](#); [Kimbal & Sumual, 2022](#)). It encompasses a set of abilities such as networks, trust, and norms ([Kaasa, 2009](#)). Organizations with strong social capital can facilitate access to information, knowledge, and other forms of support essential for fostering innovation ([Lin, 2001](#); [Pretty, 2003](#)). A robust network within an organization enables MSMEs to generate new ideas, share risks, and seize market opportunities ([Murphy et al., 2016](#)). Meanwhile, high levels of trust within an organization enhance collaboration, which is a key determinant of innovation. The relationship between social capital and innovation can also be explained from the perspective of the learning process. Both individuals and organizations learn more effectively through social

interactions within their communities. During this phase, discussions of creative ideas occur, ultimately driving innovation in processes, products, and business models ([Zheng, 2010](#)). Previous studies support this relationship; for instance, empirical evidence indicates that MSMEs with extensive social networks are more likely to introduce new products or improve business processes compared to those with lower levels of social capital ([Costa et al., 2014](#); [Mu, 2014](#)). Moreover, studies reveal that business communities with higher levels of social capital are generally more adaptive to technological and market changes ([Lee et al., 2010](#)). Based on this, the following hypotheses are proposed:

H1a: Trust positively influences MSME innovation.

H1b: Networks positively influence MSME innovation.

H1c: Norms positively influence MSME innovation.

Innovation and Competitiveness

In the theory of competitive advantage, innovation serves as a catalyst that enables MSMEs to create unique value whether through superior products, more efficient processes, or more effective marketing strategies that set them apart from competitors ([Ahmedova, 2015](#)). Through innovation, MSMEs can meet customer demands, improve cost efficiency, and enhance organizational performance ([Laksana et al., 2022](#); [Park & Yoo, 2017](#)). From the perspective of the resource-based view (RBV), innovation is considered a strategic capability that is difficult for competitors to replicate ([Mohamad & Zin, 2019](#)). Organizations that embrace innovation empower their management to respond swiftly to changes in the business environment, thereby improving their competitiveness ([Hendayana et al., 2019](#)). A preponderance of extant studies has demonstrated that MSMEs that demonstrate a greater propensity for innovation tend to achieve superior market performance. The capacity to innovate is a key factor in the enhanced competitiveness of MSMEs, as it enables them to achieve market expansion, an expanded customer base, and a strengthened brand image ([Hutahayan & Yufra, 2019](#)). This body of research provides the foundation for the following hypothesis:

H2: Innovation positively influences the competitiveness of MSMEs.

Social Capital and Competitiveness

In the theoretical framework of competitive advantage, social capital, defined as networks, trust, and cooperative norms, facilitates access to strategic resources for MSMEs by providing access to market information, technology, and partnership opportunities ([Cappiello et al., 2020](#)). The presence of substantial trust among stakeholders fosters a favorable environment for collaboration, while extensive networks provide access to new markets and the necessary support to enhance operational efficiency ([Prasetyo et al., 2020](#)). The leveraging of social capital by MSMEs has been demonstrated to engender a reduction in transaction costs, an acceleration in decision-making processes, and an enhancement in capabilities, with the overarching objective of enhancing competitiveness ([Mishchuk et al., 2022](#)). Research indicates that MSMEs with high levels of social capital are more successful in building strategic partnerships, expanding their markets, and enhancing innovation, ultimately strengthening their competitive edge ([Petrou & Daskalopoulou, 2015](#)). The following hypotheses are thus proposed:

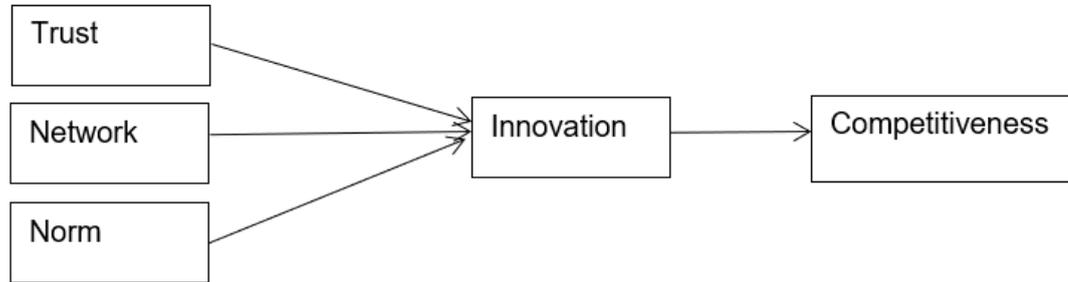
H3a: Trust positively influences the competitiveness of MSMEs.

H3b: Networks positively influence the competitiveness of MSMEs.

H3c: Norms positively influence the competitiveness of MSMEs.

The study framework model is depicted in [Figure 1](#).

Figure 1. Research Framework



RESEARCH METHOD

This study employed a survey method targeting MSMEs operating in the tourism sector in the Likupang region, North Sulawesi. The selection of Likupang as the research site was based on its designation by the Indonesian government as a super-priority tourism destination. This designation has contributed significantly to the region's increasing prominence in the national tourism industry and has provided a favorable environment for the growth and development of tourism-related MSMEs. Consequently, Likupang was identified as a suitable location for examining the factors that influence the competitiveness and sustainability of MSMEs in the tourism sector.

A total of 64 tourism-sector MSMEs that are registered with the local government were identified and selected as potential participants for the study. The data collection process was executed through a combination of electronic media, including Google Forms, and physical questionnaires distributed in hard-copy format to accommodate the preferences of the respondents. Following the conclusion of the survey period, 40 MSMEs completed the survey in its entirety, thus forming the final sample for analysis. The collected data was then analyzed using multiple regression analysis to test the hypotheses and draw conclusions regarding the relationships between the variables of interest

The competitiveness indicators adopted in this study were based on the framework proposed by [Man et al. \(2002\)](#), which includes six dimensions of competitiveness: the opportunity to access new markets, interpersonal relationships, management capability, strategic capability, competency to advance the business, and conceptual capability. The innovation variable was based on the studies of [Denan et al. \(2009\)](#) and [Hanifah et al. \(2020\)](#) comprising dimensions of innovation related to products, services, processes, markets, and logistics in comparison with competitors. The social capital indicators were adopted from [Liu \(2020\)](#) dan [Rustiarini et al. \(2022\)](#), which include ten indicators exploring mutual assistance, problem-solving and analysis, collaboration among employees (such as information sharing and mutual learning), and employees' understanding and acceptance of one another. Innovation in this study is defined as actions aimed at enhancing the value or performance of products, processes, or procedures within the organization. All variable indicators were measured using a five-point Likert scale ranging from "strongly disagree" to "strongly agree."

RESULTS

Table 1. Validity Test

Variables	Indicator	R Count	R Table	Status
Trust	X1.1	0.801	0.312	Valid

	X1.2	0.968	0.312	Valid
	X1.3	0.968	0.312	Valid
	X1.4	0.751	0.312	Valid
	X1.5	0.633	0.312	Valid
	X1.6	0.699	0.312	Valid
	X1.7	0.900	0.312	Valid
	X1.8	0.699	0.312	Valid
	X1.9	0.406	0.312	Valid
	X1.10	0.790	0.312	Valid
Network	X2.1	0.726	0.312	Valid
	X2.2	0.788	0.312	Valid
	X2.3	0.816	0.312	Valid
	X2.4	0.663	0.312	Valid
	X2.5	0.613	0.312	Valid
	X2.6	0.482	0.312	Valid
	X2.7	0.482	0.312	Valid
	X2.8	0.788	0.312	Valid
	X2.9	0.816	0.312	Valid
	X2.10	0.682	0.312	Valid
Norm	X3.1	0.865	0.312	Valid
	X3.2	0.933	0.312	Valid
	X3.3	0.933	0.312	Valid
	X3.4	0.852	0.312	Valid
	X3.5	0.711	0.312	Valid
	X3.6	0.865	0.312	Valid
	X3.7	0.933	0.312	Valid
	X3.8	0.933	0.312	Valid
	X3.9	0.711	0.312	Valid
	X3.10	0.713	0.312	Valid
Innovation	Z1.1	0.511	0.312	Valid
	Z1.2	0.652	0.312	Valid
	Z1.3	0.820	0.312	Valid
	Z1.4	0.820	0.312	Valid
	Z1.5	0.884	0.312	Valid
	Z1.6	0.820	0.312	Valid
	Z1.7	0.831	0.312	Valid
	Z1.8	0.700	0.312	Valid
	Z1.9	0.965	0.312	Valid
	Z1.10	0.831	0.312	Valid
Competitiveness	Y1.1	0.989	0.312	Valid
	Y1.2	0.817	0.312	Valid
	Y1.3	0.817	0.312	Valid
	Y1.4	0.874	0.312	Valid
	Y1.5	0.817	0.312	Valid
	Y1.6	0.827	0.312	Valid
	Y1.7	0.817	0.312	Valid
	Y1.8	0.989	0.312	Valid
	Y1.9	0.874	0.312	Valid
	Y1.10	0.989	0.312	Valid

Before testing the hypotheses (see [Table 1](#)), this study conducted validity and reliability tests to ensure that the questionnaire was comprehensible to the research sample. The validity test was performed using product-moment correlation analysis, and all indicators of the competitiveness, innovation, and social capital variables were found to have correlation values exceeding the r-table threshold, thereby confirming their validity. Reliability testing was conducted by examining Cronbach’s alpha values. The results indicated that all variables achieved scores above 0.8, demonstrating that the questionnaire was reliable.

Table 2. Hypothesis Testing

Variable	Model 1		Model 2	
	Coefficient	P Value	Coefficient	P Value
Trust	0.054	0.780	0.293	0.016*
Network	0.409	0.009**	0.223	0.031*
Norm	0.147	0.312	0.216	0.019*
Innovation			0.048	0.044
R Square	0.696		0.814	

Note. M = Mean, SD = Standard Deviation.

The results presented in [Table 2](#) indicate a detailed analysis of the hypotheses in two distinct models. In Model 1, which examines the influence of trust, networks, and norms on MSME innovation, the coefficient for trust is 0.054 with a p-value of 0.780, exceeding the threshold of 0.05. This result suggests that trust does not have a statistically significant impact on innovation, leading to the rejection of H1a. Similarly, the coefficient for norms is 0.147 with a p-value of 0.312, indicating that norms also do not significantly influence innovation, resulting in the rejection of H1c. However, the coefficient for networks is 0.409, with a highly significant p-value of 0.009, supporting H1b and demonstrating that networks positively and significantly impact MSME innovation. The R-squared value for Model 1 is 0.696, signifying that approximately 69.6% of the variance in innovation is explained by the three social capital variables.

In Model 2, the relationship between social capital dimensions (trust, networks, norms) and innovation with MSME competitiveness is explored. The coefficient for trust is 0.293 with a p-value of 0.016, indicating a significant positive impact on competitiveness and supporting H3a. Networks also show a significant positive influence, with a coefficient of 0.223 and a p-value of 0.031, thereby supporting H3b. Similarly, norms have a coefficient of 0.216 and a p-value of 0.019, confirming a significant positive relationship and supporting H3c. The innovation variable also exhibits a significant positive impact on competitiveness, with a coefficient of 0.048 and a p-value of 0.044, supporting H2. The R-squared value of 0.814 for Model 2 demonstrates that 81.4% of the variance in competitiveness is explained by the variables included in the model.

In summary, while trust and norms do not significantly impact MSME innovation in Model 1, networks play a crucial role. In contrast, all social capital dimensions (trust, networks, norms) and innovation significantly enhance MSME competitiveness in Model 2. These findings underscore the critical role of social capital and innovation as key drivers in improving MSME competitiveness. The high R-squared values in both models further validate the robustness of the relationships identified in this study.

DISCUSSION

The Role of Social Capital in MSME Innovation

The acceptance of hypothesis H1b underscores the significance of networks as a vital dimension of social capital, positively influencing innovation within MSMEs. In contrast, the rejection of H1a and H1c indicates that trust and norms, while important components of social capital, have less direct impact on driving innovation. This differentiation highlights the nuanced role that various aspects of social capital play in influencing business outcomes. Networks, as emphasized by [Agyapong et al. \(2017\)](#) and [Kamaluddin et al. \(2016\)](#), are instrumental in enabling MSMEs to access market-related knowledge, insights, and opportunities. These interactions within networks allow businesses to remain agile in competitive environments by fostering collaboration, sharing resources, and developing innovative solutions. Through networks, MSMEs gain exposure to diverse perspectives and expertise, which are critical for exploring new business models, optimizing existing operations, and adapting to market changes.

The strength and quality of these networks are central to the transfer and implementation of innovative ideas and strategies. Robust networks provide MSMEs with a platform to engage with suppliers, customers, industry experts, and other stakeholders, creating opportunities for the exchange of valuable information and best practices. This interconnectedness supports the identification of emerging market trends, technological advancements, and potential growth areas, enabling MSMEs to remain competitive and forward-looking. Furthermore, the collaborative nature of networks fosters a culture of mutual learning and problem-solving, which can lead to the co-creation of innovative products and services tailored to specific market demands.

While trust and norms may not directly drive innovation, their indirect influence cannot be overlooked. Trust within networks creates a foundation of reliability and openness, encouraging stakeholders to share sensitive information and collaborate on joint projects. Similarly, shared norms establish a common understanding and alignment of goals, which can facilitate smoother interactions and decision-making processes. However, the findings suggest that these components of social capital alone may not be sufficient to trigger substantial innovation without the active participation and connectivity provided by strong networks.

In light of these findings, it becomes evident that MSMEs must strategically invest in building and maintaining high-quality networks to enhance their innovative capacity. Policymakers and industry leaders can play a pivotal role by creating platforms and initiatives that encourage networking among MSMEs and other stakeholders. For instance, organizing industry-specific forums, trade fairs, and innovation workshops can provide MSMEs with opportunities to establish meaningful connections and collaborate with partners who share complementary goals. Additionally, digital platforms that facilitate virtual networking and knowledge-sharing can further extend the reach and impact of these interactions, especially for MSMEs operating in geographically dispersed areas.

The role of networks in fostering innovation also has implications for capacity-building programs. Training sessions focused on relationship management, negotiation skills, and collaborative problem-solving can empower MSME owners and employees to navigate and leverage networks effectively. By strengthening their networking capabilities, MSMEs can unlock new avenues for growth and innovation, ultimately contributing to their sustainability and competitiveness in a dynamic market landscape. This study reaffirms the critical importance of networks within the broader framework of social capital, offering valuable insights for both theoretical understanding and practical applications in enhancing MSME innovation.

The Influence of Innovation on Competitiveness

The study affirms the hypothesis that innovation positively influences the competitiveness of MSMEs (H2: Accepted), underscoring the pivotal role of innovation as a driving force in sustaining and improving business performance. This finding is consistent with [Ahmedova \(2015\)](#), who highlights that innovation not only enhances organizational performance but also significantly reduces operational inefficiencies. MSMEs that actively engage in innovative practices often experience transformative benefits, particularly when such efforts are supported through strategic collaborations with educational institutions. These partnerships provide MSMEs with access to specialized expertise, cutting-edge research, and targeted training programs, enabling the refinement of both processes and product offerings. Such improvements are instrumental in addressing evolving market demands and boosting operational efficiency, ultimately positioning these businesses to better compete in an increasingly dynamic economic landscape.

Moreover, the integration of innovation into core business strategies allows MSMEs to gain significant competitive advantages. By introducing novel products or enhancing service delivery, MSMEs can differentiate themselves in crowded markets, thereby expanding their market share and attracting a broader customer base. This aligns with findings by [Hutahayan and Yufra \(2019\)](#), which demonstrate how innovation leads to increased customer acquisition and retention, driving higher profit margins and long-term sustainability. Furthermore, these innovations empower MSMEs to respond more effectively to shifts in consumer preferences and industry trends, ensuring their offerings remain relevant and appealing. The capacity for continuous innovation not only safeguards existing market positions but also creates new opportunities for growth and diversification.

The ability to innovate rapidly and effectively also correlates with measurable improvements in sales performance and overall profitability. This agility enables MSMEs to capitalize on emerging opportunities more swiftly than their competitors, giving them an edge in securing first-mover advantages. For instance, businesses that adopt innovative marketing strategies or technological advancements can enhance customer engagement and streamline their operations, leading to increased sales conversions and cost savings. These advantages, in turn, contribute to a virtuous cycle of reinvestment in innovation, further reinforcing the enterprise's competitive positioning.

The implications of these findings are far-reaching, suggesting that fostering innovation should be a priority for MSMEs aiming to thrive in competitive environments. Policymakers and industry stakeholders can play an essential role in supporting this objective by creating ecosystems that encourage innovation. For example, government initiatives that provide grants, tax incentives, or subsidized training programs can significantly lower the barriers to innovation for resource-constrained MSMEs. Similarly, facilitating collaborations between MSMEs and research institutions can bridge the gap between academic insights and practical applications, driving impactful innovations that address real-world challenges.

Additionally, the study highlights the necessity of cultivating an organizational culture that values creativity and experimentation. MSMEs that encourage their employees to propose and test new ideas are more likely to develop unique solutions that set them apart from competitors. This culture of innovation should be complemented by investments in technology and infrastructure that enable the efficient implementation of innovative practices. Digital tools, for instance, can streamline operations, enhance data

analysis, and support the development of customer-centric solutions, all of which are critical for maintaining a competitive edge.

The Influence of Social Capital on MSME Competitiveness

Social capital, a multifaceted construct encompassing trust, networks, and norms, is shown to significantly influence the competitiveness of MSMEs (H3a, H3b, H3c: Accepted). Trust, often regarded as the cornerstone of social capital, plays a critical role in fostering a positive working environment. This trust, particularly between employees and business owners, cultivates an atmosphere of mutual respect and cooperation, which enhances employee morale and productivity. A high-trust environment reduces workplace conflicts and turnover rates, allowing businesses to maintain operational stability and focus on long-term strategic goals. Furthermore, trust extends beyond internal dynamics, influencing relationships with external stakeholders. Reliable and transparent interactions with suppliers, customers, and collaborators establish a business's reputation, which is vital for sustained growth and competitiveness.

Networks, another essential component of social capital, serve as a conduit for accessing valuable resources and opportunities. Networks with external entities—such as government bodies, universities, and other businesses—play a pivotal role in creating avenues for financial support, technical assistance, and market expansion. [Agyapong et al. \(2017\)](#) and [Prasetyo et al. \(2020\)](#) emphasize how these networks enable MSMEs to secure funding, access training programs, and participate in knowledge-sharing initiatives that enhance their operational capabilities. Additionally, robust networks facilitate market penetration by connecting MSMEs with potential clients, distributors, and industry partners, thereby broadening their reach and customer base. The benefits of these networks extend to reducing transaction costs, as businesses can leverage established relationships to negotiate better terms, streamline procurement processes, and enhance supply chain efficiency.

Norms, the third dimension of social capital, play an equally significant role in shaping MSME competitiveness. Norms that promote cooperation, mutual support, and synergy within an organization contribute to effective teamwork and the alignment of individual efforts with collective goals. These shared values and expectations enhance strategic business planning and execution, as observed by [Petrou and Daskalopoulou \(2015\)](#). For instance, norms that encourage open communication and collaboration among employees foster innovation and problem-solving, enabling MSMEs to respond proactively to challenges and seize emerging opportunities. Moreover, adherence to ethical norms and responsible business practices builds trust with customers and stakeholders, further solidifying the business's reputation and competitive standing.

The combined effect of these dimensions of social capital creates a synergistic impact that strengthens MSME competitiveness. Trust fosters a cohesive internal environment, networks provide access to external resources and opportunities, and norms guide behavior and strategic alignment. Together, these elements equip MSMEs to navigate dynamic and often unpredictable business environments. By leveraging trust, networks, and norms, MSMEs can build resilience, adapt to market changes, and sustain competitive advantages over time.

The implications of these findings extend to policymakers, business owners, and other stakeholders within the MSME ecosystem. For policymakers, fostering an environment that supports the development of social capital is crucial. This can be achieved by implementing policies that encourage collaboration among businesses, educational institutions, and government agencies. For example, creating platforms for networking

events, offering incentives for partnerships, and facilitating access to funding and training programs can enhance the social capital of MSMEs. Business owners, on the other hand, should prioritize building trust within their organizations and with external partners. Investing in employee development, maintaining transparent communication, and engaging in ethical practices can strengthen trust and reinforce the foundations of social capital.

Furthermore, cultivating a culture that upholds shared norms and values can improve organizational cohesion and strategic effectiveness. Encouraging teamwork, rewarding collaborative efforts, and embedding ethical principles into business operations can align individual contributions with broader business objectives. These practices not only enhance operational efficiency but also build a strong reputation, attracting customers and partners who value reliability and integrity.

Synergizing Innovation and Social Capital for Enhanced Competitiveness

The findings highlight the interconnected role of innovation and social capital in boosting MSME competitiveness. While innovation drives efficiency and market performance, social capital provides the foundation for knowledge sharing and collaboration necessary for sustained innovation. MSMEs that integrate strong networks, trust, and norms into their strategic framework are better equipped to leverage innovation for long-term success. These insights underscore the importance of a dual focus on fostering innovation and strengthening social capital to achieve competitive advantage in the MSME sector.

CONCLUSION

The issue of competitiveness in MSMEs has garnered increasing attention from various stakeholders, including government officials, business practitioners, and academic researchers. The significance of MSMEs in propelling the national economy cannot be overstated, as they contribute substantially to employment, innovation, and the overall economic growth of a country. Given their critical role in the economic landscape, the issue of competitiveness within MSMEs remains highly relevant and continues to be the subject of ongoing discussions and research. A comprehensive understanding of the factors that influence the competitiveness of these businesses is therefore paramount to the formulation of effective policies and strategies aimed at enhancing their long-term sustainability and success.

This study investigates the complex relationship between social capital, innovation, and the competitiveness of MSMEs. The findings demonstrate that social capital, encompassing networks, trust, and shared norms, exerts a profound and positive influence on the competitiveness of MSMEs. Specifically, the study shows how social capital facilitates the development of strong business relationships, which, in turn, help MSMEs access valuable resources, information, and expertise. These resources can be leveraged to improve various aspects of business operations, ultimately leading to enhanced competitiveness. The networking dimension of social capital is found to be of crucial importance in fostering innovation, both in terms of business processes and product and service development. Collaborative networks enable MSMEs to generate novel ideas, share best practices, and adopt innovative solutions that directly contribute to their competitive advantage.

The innovations resulting from these networks lead to improved operational efficiency, superior product offerings, and greater responsiveness to market demands. Consequently, MSMEs that proactively invest in cultivating their social capital are better

positioned to compete in increasingly globalized and competitive markets. The enhancement of competitiveness among MSMEs is ultimately facilitated by these innovations, which improve customer satisfaction, reduce costs, and enhance profitability.

In light of the findings, this study puts forward several key recommendations for various stakeholders involved in the MSME ecosystem. Primarily, the government, in its capacity as an agent of economic development, carries a significant responsibility in catalyzing innovation within MSMEs. To this end, the government must create a conducive environment for innovation by offering a range of incentives, such as targeted training programs, grants, and access to affordable financial support. By doing so, the government can stimulate the growth and development of MSMEs, enabling them to become more competitive in both domestic and international markets. Furthermore, the government can promote policies that encourage collaboration between MSMEs and academic institutions, research centers, and technology providers, facilitating the exchange of knowledge and enhancing the innovative capacity of these businesses.

The study emphasizes the significance of implementing policies and strategies that proactively foster the development of social relationships among employees, business partners, and other stakeholders within the MSME ecosystem. Creating an organizational culture that values and encourages social connections has the potential to result in stronger teamwork, better communication, and a more cohesive approach to business challenges. Furthermore, these social relationships can contribute to the establishment of more efficient business management systems, allowing MSMEs to streamline operations, reduce costs, and enhance overall performance. The enhancement of social capital within the organization has been shown to facilitate innovation and improve decision-making processes, customer relationships, and, ultimately, the MSME's competitive edge in the marketplace.

ACKNOWLEDGMENT

N/A

DECLARATION OF CONFLICTING INTERESTS

We declare that we have no conflict of interest related to this publication. No financial, personal, or professional relationships exist that could be perceived as influencing the results or interpretation of the research described in this manuscript.

REFERENCES

- Agyapong, F. O., Agyapong, A., & Poku, K. (2017). Nexus between social capital and performance of micro and small firms in an emerging economy: The mediating role of innovation. *Cogent Business and Management*, 4(1), 1–20. <https://doi.org/10.1080/23311975.2017.1309784>
- Ahmedova, S. (2015). Factors for increasing the competitiveness of small and medium-sized enterprises (SMEs) in Bulgaria. *Procedia - Social and Behavioral Sciences*, 195, 1104–1112. <https://doi.org/10.1016/j.sbspro.2015.06.155>
- Cappiello, G., Giordani, F., & Visentin, M. (2020). Social capital and its effect on networked firm innovation and competitiveness. *Industrial Marketing Management*, 89(April 2019), 422–430. <https://doi.org/10.1016/j.indmarman.2020.03.007>
- Centrova, J. (2020). Creative economy as a tool of competitiveness. *SHS Web of Conferences*, 83, 01007. <https://doi.org/10.1051/shsconf/20208301007>

- Costa, R. V., Fernández, C. F.-J., & Figueroa Dorrego, P. (2014). Critical elements for product innovation at Portuguese innovative SMEs: An intellectual capital perspective. *Knowledge Management Research and Practice*, 12(3), 322–338. <https://doi.org/10.1057/kmrp.2014.15>
- Denan, Z., Ismail, N., & Amir Ishak, N. (2009). The impact of environmental dynamism on knowledge absorptive capacity-innovation performance relationship amongst manufacturing SMEs in Malaysia. *Social and Management Research Journal*, 6(1), 63. <https://doi.org/10.24191/smri.v6i1.5170>
- Devi, M. P., & Ramachandran, S. (2011). Innovation and Indian MSMEs: Emerging challenges and opportunities. *Indian Journal of Applied Research*, 4(2), 4–36. <https://doi.org/10.15373/2249555x/feb2014/85>
- Hamsani, H., Wibawa, D. P., & Wulandari, A. (2021). Analysis of Locus of Control (LoC) on the competitiveness of micro, small and medium enterprises (MSMEs) in Pangkalpinang City. *Society*, 9(2), 597–606. <https://doi.org/10.33019/society.v9i2.186>
- Hanifah, H., Halim, H. A., Ahmad, N. H., & Vafaei-Zadeh, A. (2020). Can internal factors improve innovation performance via innovation culture in SMEs? *Benchmarking*, 27(1), 382–405. <https://doi.org/10.1108/BIJ-06-2018-0174>
- Haug, A., Wickstrøm, K. A., Stentoft, J., & Philipsen, K. (2024). The role of social media in product innovation: a survey of small and medium-sized manufacturing firms. *International Journal of Entrepreneurial Behavior & Research*. <https://doi.org/10.1108/ijeb-04-2023-0347>
- Hendayana, Y., Ahman, E., & Mulyadi, H. (2019, October). The effect of innovation on business competitiveness of small and medium enterprise in Indonesia. In *2019 International Conference on Organizational Innovation (ICOI 2019)* (pp. 116–120). Atlantis Press. <https://doi.org/10.2991/icoi-19.2019.21>
- Hutahayan, B., & Yufra, S. (2019). Innovation speed and competitiveness of food small and medium-sized enterprises (SME) in Malang, Indonesia: Creative destruction as the mediation. *Journal of Science and Technology Policy Management*, 10(5), 1152–1173. <https://doi.org/10.1108/JSTPM-12-2017-0071>
- Kaasa, A. (2009). Effects of different dimensions of social capital on innovative activity: Evidence from Europe at the regional level. *Technovation*, 29(3), 218–233. <https://doi.org/10.1016/j.technovation.2008.01.003>
- Kamaluddin, A., Hasan, H. A., Arshad, R., Akmar, S., & Samah, A. (2016). Social capital and innovation capital: Accountability towards small medium enterprises' (SMEs) sustainable performance. *Malaysian Accounting Review*, 15(1), 197–223.
- Kasseeah, H. (2013). Innovation and performance in small- and medium-sized enterprises: Evidence from Mauritius. *Innovation and Development*, 3(2), 259–275. <https://doi.org/10.1080/2157930x.2013.825069>
- Khodadadi, M. (2016). Challenges and opportunities for tourism development in Iran: Perspectives of Iranian tourism suppliers. *Tourism Management Perspectives*, 19(June 2010), 90–92. <https://doi.org/10.1016/j.tmp.2016.05.001>
- Kimbal, R. W., & Sumual, T. E. (2022). Strategy formulation for increasing the social capital of women in small scale industries. *International Journal of Accounting & Finance in Asia Pasific*, 5(3), 69-86. <https://doi.org/10.32535/ijafap.v5i3.1875>
- Laksana, D. H., Apriliado, S., & Kusmantini, T. (2022). Influence of market orientation, learning orientation, and innovation capabilities and their impact on competitive advantage and company performance. *Journal of the Community Development in Asia*, 5(2), 11-23. <https://doi.org/10.32535/jcda.v5i2.1492>
- Latifah, L., Setiawan, D., Aryani, Y. A., & Rahmawati, R. (2021). Business strategy – MSMEs' performance relationship: Innovation and accounting information system as mediators. *Journal of Small Business and Enterprise Development*, 28(1), 1–21. <https://doi.org/10.1108/JSBED-04-2019-0116>

- Lee, S., Park, G., Yoon, B., & Park, J. (2010). Open innovation in SMEs-An intermediated network model. *Research Policy*, 39(2), 290–300. <https://doi.org/10.1016/j.respol.2009.12.009>
- Lin, N. (2001). *Social Capital: A Theory of Social Structure and Action*. Cambridge University Press.
- Liu, C. H. (2020). Creating competitive advantage through network ties, entrepreneurial orientation and intellectual capital. *Management Decision*, 59(9), 2238–2263. <https://doi.org/10.1108/MD-02-2020-0191>
- Liu, C. H. S. (2018). Examining social capital, organizational learning and knowledge transfer in cultural and creative industries of practice. *Tourism Management*, 64, 258-270. <https://doi.org/10.1016/j.tourman.2017.09.001>
- Lombogia, W., Lumapow, L., Kewo, C., Wantah, E., & Wuisang, J. (2022). Development of MSME economic empowerment materials in the new normal in Matuari District, Bitung. *Journal of the Community Development in Asia*, 5(1), 1-10. <https://doi.org/10.32535/jcda.v5i1.1380>
- Luo, D., Shahbaz, M. S., Qureshi, M. A., Anis, M., Mahboob, F., Kazouz, H., & Mao, J. (2022). How maritime logistic SMEs lead and gain competitive advantage by applying information technology?. *Frontiers in Psychology*, 13, 955145. <https://doi.org/10.3389/fpsyg.2022.955145>
- Man, T. W. Y., Lau, T., & Chan, K. F. (2002). The competitiveness of small and medium enterprises: A conceptualization with focus on entrepreneurial competencies. *Journal of Business Venturing*, 17(2), 123–142. [https://doi.org/10.1016/S0883-9026\(00\)00058-6](https://doi.org/10.1016/S0883-9026(00)00058-6)
- Martínez-Pérez, Á., García-Villaverde, P. M., & Elche, D. (2016). The mediating effect of ambidextrous knowledge strategy between social capital and innovation of cultural tourism clusters firms. *International Journal of Contemporary Hospitality Management*, 28(7), 1484–1507. <https://doi.org/10.1108/IJCHM-08-2014-0405>
- Mishchuk, H., Štofková, J., Krol, V., Joshi, O., & Vasa, L. (2022). Social capital factors fostering the sustainable competitiveness of enterprises. *Sustainability (Switzerland)*, 14(19). <https://doi.org/10.3390/su141911905>
- Mohamad, M. R., & Zin, N. M. (2019). Knowledge management and the competitiveness of small construction firms: Innovation as mediator. *Competitiveness Review*, 29(5), 534–550. <https://doi.org/10.1108/CR-03-2018-0027>
- Morris, M. G., & Venkatesh, V. (2010). Job characteristics and job satisfaction: Understanding the role of enterprise resource planning system implementation. *MIS Quarterly*, 143-161. <https://doi.org/10.2307/20721418>
- Mu, J. (2014). Networking capability, network structure, and new product development performance. *IEEE Transactions on Engineering Management*, 61(4), 599–609. <https://doi.org/10.1109/TEM.2014.2359160>
- Murphy, L., Huggins, R., & Thompson, P. (2016). Social capital and innovation: A comparative analysis of regional policies. *Environment and Planning C: Government and Policy*, 34(6), 1025–1057. <https://doi.org/10.1177/0263774X15597448>
- Musneh, S. N., & Roslin, R. M. (2021). A review on Innovation and its Strategic Importance to the Growth of Small and Medium Enterprises (SMEs). *Malaysian Journal of Social Sciences and Humanities*, 6(2), 275-281. <https://doi.org/10.47405/mjssh.v6i2.664>
- Park, K. J., & Yoo, Y. (2017). Improvement of competitiveness in small and medium-sized enterprises. *Journal of Applied Business Research*, 33(1), 173–194. <https://doi.org/10.19030/jabr.v33i1.9888>

- Petrou, A., & Daskalopoulou, I. (2015). Social capital and small business competitiveness: evidence from cross-section tourism data. *Journal of the Knowledge Economy*, 6(4), 946–967. <https://doi.org/10.1007/s13132-013-0166-3>
- Prasetyo, P. E., Setyadharma, A., & Kistanti, N. R. (2020). Social capital: The main determinant of MSME entrepreneurship competitiveness. *International Journal of Scientific and Technology Research*, 9(3), 6627–6637.
- Pretty, J. (2003). Social capital and the collective management of resources. *Science*, 302(5652), 1912–1914. <https://doi.org/10.1126/science.1090847>
- Putro, B. E., & Ilmaniati, A. (2020). The effectiveness model of knowledge sharing in business innovation to improve the performance of micro small and medium enterprises. *Jurnal Ilmiah Teknik Industri*, 19(1), 39-46. <https://doi.org/10.23917/jiti.v19i1.10231>
- Rana, G., & Choudhary, R. (2019). Micro Small and Medium Scale Enterprises - “Hidden and Helping Hand in Economic Growth.” *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.3354268>
- Rustiarini, N. W., Bhegawati, D. A. S., & Mendra, N. P. Y. (2022). Does green innovation improve SME performance? *Economies*, 10(12). <https://doi.org/10.3390/economies10120316>
- Sagar, K. A., Rose, T. M., Agdas, D., & Kajewski, S. (2019). A conceptual framework for exploring the impact of social capital on innovation ambidexterity of Construction Project-Based Small and Medium Size Enterprises (PB-SMEs). In *CIB World Building Congress 2019*.
- Satrovic, E., Muslija, A., & Abul, S. J. (2020). Do innovation and entrepreneurship have dominant roles in economic growth? A new perspective of developed countries. *Humanities & Social Sciences Reviews*, 8(3), 1056–1064. <https://doi.org/10.18510/hssr.2020.83108>
- Thomas, R., Shaw, G., & Page, S. J. (2011). Understanding small firms in tourism: A perspective on research trends and challenges. *Tourism Management*, 32(5), 963–976. <https://doi.org/10.1016/j.tourman.2011.02.003>
- Țigu, G., Tigu, G., Tigu, G., Tigu, G., Iorgulescu, M.-C., Iorgulescu, M.-C., Iorgulescu, M.-C., Răvar, A. S., & Ravar, A. S. (2013). The impact of creativity and innovation in the hospitality industry on customers. *Journal of Tourism Challenges and Trends*.
- Zheng, W. (2010). A social capital perspective of innovation from individuals to nations: Where is empirical literature directing us? *Wiley*, 12(2), 151–183. <https://doi.org/10.1111/j.1468-2370.2008.00247.x>

ABOUT THE AUTHOR(S)

1st Author

Arie Frits Kawulur is a professor at Department of Graduate Program Bio Entrepreneurship, Manado State University. ORCID ID <https://orcid.org/0000-0001-5046-6800>, email: ariekawulur@unima.ac.id

2nd Author

Tinneke Evie Meggy Sumual is a professor at Department of Management, Faculty Economic and Business, Manado State University, email: tinnekesumual@unima.ac.id

3rd Author

Nikolas Fajar Wuryaningrat is an associated professor at Department of Management, Faculty of Economic and Business, Manado State University. email: nikolas.fajar@unima.ac.id