

The Influence of Entrepreneurial Orientation, Product Knowledge, and Financial Literacy on Business Performance Improvement with Product Innovation Capability as an Intervening Variable

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ABSTRACT

Purpose— This study aims to examine how entrepreneurial orientation, product knowledge, and financial literacy impact the business performance of food MSMEs in Pantai Indah Kapuk (PIK), with product innovation capability acting as an intervening factor.

Design/methods/approach – A quantitative survey was conducted with 96 MSME owners in PIK using structured questionnaires. Data analysis was performed using Structural Equation Modeling (SEM) with Smart-PLS software to test variable relationships.

Findings – The study finds that entrepreneurial orientation positively impacts product innovation capability, which in turn boosts business performance. Product knowledge also enhances product innovation, while financial literacy directly improves business performance by enabling better financial management.

Research implications/limitations— This study suggests that improving entrepreneurial orientation, product knowledge, and financial literacy through training can boost MSME performance. However, its findings are limited to MSMEs in PIK and may not be applicable elsewhere, with self-reported data possibly introducing bias.

Originality/value – This research offers valuable insights into the combined effects of entrepreneurial orientation, product knowledge, and financial literacy on MSME performance, highlighting the role of product innovation in business success, particularly in competitive markets like the food industry.

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Introduction

Micro, Small, and Medium Enterprises (MSMEs) play a significant role in driving economic development globally, including in developing countries like Indonesia. According to data from the Ministry of Cooperatives and Small and Medium Enterprises in 2021, there were 64.2 million MSMEs operating in Indonesia, contributing 97% to employment, 57% to Gross Domestic Product (GDP), and 15% to national exports. This demonstrates that MSMEs are not only crucial in creating jobs and stimulating local economies, but also serve as key drivers for innovation and creativity, facilitating their expansion into international markets (Aribawa, 2016).

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To continue thriving in today's fast-changing business environment, particularly after the economic impact of the COVID-19 crisis, MSMEs must adapt and innovate their business models. One of the key factors for MSME success is Entrepreneurial Orientation (EO), a concept that reflects how businesses operate and respond to market changes. EO encompasses various dimensions, including innovativeness, proactiveness, and risk-taking. It is considered a strategic resource for companies as it helps them introduce new products, respond to market opportunities, and develop technological leadership ([Kollmann et al., 2021](#)). Moreover, Product Knowledge (PK) and Financial Literacy (FL) are crucial capabilities that enable MSMEs to better understand their products and manage finances effectively. These capabilities provide MSMEs with the skills to innovate and seize new market opportunities ([Dastaki et al., 2021](#); [Susan, 2020](#)).

Several studies have established that EO, PK, and FL positively influence business performance by enhancing MSMEs' ability to respond to customer needs and market demands. For instance, *Product Knowledge* enables businesses to leverage insights from customers, helping them design products that fulfill customer needs and improve their market standing ([Lawrence, 2009](#)). Additionally, financial literacy plays a crucial role in the financial management of MSMEs, allowing businesses to allocate resources effectively and sustain innovation efforts ([Dahmen & Rodríguez, 2014](#)).

Despite these insights, there is inconsistency in the literature regarding the impact of EO, PK, and FL on MSME business performance. Several studies, such as those by [Ali et al. \(2020\)](#) and [Guzmán et al. \(2019\)](#), indicate a positive and significant impact of EO and PK on business performance, particularly in the context of MSMEs. However, other studies, including those by [Cho and Lee \(2018\)](#) and [Nuvriasari et al. \(2015\)](#), report that EO, PK, and FL have no significant effect on business performance. These conflicting findings present a research gap that needs to be addressed to gain a clearer understanding of how these variables influence MSMEs in specific contexts, such as the culinary sector in Indonesia.

The inconsistencies in the existing research regarding the relationship between EO, PK, FL, and business performance represent a significant research gap. Some studies suggest that EO positively impacts business performance, while others find no such relationship. The culinary MSMEs in Pantai Indah Kapuk (PIK), Jakarta, offer an interesting case study to address this gap. These businesses operate in a highly dynamic and competitive market, with significant potential due to the location's popularity among tourists. However, despite this potential, many MSMEs in the area struggle to optimize their business performance. Factors such as the ability to innovate, manage financial resources, and effectively utilize product knowledge may be key determinants of their success or failure.

Beyond the general challenges faced by MSMEs, this study identifies several specific issues related to culinary MSMEs operating in the Pantai Indah Kapuk (PIK) area. One of the primary problems is the inefficiency in capitalizing on the market potential. Despite PIK's strategic location and the high volume of tourists visiting the area, many MSMEs have not fully optimized their business performance. Although the area offers significant opportunities, many MSMEs struggle to enhance their performance due to limitations in product innovation and effective business management.

The second problem identified is the low level of product innovation. In the highly competitive culinary industry, product innovation is crucial for gaining a competitive edge. However, many MSMEs in PIK face difficulties in developing new products that can attract consumers. This is largely due to a lack of *Product Knowledge* (PK), where MSME owners often lack sufficient understanding of their own products, which hampers their ability to create relevant innovations.

The third issue is the low level of *Financial Literacy* (FL). Poor financial literacy has led many MSMEs in PIK to struggle with effective financial management. This results in poor business decision-making, particularly in the allocation of resources for innovation and product development. Low *Financial Literacy* also contributes to the lack of business sustainability, as MSME owners often fail to separate personal expenses from business expenses, ultimately reducing the overall efficiency of their operations.

Additionally, there is a gap in the existing literature that highlights the inconsistent findings regarding the relationship between *Entrepreneurial Orientation* (EO), *Product Knowledge*, and *Financial Literacy* on MSME business performance. While some studies suggest a positive and significant relationship between these variables and business performance, other studies have found that the impact is not always consistent, varying depending on the industry context and geographical location. This points to a need for further research to understand the factors mediating this relationship, specifically the role of *Product Innovation Capability* (PIC), which is considered a key variable in this context.

Research has shown that entrepreneurial orientation significantly contributes to innovation and business development in such dynamic environments. However, the inconsistency in empirical findings, where some studies reveal positive effects and others report no significant influence, creates uncertainty. The varying results necessitate further exploration, especially in the context of MSMEs that operate in tourism-driven locations like PIK, where external environmental factors and market conditions may significantly influence business outcomes ([Hariroh & Kosim, 2022](#); [Nuvriasari et al., 2015](#)).

Thus, this research aims to explore how EO, PK, and FL interact to affect business performance in the MSMEs operating in the culinary sector at PIK. The role of Product Innovation Capability (PIC) as a mediating variable will also be examined, as previous studies indicate that innovation capabilities can enhance the relationship between EO and business performance, but these findings have not yet been explored in the context of culinary MSMEs.

Another key issue lies in understanding how product knowledge impacts the ability of MSMEs to innovate and create new products. Research by Kör and Maden (2019) shows that product innovation capability in Turkey was significantly enhanced by strong product knowledge. However, similar studies on MSMEs in Indonesia are limited, especially in the culinary sector, which requires constant innovation to maintain competitiveness. The lack of clarity regarding how product knowledge influences MSME innovation capability calls for further exploration in the context of PIK's culinary businesses.

Financial literacy is known to be a vital factor in enabling businesses to manage finances effectively, make informed decisions, and achieve long-term sustainability. While studies like those by [Aribawa \(2016\)](#) and [Dahmen & Rodríguez \(2014\)](#) emphasize the importance of financial literacy in driving business success, other research presents conflicting results regarding its direct impact on business performance. Understanding the extent to which financial literacy contributes to the financial management capabilities of MSMEs, particularly in high-demand areas like PIK, remains unclear and needs further investigation.

One of the emerging areas of concern is the role of Product Innovation Capability (PIC) as a mediator between EO, PK, FL, and business performance. Research by [Mahmood & Hanafi \(2013\)](#) suggests that PIC plays a partial mediating role between entrepreneurial orientation and business performance. However, this relationship has not been sufficiently explored in the context of culinary MSMEs. Given that innovation is essential for staying competitive in the food and beverage industry, it is crucial to understand how product innovation capability can mediate the impact of EO, PK, and FL on business outcomes. The

specific context of MSMEs in Pantai Indah Kapuk (PIK), Jakarta, presents additional challenges. Although PIK is a popular tourist destination, many culinary MSMEs in the area struggle to capitalize on the large influx of visitors and tourists. Despite the strategic location, many MSMEs are not performing optimally, potentially due to gaps in their entrepreneurial orientation, product knowledge, and financial literacy. Moreover, the intense competition within the culinary sector in PIK necessitates constant innovation and strategic financial management, which many businesses are currently lacking. Therefore, addressing these context-specific challenges is crucial to enhancing the business performance of MSMEs in this region ([Cho & Lee, 2018](#); [Nuvriasari et al., 2015](#)).

The purpose of this study is to investigate the relationships between Entrepreneurial Orientation (EO), Product Knowledge (PK), and Financial Literacy (FL), and their influence on Business Performance (BP) in MSMEs, particularly in the culinary sector in PIK, Jakarta. This study will also examine the role of Product Innovation Capability (PIC) as a mediating variable. Using the Service-Dominant Logic (SDL) framework, the study aims to explore how value creation through EO, PK, and FL contributes to business success. SDL emphasizes the importance of co-creating value with customers, particularly in dynamic environments, making it a suitable theoretical lens for examining MSMEs in highly competitive sectors.

This research is expected to contribute to the body of knowledge by addressing the conflicting findings in the literature regarding the influence of EO, PK, and FL on MSME performance. It will provide new insights into the role of product innovation as a mediating factor and offer practical implications for MSME owners and policymakers. By understanding how entrepreneurial strategies, financial literacy, and product knowledge contribute to business success, MSMEs in PIK and other similar areas can better align their business models with market demands, thus improving their overall performance and competitiveness.

Methods

The type of research that will be used in this study is survey research. Survey research is quantitative research using similar questionnaires to respondents, then all the answers obtained are processed and analyzed ([Sugiyono, 2014](#)). This study employed a quantitative research design to examine the relationships between entrepreneurial orientation, product knowledge, financial literacy, and business performance among food MSMEs in the Pantai Indah Kapuk (PIK) tourist area. The study is conducted in the Pantai Indah Kapuk (PIK) area, Jakarta, particularly focusing on MSME owners in the culinary sector. The data collection process, which involves the distribution of questionnaires, is planned to take place between January 2024 and February 2024. The research adopted a cross-sectional survey method, collecting primary data through a structured questionnaire distributed to MSME owners. A purposive sampling technique was used to focus on MSMEs operating in the food sector, which represents a significant proportion of businesses in this high-tourism area.

The object of this research is to analyze how the independent variables (Entrepreneurial Orientation, Product Knowledge, and Financial Literacy) influence the dependent variable (Business Performance), with Product Innovation Capability serving as the mediating variable. The subjects in this study are MSME owners operating in the culinary sector in the PIK area. These MSME businesses operate in a highly competitive environment and are considered significant due to their large market potential, despite challenges in optimizing business performance.

The sample size of 96 respondents was determined based on the Cochran formula for sample size calculation, ensuring a 95% confidence level with a 10% margin of error.

Respondents were selected based on specific criteria, including being active owners of food-related MSMEs in the PIK region. Data collection took place between January and February 2024, utilizing both face-to-face interviews and online survey tools to maximize respondent participation. The questionnaire was designed with Likert-scale items, measuring entrepreneurial orientation, product knowledge, financial literacy, product innovation capability, and business performance, with response options ranging from 1 (strongly disagree) to 5 (strongly agree).

Data were analyzed using Structural Equation Modeling (SEM) with Smart-PLS software, a powerful tool for testing complex relationships among variables, especially with smaller sample sizes. The model was evaluated through convergent and discriminant validity, ensuring that each construct was appropriately measured. Composite reliability was also assessed to confirm the internal consistency of the constructs. Path analysis was employed to test the hypotheses and evaluate the strength and significance of the relationships between entrepreneurial orientation, product knowledge, financial literacy, and business performance. Additionally, mediation analysis was performed to examine the role of product innovation capability as an intervening variable.

This research applies Structural Equation Modeling (SEM) using the Partial Least Squares (PLS) approach. SEM-PLS is chosen due to its suitability for handling complex models with small sample sizes and non-parametric data. According to Hartono (2011), PLS allows simultaneous analysis of measurement and structural models, making it ideal for examining the relationships between multiple variables. This research applies Structural Equation Modeling (SEM) using the Partial Least Squares (PLS) approach. SEM-PLS is chosen due to its suitability for handling complex models with small sample sizes and non-parametric data. According to [Hartono \(2011\)](#), PLS allows simultaneous analysis of measurement and structural models, making it ideal for examining the relationships between multiple variables.

The SEM analysis involves the following steps: (1) Outer Model Evaluation: This includes testing the convergent validity and discriminant validity of the questionnaire items, ensuring that the indicators measure the intended constructs accurately; (2) Inner Model Evaluation: This evaluates the structural relationships between latent variables using R-squared values and path coefficients. Higher R-squared values indicate better explanatory power for the dependent variable.

Hypothesis testing in the study is conducted using t-statistics and p-values. For a significance level of 0.10, a t-statistic greater than or equal to 1.290 is considered significant. Additionally, a p-value less than 0.10 indicates that the hypothesis is accepted.

The findings from this analysis provide insights into the critical factors influencing business performance in the MSME sector, offering practical recommendations for business owners and policymakers. By employing SEM-PLS, this study could comprehensively assess direct and indirect effects, ensuring robust conclusions about the relationships among the study variables.

Results

This study involved 96 MSME respondents from the Pantai Indah Kapuk (PIK) area, Jakarta, focusing on analyzing their demographic characteristics, business performance, and other related variables. The key characteristics of the respondents, including age, education, type of culinary business, and annual turnover, were examined to provide a

clearer understanding of the MSMEs participating in the research.

The majority of respondents were over 35 years old (47.4%), and most of them had completed their education up to the high school level (59%). In terms of business type, 33% of the respondents were engaged in beverage businesses, while 58% reported annual turnovers between IDR 50,000,000 and IDR 100,000,000. These characteristics provide a profile of MSME owners in PIK, showing a mature group with relatively modest turnovers and educational backgrounds. The research model was analyzed using Partial Least Square (PLS) with Smart PLS 3.0 software. The outer model's validity and reliability were evaluated through convergent validity, discriminant validity, and composite reliability tests.

Convergent Validity: The validity of the measurement indicators was assessed using factor loadings, with a threshold of 0.7. The results showed that all indicators for Business Performance, Entrepreneurial Orientation, Product Knowledge, Financial Literacy, and Product Innovation Capability had factor loadings greater than 0.7, indicating high levels of convergent validity. This suggests that the measurement model has strong internal consistency and each indicator is valid for its respective construct.

Discriminant Validity: Discriminant validity was evaluated using cross-loadings, which showed that each construct was more strongly correlated with its indicators than with other constructs. This demonstrates that the model has good discriminant validity, as each indicator was better related to its respective latent variable than to other constructs.

Composite Reliability: The composite reliability test results confirmed that all constructs had reliability values above 0.70, meeting the minimum criteria for construct reliability. This indicates that the variables used in the study are reliable and consistently measure the intended constructs.

The inner model was tested by evaluating the R-squared values and path coefficients. The R-squared value for Business Performance was 0.718, indicating that Entrepreneurial Orientation, Product Knowledge, Financial Literacy, and Product Innovation Capability explain 71.8% of the variance in Business Performance, while the remaining 28.2% is explained by other variables outside the model. This high R-squared value reflects the strong predictive power of the model for explaining business performance among MSMEs.

The Predictive Relevance (Q^2) value for Business Performance was calculated as 0.790, which is greater than 0, indicating that the model has high predictive relevance. This means that the variables in the model can predict the performance of MSMEs effectively. Furthermore, the Model Fit results showed that the SRMR (0.069) and NFI (0.977) met the required thresholds, confirming that the model fit the data well.

The hypotheses were tested using SmartPLS 3.0, a robust method for Structural Equation Modeling (SEM) based on variance. This approach allowed the analysis of complex relationships between entrepreneurial orientation (EO), product knowledge (PK), financial literacy (FL), product innovation capability (PIC), and business performance (BP) within MSMEs in the culinary sector at Pantai Indah Kapuk (PIK), Jakarta. The results of the hypothesis testing are shown in Table 1

Tabel 1. *T-Statistic dan P-Value*

Hypothesis	Original Sample (O)	Sample Mean (M)	T Statistics	P Values	Conclusion
EO -> PIC	0.198	0.120	10.699	0.037	Accepted
PIC -> BP	0.101	0.083	11.103	0.027	Accepted
PK -> PIC	0.246	0.221	9.751	0.021	Accepted
PK -> FL	0.131	0.166	11.037	0.032	Accepted

Hypothesis	Original Sample (O)	Sample Mean (M)	T Statistics	P Values	Conclusion
PIC -> FL	0.045	0.042	10.541	0.048	Accepted
FL -> BP	0.101	0.083	12.103	0.031	Accepted

Source: Primary Data Processing, 2024

The results confirm that all hypothesized relationships were supported by the data, as indicated by the statistically significant t-statistics ($p < 0.05$). The findings reveal a strong interplay between EO, PK, FL, and BP, with PIC playing a central mediating role.

Entrepreneurial Orientation (EO) -> Product Innovation Capability (PIC): A significant positive relationship (t-statistic = 10.699, $p < 0.05$) was found between EO and PIC, indicating that businesses with higher entrepreneurial orientation are more likely to engage in product innovation.

Product Innovation Capability (PIC) -> Business Performance (BP): The relationship between PIC and BP was also significant (t-statistic = 11.103, $p < 0.05$), highlighting the critical role that innovation capabilities play in enhancing business performance.

Product Knowledge (PK) -> Product Innovation Capability (PIC): Product knowledge had a positive impact on innovation capabilities, supported by a t-statistic of 9.751 ($p < 0.05$).

Financial Literacy (FL) -> Business Performance (BP): Financial literacy significantly impacts business performance directly (t-statistic = 12.103, $p < 0.05$), as well as indirectly through PIC.

These findings provide valuable insights into how strategic orientations like EO, PK, and FL drive business outcomes, particularly when innovation capabilities are involved.

Discussion

The study's findings contribute significantly to the understanding of how MSMEs, particularly in the culinary sector, can leverage entrepreneurial orientation, product knowledge, and financial literacy to boost business performance. This discussion delves deeper into the scientific findings, explaining why these relationships exist and how they compare with existing literature.

Entrepreneurial Orientation (EO) and Product Innovation Capability (PIC)

The positive relationship between EO and PIC found in this study aligns with prior research, emphasizing that MSMEs with strong entrepreneurial orientation—those that are proactive, innovative, and willing to take risks—are more likely to engage in product innovation. This result supports the findings of Jin and Cho (2018) and Kollmann et al. (2021), who argue that EO enables firms to identify and exploit new market opportunities by developing innovative products.

Companies with strong EO tend to lead in market initiatives, investing in high-risk projects with the expectation of high returns (Al-Hakimi et al., 2021). This risk-taking attitude enables them to be market leaders, often being the first to introduce new products, services, or technologies. EO is conceptualized as a combination of innovation, proactiveness, and risktaking, which helps businesses to stay ahead of competitors (Usman & Male, 2024).

In the context of culinary MSMEs in PIK, Jakarta, entrepreneurial orientation is particularly important due to the highly competitive and dynamic market environment.

Businesses that proactively seek out opportunities and are willing to take risks by introducing new food products or services are better positioned to stay ahead of competitors. The high t-statistic for EO's impact on PIC ($t = 10.699$) indicates that MSMEs with a strong entrepreneurial orientation are much more likely to excel in product innovation. This finding highlights the need for MSMEs to adopt a mindset of continuous improvement and innovation to thrive in dynamic sectors like the culinary industry.

Furthermore, research shows that companies with a strong EO are better positioned to anticipate market trends and shifts in customer preferences. By adopting an entrepreneurial mindset, businesses in competitive environments like Pantai Indah Kapuk can capitalize on opportunities faster than their competitors. This is crucial in the dynamic culinary sector, where customer preferences can change rapidly. EO drives MSMEs to stay ahead of trends by continuously experimenting with new products and refining their offerings based on market feedback (Kaur & Chawla, 2023).

The ability of MSMEs to innovate is not solely reliant on internal factors, such as creativity or resources, but also on their orientation toward external opportunities. EO enhances a firm's external market awareness, allowing them to identify gaps in the market where innovative products can succeed. This proactive market scanning and risk-taking behavior, as highlighted by Ferreras-Méndez et al. (2021), enables businesses to make strategic decisions that lead to the development of innovative products and services. In this way, EO becomes a strategic tool that not only enhances innovation but also ensures sustainability in a competitive market.

Additionally, the integration of Service-Dominant Logic (SDL), as discussed by Vargo & Lusch (2015), emphasizes that EO aligns with the concept of knowledge as a fundamental resource for competitive advantage. The knowledge and insights gained through an entrepreneurial approach to market dynamics, customer needs, and technological advancements equip businesses with the ability to continuously innovate and maintain relevance in the market. This is particularly true in industries where customer interactions and experiences are central to the business model, such as the food and beverage sector in Pantai Indah Kapuk.

In conclusion, the findings demonstrate that EO acts as a critical driver for product innovation in MSMEs. Through innovative, proactive, and risk-taking behaviors, businesses are better equipped to develop unique products that meet evolving customer demands. This ability to innovate not only enhances business performance but also strengthens the competitive position of MSMEs in the culinary industry, ensuring long-term success in a rapidly changing market.

Product Knowledge (PK) and Product Innovation Capability (PIC)

The research reveals that Product Knowledge has a significant impact on Product Innovation Capability among MSMEs in Pantai Indah Kapuk, Jakarta. Theoretically, product knowledge plays a vital role in enabling companies to manage and utilize information gathered from customers for internal development (Teece, 2010). By leveraging customer insights, businesses can develop new products or services that meet customer needs and solve their problems (Lawrence, 2009). This knowledge transfer fosters innovation, especially in highly competitive environments where customers have numerous options, and companies must adapt to meet customer expectations (Buckinx & Van den Poel, 2005).

The study also found a significant positive relationship between product knowledge (PK) and product innovation capability (PIC), which is consistent with previous research by Kör and Maden (2019) and Brucks (2011). Businesses that possess extensive product knowledge are better equipped to innovate, as they have a deeper understanding of the strengths and weaknesses of their products and can identify areas for improvement.

In the case of culinary MSMEs, having in-depth knowledge about food products, consumer preferences, and industry trends is crucial for driving innovation. For example, MSMEs that understand the nutritional value of their offerings or the unique cultural preferences of their target market can create innovative dishes that cater to specific customer needs. This aligns with the findings of Claycomb and Germain (2005), who noted that product knowledge is an essential foundation for innovation, as it allows businesses to identify new product features or improvements that can differentiate them in the marketplace. Empirically, product knowledge allows MSMEs to identify unique market segments and tailor their strategies accordingly. Businesses that understand their customers are better equipped to recognize opportunities and create products that are more readily accepted by the market. (Lee, Naylor, & Chen, 2011).

Furthermore, *Product Knowledge* (PK) was found to significantly contribute to the capability of MSMEs to innovate and adapt to market changes, thereby improving business performance. This aligns with studies that suggest a deeper understanding of products enhances a firm's ability to innovate and respond to customer needs.

In summary, product knowledge not only enhances innovation but also helps MSMEs maintain a competitive advantage by effectively responding to customer needs and market demands. The findings of this study demonstrate that both Entrepreneurial Orientation and Product Knowledge significantly influence the Product Innovation Capability of MSMEs in Pantai Indah Kapuk, Jakarta. Entrepreneurial Orientation fosters innovation by encouraging proactive market engagement, risk-taking, and the continuous introduction of new products and services. Meanwhile, Product Knowledge equips businesses with valuable insights into customer needs and preferences, allowing them to tailor their innovations more effectively. Together, these factors empower MSMEs to not only enhance their product offerings but also maintain a competitive edge in a dynamic market environment. Consequently, focusing on these aspects is crucial for MSMEs aiming to improve business performance and long-term sustainability through innovation.

Financial Literacy (FL) and Business Performance (BP)

Financial literacy emerged as a significant factor influencing business performance directly and indirectly through product innovation capability. The findings confirm that MSMEs with better financial management skills are more capable of investing in innovation, which in turn leads to better financial outcomes. This finding is supported by research from Aribawa (2016) and Dahmen & Rodríguez (2014), who found that financial literacy enables business owners to make informed decisions regarding budgeting, investment, and cash flow management. In the context of PIK's culinary MSMEs, financial literacy is particularly critical due to the competitive nature of the industry and the need for businesses to manage tight margins. MSMEs that can effectively manage their finances are better positioned to invest in product innovation, whether that means purchasing higher-quality ingredients, investing in better

equipment, or funding marketing campaigns for new products. This is further evidenced by the significant relationship between financial literacy and business performance (t-statistic = 12.103), highlighting that MSMEs with strong financial capabilities perform better overall.

The positive relationship between Financial Literacy (FL) and Business Performance underscores the importance of sound financial management in sustaining and growing businesses. As previous research has shown, MSMEs with higher financial literacy are better able to manage resources and make strategic decisions that enhance performance (Chen et al., 2018).

The study shows that *Financial Literacy* has a positive impact on the *Business Performance* of MSMEs in Pantai Indah Kapuk, Jakarta. Theoretically, financial literacy helps businesses improve their marketing performance by efficiently meeting customer needs, leading to increased sales and market share. Financial literacy allows businesses to make informed decisions, enhancing their ability to implement better strategies (Hidayah & Purnadi, 2017).

The study concludes that *Financial Literacy* plays a crucial role in enhancing the *Business Performance* of MSMEs in Pantai Indah Kapuk, Jakarta. MSMEs with higher financial literacy are better equipped to make informed decisions, manage their finances efficiently, and implement effective strategies that drive growth in sales and market share. In line with the *Service-Dominant Logic* (SDL), financial literacy helps MSMEs understand and respond to customer needs, enabling them to create value through continuous interaction and service innovation. By fostering strong financial management and customer engagement, MSMEs can improve their overall business performance and maintain a competitive edge in the market.

Mediating Role of Product Innovation Capability (PIC)

The results of this study indicate that Product Innovation Capability (PIC) plays a critical mediating role in the relationship between Entrepreneurial Orientation (EO), Product Knowledge (PK), Financial Literacy (FL), and Business Performance (BP). This finding emphasizes the pivotal role of innovation as a pathway through which strategic orientations and organizational capabilities, such as entrepreneurial mindset, product understanding, and financial acumen, translate into improved business performance. In line with the work of Mahmood and Hanafi (2013), who argued that innovation capability serves as a mechanism by which entrepreneurial orientation and other strategic capabilities impact business outcomes, the current study reinforces the notion that MSMEs must cultivate their innovation capacity to achieve sustainable growth.

In highly competitive sectors like the culinary industry, innovation is not just beneficial—it is essential for maintaining relevance and attracting customers. The ability to innovate allows MSMEs to differentiate themselves from competitors by offering distinctive products that resonate with changing consumer preferences. In a market where consumers are presented with a myriad of options, MSMEs that continuously evolve their offerings stand a greater chance of retaining customer loyalty and attracting new clientele. This aligns with the findings of previous studies that highlight the centrality of innovation in driving business success in dynamic markets.

The significant mediating role of PIC suggests that even if a business demonstrates strong EO, PK, and FL, its success in improving business performance is largely contingent upon its capacity for innovation. MSMEs with high entrepreneurial orientation and financial literacy may have the tools and mindset needed to pursue new opportunities, but it is through innovation—specifically product innovation—that these tools are fully utilized to create a

competitive advantage. As Susanto et al. (2021) highlighted, the ability to continuously innovate strengthens the link between entrepreneurial orientation and business performance, further suggesting that innovation acts as a catalyst for translating strategic orientations into tangible outcomes.

Moreover, the role of Service-Dominant Logic (SDL) theory reinforces this finding by asserting that value is co-created through interactions between businesses and customers. In this context, PIC allows MSMEs to engage customers more deeply by offering products that meet their evolving needs, ensuring that the business remains relevant and competitive over time. As a result, MSMEs that prioritize product innovation will not only survive but thrive, ensuring long-term business viability and success in the face of market fluctuations.

In conclusion, this study affirms that Product Innovation Capability significantly enhances the impact of Entrepreneurial Orientation, Product Knowledge, and Financial Literacy on business performance. By acting as a mediating force, PIC allows MSMEs to harness their strategic capabilities and translate them into meaningful business outcomes, particularly in sectors where innovation is a key determinant of success.

Comparison with Other Studies

The findings of this research align with several previous studies but also present important distinctions, especially in the context of MSMEs in Indonesia. For instance, studies by Ali et al. (2020) and Guzmán et al. (2019) have demonstrated that entrepreneurial orientation (EO) positively influences business performance (BP) through innovation, corroborating the results of this study which found a significant effect of EO on BP via product innovation capability (PIC). However, the present study focuses on culinary MSMEs in the Pantai Indah Kapuk (PIK) area, a context characterized by high competition and dynamic consumer preferences. This specificity adds depth to the broader literature on EO by situating it within a highly competitive, tourism-driven market.

On the other hand, contrasting findings from studies such as those by Cho and Lee (2018) and Nuvriasari et al. (2015), which did not find a significant relationship between EO and BP, highlight the importance of industry and environmental context. The culinary MSMEs at PIK must continuously innovate to maintain relevance, and the results from this research underscore the critical mediating role of PIC. The divergence in findings between studies like Cho and Lee's and the current research suggests that the relationship between EO and BP may be stronger in sectors that are heavily reliant on innovation, such as the food and beverage industry.

Similarly, the role of product knowledge (PK) in driving innovation is well-documented in studies like those by Kör and Maden (2019), which highlight the importance of PK in enhancing a firm's ability to innovate. The current research confirms this finding within the specific context of MSMEs in Jakarta, showing that MSMEs with higher product knowledge are more capable of innovating and thus improving their business performance. However, few studies have explored the culinary sector in Indonesia, where product differentiation and innovation are key to competitive advantage, particularly in a high-demand area like PIK.

Regarding financial literacy (FL), the study aligns with previous work by Aribawa (2016) and Dahmen & Rodríguez (2014), which suggest that FL is critical for effective financial management and business growth. This research extends those findings by showing that FL not only enhances BP directly but also facilitates innovation through better financial resource

management. However, similar to the case with PK, the impact of FL on MSME performance in the culinary sector has not been extensively studied in Indonesia, presenting an opportunity for further exploration.

In summary, the current study bridges gaps in the literature by applying well-established theories, such as Service Dominant Logic (SDL) and Resource-Based View (RBV), to the specific context of MSMEs in a competitive tourism-driven market. The findings support the notion that PIC mediates the relationship between EO, PK, and FL with BP, which is crucial for businesses in sectors like the culinary industry where continuous innovation is vital for success.

Implications for MSMEs

The results of this study have substantial implications for MSME owners, particularly within the culinary sector. First, the development of an entrepreneurial orientation—by promoting risk-taking, innovation, and proactive market engagement—can significantly enhance Product Innovation Capability (PIC). MSMEs that integrate these qualities into their business strategies are better positioned to introduce innovative products that meet shifting market demands, thus setting themselves apart from competitors. This orientation towards entrepreneurship encourages businesses to be forward-thinking and adaptable, which is essential in rapidly evolving industries like the culinary sector.

Moreover, the importance of increasing Product Knowledge is highlighted as a key driver of innovation. MSMEs need to invest in deepening their understanding of both their products and their customers, along with staying updated on industry trends. Such knowledge is not only crucial for identifying areas where improvements can be made, but it also enables businesses to create more tailored and innovative products that align with customer preferences. This process ensures that MSMEs can maintain a competitive edge in the market by continuously refining and enhancing their offerings based on informed decisions.

Improving Financial Literacy among MSME owners is another essential takeaway from this study. The findings underscore the direct link between financial literacy and Business Performance. Financial literacy equips business owners with the skills needed for effective financial management, including resource allocation, which is critical for supporting innovation initiatives. MSMEs with a higher level of financial literacy are better able to manage the financial risks associated with product innovation, allowing them to invest in new ideas and manage cash flow more efficiently, ultimately leading to improved business outcomes.

In conclusion, this study confirms that Entrepreneurial Orientation (EO), Product Knowledge (PK), and Financial Literacy (FL) are significant drivers of Business Performance, with Product Innovation Capability playing a crucial mediating role. MSMEs, particularly those operating in competitive sectors like the culinary industry, should prioritize the development of these capabilities to achieve sustained business success. The study provides empirical evidence that a strong entrepreneurial approach, combined with enhanced product understanding and financial management, enables MSMEs to navigate market challenges, innovate effectively, and improve their overall business performance.

These findings contribute valuable insights to the growing body of knowledge on MSME performance, particularly in the culinary industry, by demonstrating how innovation capability, coupled with sound financial management, can drive business success. Aligning entrepreneurial efforts with well-informed product strategies and robust financial planning is

vital for maximizing business outcomes and ensuring long-term sustainability in competitive market.

Conclusion

This study concludes that entrepreneurial orientation (EO), product knowledge (PK), and financial literacy (FL) significantly influence business performance (BP) in MSMEs, with product innovation capability (PIC) playing a crucial mediating role. The research confirms that MSMEs with strong EO are better positioned to innovate, while those with high PK and FL are more capable of driving innovation and making informed financial decisions, both of which enhance business outcomes. These findings suggest that fostering innovation and improving financial literacy are essential strategies for MSMEs, particularly in dynamic and competitive sectors like the culinary industry. Future research could further explore the long-term impact of continuous innovation on business sustainability and examine the role of external market conditions in shaping the relationship between these variables.

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