

# Mastery of financial accounting and market orientation: Driving competitive advantage in Indonesian SMEs

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## Abstract

SMEs play a vital role in economic growth, yet sustaining competitiveness remains a challenge. This study examines the impact of market orientation and financial acumen on SME competitiveness in Indonesia, with innovation capability and resource optimization as mediators and market dynamics and financial decision-making ability as moderators. Using Structural Equation Modeling (SEM) with SmartPLS, data were collected from 500 SME owners and managers across various regions in Indonesia. The findings confirm that market orientation and financial acumen positively influence SME competitiveness, with innovation capability and resource optimization significantly mediating these effects. Additionally, market dynamics strengthen the impact of market orientation, while financial decision-making ability enhances the effect of financial acumen on competitiveness. These results emphasize the need for SMEs to integrate market-driven strategies with strong financial management practices to sustain long-term success. Practically, SME owners should invest in financial literacy, strategic decision-making, and innovation to enhance their competitive advantage. Policymakers and financial institutions should provide financial training programs, market intelligence resources, and innovation incentives to support SME growth. Future research could explore longitudinal studies and industry-specific dynamics to refine SME competitiveness strategies.

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## Introduction

Small and Medium Enterprises (SMEs) are crucial in driving economic growth, employment, and innovation worldwide, particularly in developing economies like Indonesia. SMEs contribute over 60% of Indonesia's GDP and employ the majority of the workforce, making them central to national economic resilience (KADIN, 2023). However, as competition intensifies and technological advancements reshape market dynamics, sustaining long-term competitive advantage has become increasingly challenging for SMEs (Keelson et al., 2024). Many SMEs struggle with resource limitations, managerial inefficiencies, and financial mismanagement, which hinder their ability to navigate volatile market conditions effectively.

To remain competitive, SMEs must leverage strategic capabilities, with market orientation and financial acumen emerging as two key drivers of success. Market orientation refers to an SME's ability to gather, interpret, and act upon market intelligence to align business strategies with customer preferences and competitor behaviors (Abubakar et al., 2024). Meanwhile, financial acumen—encompassing budgeting, forecasting, investment planning, and financial literacy—ensures efficient resource allocation and strengthens SMEs' financial resilience (Katnic et al., 2024).

While previous research has examined the independent effects of market orientation and financial management on SME performance (Bamfo & Kraa, 2019; Jamaludin et al., 2022), limited studies have explored how their integration creates synergistic advantages.

This study bridges that gap by examining how financial mastery and market orientation interact to enhance SME competitiveness in Indonesia. Drawing on the resource-based view (RBV) and dynamic capabilities theory (DCT), this research conceptualizes market orientation and financial acumen as strategic resources that SMEs can leverage for sustained growth. According to RBV, firms that possess valuable, rare, inimitable, and well-organized resources—such as financial knowledge and market responsiveness—are better positioned to outperform competitors (Crooks et al., 2010; Melesse & Knatko, 2024). Additionally, dynamic capabilities theory suggests that firms must continuously adapt and reconfigure their resources in response to market changes (Ellström et al., 2022). By aligning financial expertise with market intelligence, SMEs can develop agility and resilience, enabling them to respond effectively to industry shifts and external disruptions.

Furthermore, this study extends the theoretical foundation by incorporating external market conditions and financial literacy as moderating factors. In dynamic environments, market turbulence and limited access to capital can influence the effectiveness of strategic decision-making (Stefia et al., 2024). Understanding how these external forces shape the relationship between financial acumen, market orientation, and competitive advantage is essential for crafting evidence-based policy recommendations.

Unlike prior studies that separately examine market orientation or financial management, this study integrates these two constructs and explores their interactive effect on SME competitiveness, extending RBV and DCT frameworks. Using a robust structural equation modeling (SEM) approach, this study quantitatively validates the proposed relationships in an Indonesian SME context, which has been underexplored. The findings offer actionable insights for SME owners, financial institutions, and policymakers on enhancing financial literacy, strategic resource allocation, and market-driven decision-making. By addressing these gaps, this research provides a comprehensive perspective on SME strategy development, emphasizing the importance of integrating financial acumen with market orientation to achieve long-term competitive advantage.

## **Literature Review and Hypotheses Development**

### **Dynamic Capabilities Theory (DCT)**

The dynamic capabilities theory (DCT), introduced by (Ellström et al., 2022), expands upon RBV by emphasizing a firm's ability to continuously reconfigure, adapt, and integrate resources in response to environmental changes. Unlike RBV, which focuses on static resource advantages, DCT argues that firms must develop agile capabilities to sustain competitive advantage in rapidly evolving markets.

In the SME context, financial acumen and market orientation serve as dynamic capabilities that enable firms to respond proactively to market fluctuations and external shocks (Soluk et al., 2023). Market orientation, as a dynamic capability, allows SMEs to sense opportunities, adjust strategies, and realign product offerings to match shifting consumer demands (Saeedikiya et al., 2024). Firms with strong market orientation can dynamically adjust their business models to remain competitive in fast-changing industries.

Similarly, financial acumen enables SMEs to develop financial resilience by improving their strategic decision-making in response to economic uncertainties. Financially proficient SMEs are better equipped to identify investment opportunities, manage cash flows, and optimize resource allocation during periods of instability (Nasimiyyu, 2024). The ability to reconfigure financial strategies in response to external disruptions is critical for long-term sustainability.

This study applies DCT to investigate how SMEs leverage market orientation and financial acumen as adaptive capabilities to strengthen their competitive positioning. By integrating these perspectives, the research provides a theoretical foundation for understanding how SMEs dynamically manage internal resources to achieve sustained performance in competitive markets.

## Market Orientation and SME Competitiveness

Market orientation is a fundamental strategic approach that enables firms to systematically gather, analyze, and respond to market intelligence to maintain a competitive edge. It involves customer responsiveness, competitor analysis, and proactive market adaptation, allowing businesses to anticipate shifts in consumer demand and industry trends (Butkouskaya et al., 2024). By fostering a market-driven culture, firms can better align their operations with customer expectations, technological advancements, and competitive forces, ultimately leading to superior business performance. Scholars have consistently found that market-oriented firms tend to outperform competitors by delivering better value, sustaining customer loyalty, and fostering innovation (Alam, 2025; Indriyani et al., 2025). These advantages are crucial in dynamic and fragmented markets, where businesses must continuously adjust to evolving industry conditions.

In the context of SMEs, market orientation plays a pivotal role in ensuring business sustainability and long-term growth. Unlike large corporations, SMEs often face resource limitations, operational constraints, and managerial challenges that hinder their ability to implement fully developed market-driven strategies (Thien Duc & Mujahida, 2024). Many SMEs struggle with insufficient market research capabilities, limited access to advanced data analytics tools, and weaker brand positioning. This makes it difficult to anticipate and respond to shifts in customer preferences and competitive pressures. Despite these challenges, studies suggest that SMEs that successfully implement market orientation strategies can enhance their competitiveness, innovation capacity, and financial performance (Al Azzani et al., 2024). By continuously engaging with market insights, SMEs can refine their product offerings, develop targeted marketing strategies, and optimize resource allocation to maximize business outcomes.

Theoretical and empirical findings highlight the positive impact of market orientation on SME competitiveness, reinforcing the idea that market-driven firms are better positioned to navigate uncertainty, mitigate risks, and identify growth opportunities. Grounded in the resource-based view (RBV), market orientation is considered a valuable and inimitable capability that enhances firm-level performance (Jamaludin et al., 2022). Additionally, dynamic capabilities theory (DCT) suggests that SMEs with strong market orientation can reconfigure and realign their strategies in response to fluctuating industry conditions, further strengthening their competitive positioning (Al Azzani et al., 2024; Wang & Oscar, 2024). Building on this theoretical foundation, this study proposes the following hypothesis:

H<sub>1</sub>: Market orientation positively influences SME competitiveness.

This hypothesis is developed based on the premise that market-oriented SMEs are more likely to leverage consumer insights, competitor intelligence, and strategic agility to outperform rivals. By examining this relationship in the Indonesian SME context, this research aims to empirically validate the role of market orientation in driving sustainable competitive advantage.

## Financial Acumen and SME Competitiveness

Financial acumen is a critical capability that enables businesses to make informed, strategic financial decisions that support long-term sustainability and competitive advantage (Sheng & An, 2024). It encompasses budgeting, forecasting, investment planning, and financial decision-making, all contributing to efficient resource allocation and financial stability. SMEs with strong financial acumen can effectively analyze financial risks, manage cash flow, and allocate resources to maximize profitability and growth. Beyond basic financial literacy, financial acumen involves the ability to interpret financial data, anticipate market fluctuations, and make strategic adjustments that align with business objectives (Garrido-Moreno et al., 2024). In highly competitive markets, financial acumen allows SMEs to seize new opportunities, avoid unnecessary financial risks, and optimize capital usage, contributing to their overall success.

Financial acumen is essential for SMEs to ensure business resilience and adaptability in uncertain economic environments. Financial literacy and effective financial planning enable SMEs to develop sustainable business models, navigate market downturns, and make data-driven investment decisions (Abdallah et al., 2024). Research indicates that SMEs with higher levels of

financial acumen tend to experience better stability, improved growth trajectories, and enhanced access to funding opportunities, as lenders and investors often prioritize businesses with demonstrated financial discipline and risk management skills (Adela et al., 2024; Ortega & Acero, 2025). Furthermore, financial acumen directly influences cost efficiency, revenue forecasting, and long-term financial sustainability, positioning SMEs to remain competitive in fluctuating market conditions. By integrating financial expertise into their operational strategies, SMEs can effectively balance short-term liquidity needs with long-term growth aspirations, ultimately strengthening their competitive advantage.

From a theoretical perspective, financial acumen aligns with the resource-based view (RBV), as financial knowledge and decision-making capabilities represent valuable, rare, and difficult-to-imitate resources that contribute to sustained firm performance (Veríssimo et al., 2024). Additionally, dynamic capabilities theory (DCT) suggests that SMEs must develop adaptive financial strategies to cope with environmental uncertainties, reinforcing the importance of continuous financial learning and strategic agility (Teece, 2023). SMEs with strong financial acumen can effectively adjust their financial structures, reallocate resources, and implement cost-saving measures, enhancing their overall resilience and competitiveness. Based on this theoretical foundation, the following hypothesis is proposed:

H<sub>2</sub>: Financial acumen positively influences SME competitiveness.

This hypothesis asserts that SMEs with more significant financial acumen are more likely to achieve financial stability, strategic growth, and operational efficiency, leading to improved competitiveness. By investigating this relationship within the Indonesian SME sector, this study seeks to provide empirical insights into the role of financial acumen as a key driver of sustainable competitive advantage.

### **The Mediating Role of Innovation Capability and Resource Optimization**

Innovation capability is a crucial determinant of SME success, enabling firms to develop new products, improve processes, and adapt to market changes (Somwethee et al., 2023). In the SME context, innovation capability refers to an organization's ability to generate, implement, and commercialize novel ideas that enhance business performance and long-term sustainability. Unlike large enterprises, SMEs often operate with limited financial and technological resources, making innovation a key mechanism for differentiation and competitive advantage (Adela et al., 2024). Firms with strong innovation capabilities are better positioned to meet evolving customer demands, adopt emerging technologies, and strengthen their market presence.

Market orientation plays a significant role in fostering innovation capability, as firms prioritizing market intelligence are more likely to identify gaps in consumer needs, technological advancements, and competitor strategies. A market-oriented SME proactively gathers market insights, translates them into innovative solutions, and adjusts business strategies accordingly, leading to improved competitiveness (Butkouskaya et al., 2024). Previous research suggests that firms with high levels of market orientation tend to invest more in research and development (R&D), experimentation, and creative problem-solving, ultimately enhancing their innovation output and market adaptability (Alam, 2025; Basadur et al., 2014). Similarly, financial acumen enables SMEs to allocate resources efficiently toward innovation-driven initiatives, ensuring that financial constraints do not hinder their ability to develop new solutions. SMEs with strong financial acumen can secure funding, optimize R&D investments, and reduce financial risks associated with innovation (Costa et al., 2023). Based on these insights, the following hypotheses are proposed:

H<sub>3</sub>: Innovation capability mediates the relationship between market orientation and SME competitiveness.

H<sub>4</sub>: Innovation capability mediates the relationship between financial acumen and SME competitiveness.

Beyond innovation, resource optimization is another critical mechanism through which SMEs achieve competitiveness. Resource optimization refers to an organization's ability to

strategically allocate, manage, and utilize resources most effectively to maximize efficiency and performance. In SMEs, this involves streamlining operational processes, reducing waste, and making cost-effective investment decisions (Liu et al., 2024). Effective resource management ensures that financial, human, and technological assets are utilized to enhance productivity and minimize inefficiencies, ultimately strengthening the firm's competitive position.

Market-oriented firms are more likely to optimize their resources by aligning them with changing customer demands and market conditions. By continuously gathering and responding to market intelligence, SMEs can ensure that their resource allocation strategies remain relevant and competitive (Estensoro et al., 2022). Similarly, financial acumen enables SMEs to implement data-driven financial planning, cost management, and capital investment decisions, ensuring that resources are utilized most strategically and sustainably. Firms with strong financial capabilities can better manage working capital, reinvest profits into growth initiatives, and sustain operational efficiency in fluctuating markets (Donkor et al., 2018). Based on these theoretical insights, the following hypotheses are proposed:

H<sub>5</sub>: Resource optimization mediates the relationship between market orientation and SME competitiveness.

H<sub>6</sub>: Resource optimization mediates the relationship between financial acumen and SME competitiveness.

These mediating mechanisms highlight how SMEs can enhance competitiveness by acquiring financial and market-related knowledge and leveraging these capabilities to drive innovation and optimize resource utilization. By integrating these mediators into the research framework, this study provides a holistic perspective on how SMEs convert strategic capabilities into sustainable competitive advantages.

### **The Moderating Role of Market Dynamics and Financial Decision-Making Ability**

Market dynamics refer to the constantly evolving external conditions that influence business operations, including consumer behavior shifts, competitive pressures, regulatory changes, and economic fluctuations. In highly competitive environments, firms must continuously adapt their strategies to remain relevant, making market orientation even more critical for maintaining a competitive edge (Farida & Setiawan, 2022). Market-oriented SMEs, which emphasize customer intelligence and competitor analysis, are more likely to respond effectively to market changes by adjusting product offerings, modifying pricing strategies, and enhancing customer relationships (Abubakar et al., 2024). However, the effectiveness of market orientation can vary depending on the stability or turbulence of the external market environment.

In stable markets, SMEs with strong market orientation can maintain consistency in their business strategies, leading to sustained growth and customer loyalty. Conversely, in volatile or uncertain markets, the ability to detect and respond to rapid changes becomes crucial for survival (Struckell et al., 2022). Previous studies suggest that businesses operating in highly dynamic industries must develop agile decision-making processes and flexible business models to counteract the risks associated with market uncertainty (Al Azzani et al., 2024). SMEs that fail to adapt to rapid shifts in customer preferences or emerging industry trends may struggle to maintain competitiveness, despite having a strong market orientation. By considering market dynamics as a moderating factor, this study investigates how external conditions influence the relationship between market orientation and SME competitiveness. Accordingly, the following hypothesis is proposed:

H<sub>7</sub>: Market dynamics moderate the relationship between market orientation and SME competitiveness.

Apart from external market forces, internal decision-making capabilities also play a significant role in shaping SME competitiveness. Financial decision-making ability refers to an SME owner's capacity to interpret financial information, assess risks, and make strategic financial choices that align with long-term business goals (Graña-Alvarez et al., 2024). Unlike general financial literacy, which focuses on basic financial knowledge, financial decision-making ability

emphasizes the practical application of financial insights to drive business success (Shafiee et al., 2023). SME owners with strong financial decision-making skills are better equipped to optimize cash flow, manage debts, and allocate resources effectively, ensuring financial sustainability in stable and uncertain business environments.

The impact of financial acumen on SME competitiveness is likely contingent on the owner's ability to make sound financial decisions. Even if a business possesses strong financial capabilities, poor decision-making can lead to misallocation of funds, excessive risk-taking, or failure to capitalize on profitable investment opportunities. Empirical research has shown that SMEs with higher financial decision-making competence experience better business stability, lower failure rates, and improved profitability (Shafiee et al., 2023). As financial acumen increasingly determines SME success, this study examines how financial decision-making ability moderates the impact of financial acumen on SME competitiveness. Thus, the following hypothesis is proposed: H<sub>8</sub>: Financial decision-making ability moderates the relationship between financial acumen and SME competitiveness.

By integrating market dynamics and financial decision-making ability as moderating factors, this study provides a nuanced perspective on how external and internal conditions shape SME competitiveness. Understanding these moderating effects is crucial for developing adaptive strategies that ensure long-term business resilience and performance.

### Identified Research Gap and Contribution

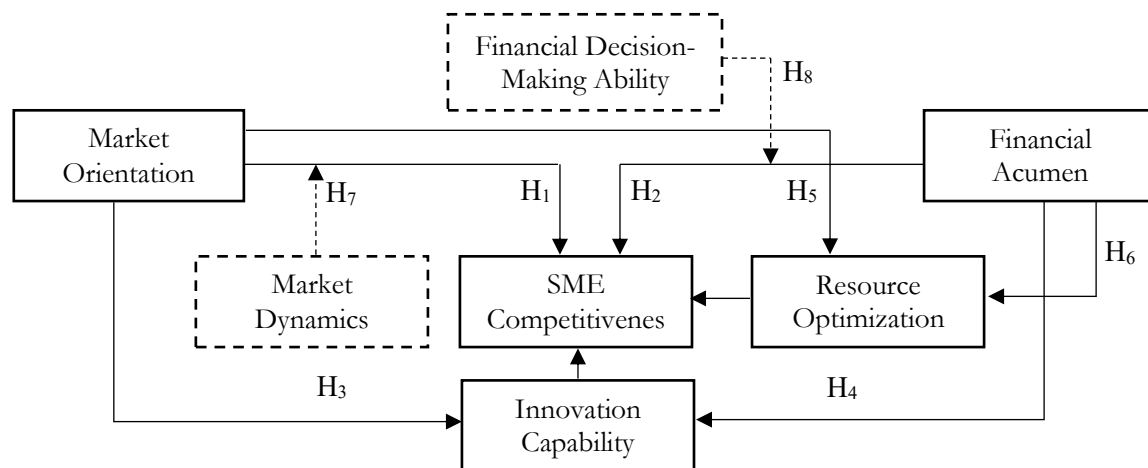
Despite extensive market orientation and financial management research, most studies examine these constructs separately, overlooking their combined impact on SME competitiveness. Market orientation enhances business performance by aligning strategies with consumer preferences and competitive forces, while financial acumen—encompassing budgeting, investment planning, and risk management—supports firm sustainability. However, limited research explores their integrated role in SME success, particularly in Indonesian SMEs, where financial constraints and market volatility pose significant challenges.

A key gap lies in understanding financial acumen as a strategic capability that enhances SME competitiveness alongside market orientation. While financial literacy and decision-making are crucial, research rarely examines how financial acumen interacts with market orientation to drive business advantage. SMEs operate with limited financial resources, so assessing how financial decision-making influences their ability to balance market-driven strategies with sound financial management is essential. Furthermore, few studies explore mediators and moderators in the market orientation–financial acumen–competitiveness relationship. Innovation capability and resource optimization may mediate these effects, while market dynamics and financial decision-making ability could significantly influence them. Understanding these relationships is essential for building a comprehensive framework for SME competitiveness.

This study contributes to theory by extending the resource-based view (RBV) and dynamic capabilities theory (DCT). It positions financial acumen as a dynamic capability that evolves with market conditions. By incorporating mediators and moderators, the study offers a holistic model explaining how SMEs convert strategic capabilities into a sustained competitive edge. Empirically, this research provides quantitative validation using structural equation modeling (SEM), focusing on Indonesian SMEs, an underrepresented segment in existing literature. Findings offer statistical support for the hypothesized relationships, reinforcing the role of market responsiveness and financial strategy in SME success. The study provides actionable insights for SME owners, policymakers, and financial institutions. SME owners should enhance financial decision-making skills, leverage market intelligence, and optimize resource allocation to navigate competitive markets. Policymakers should implement financial literacy programs, SME funding mechanisms, and regulatory support, while financial institutions can design tailored financial solutions aligned with SME needs. This study advances theoretical and practical knowledge on integrating financial acumen and market orientation for sustainable SME growth by bridging these gaps.

## Theoretical Framework

The theoretical framework, grounded in the resource-based view (RBV) and dynamic capabilities theory (DCT), illustrates how market orientation and financial acumen are key drivers of SME competitiveness. The model integrates innovation capability and resource optimization as mediators, demonstrating how these factors translate strategic capabilities into sustained competitive advantage. Additionally, market dynamics and financial decision-making ability act as moderators, influencing the strength of these relationships and providing a comprehensive understanding of the external and internal conditions that shape SME performance.



**Figure 1.** Research Framework

## Research Methods

This study adopted a quantitative approach to examine the impact of market orientation and financial acumen on SME competitiveness in Indonesia. A cross-sectional research design was employed, allowing data to be collected at a single-point in time to assess the relationships among the study variables. The target population comprised SMEs registered with the Ministry of Cooperatives and Small and Medium Enterprises in Indonesia, vital contributors to economic development. A stratified random sampling technique was utilized to ensure proportional representation across different regions, such as Java, Sumatra, Bali, and Sulawesi, recognizing the economic and market differences among these areas. The final sample size of 500 SMEs was determined using the Krejcie and Morgan formula, ensuring statistical power while accounting for potential non-responses (Hair et al., 2024).

Data was collected between January and March 2024, using structured questionnaires administered online and in person to enhance participation rates. To ensure comprehension, the questionnaire was developed in Bahasa Indonesia and consisted of six key sections: demographic information, market orientation, financial acumen, SME competitiveness, innovation capability, and resource optimization. Market orientation was measured using the Al Azzani et al. (2024) scale, while financial acumen was assessed based on financial decision-making, budgeting, and forecasting, following Shafiee et al. (2023). SME competitiveness was measured using customer retention, profitability, and market position (Keelson et al., 2024). Mediating variables, innovation capability (Donkor et al., 2018) and resource optimization (Sarwar et al., 2024), were included to examine their role in translating strategic capabilities into competitive advantage. Market dynamics (Cheraghalizadeh et al., 2021) and financial decision-making ability (Ahmed et al., 2017) were also assessed as moderating factors influencing the relationship between strategic variables and SME competitiveness.

The questionnaire was pre-tested with 50 SMEs before full deployment to ensure validity and reliability. Feedback from the pilot test led to minor adjustments in question clarity and response scaling (Hair et al., 2024). Subject-matter experts in SME management and strategic financial decision-making assessed the final survey instrument for content validity.

Data analysis was conducted using structural equation modeling (SEM) with SmartPLS. Prior to hypothesis testing, data screening procedures were performed, including handling missing data (using mean imputation for missing values below 5%), outlier detection using Mahalanobis distance, and normality testing to ensure data met SEM assumptions (Hair et al., 2024). Measurement reliability and validity were confirmed through Cronbach's Alpha, Composite Reliability (CR), and Average Variance Extracted (AVE) values, while discriminant validity was assessed using the Heterotrait-Monotrait (HTMT) ratio as recommended in recent SEM literature (Hair et al., 2024).

Hypothesis testing was conducted to examine the direct effects of market orientation and financial acumen on SME competitiveness. The mediating roles of innovation capability and resource optimization were analyzed using bootstrapping with 5,000 resamples (Hair et al., 2024). Moderated regression analysis was also performed to test the influence of market dynamics and financial decision-making ability, assessing whether these factors strengthened or weakened the primary relationships. A robustness check was conducted to ensure the stability of the results, including tests for endogeneity, unobserved heterogeneity, and nonlinearity to enhance the validity of the findings (Hair et al., 2024).

Ethical considerations were rigorously maintained throughout the research process. All participants provided informed consent, ensuring they understood the purpose of the study and their right to withdraw at any time. Data were anonymized and securely stored to maintain confidentiality, and only aggregated findings were reported. The study received ethical approval from the institutional review board to ensure compliance with ethical research guidelines.

While this study provides valuable insights, certain limitations should be acknowledged. The cross-sectional design restricts causal inferences, meaning the identified relationships should be interpreted cautiously. Additionally, the reliance on self-reported survey responses presents the potential for common method bias, despite efforts to minimize its impact. Lastly, regional economic variations across Indonesia may influence the generalizability of the findings, suggesting the need for longitudinal studies or comparative cross-country analyses in future research.

## Results and Discussion

### Descriptive Statistics

The respondent profile indicates that the sample comprises 500 SME owners or managers, with men making up a slight majority (55%). A significant proportion of participants fall within the 31 to 40 age range (40%), representing the prime working-age group typically involved in SME operations. Regarding educational background, half of the respondents (50%) hold at least an undergraduate degree, suggesting a relatively high level of education among SME operators. Most businesses belong to the small enterprise category (48%), employing between 5 and 19 workers, and have been operating for 5 to 10 years (46%), indicating a well-established market presence. Geographically, Java accounts for 50% of the respondents, reflecting its role as Indonesia's economic center, while the remaining participants are distributed across Sumatra, Bali, and other regions. This diverse demographic and business profile provides a solid foundation for examining the strategic capabilities and competitive positioning of retail SMEs in Indonesia.

The descriptive statistics in Table 2 provide insights into the distribution of key variables in the study. SME competitiveness has the highest mean (5.78) with a relatively low standard deviation (0.79), indicating that respondents generally perceive their businesses as competitive with minimal response variation. Market orientation (5.72) and financial acumen (5.65) also exhibit high mean values, suggesting that SME owners consider both factors crucial for business success.

Among the mediating variables, innovation capability (5.6) and resource optimization (5.69) show strong mean values with standard deviations around 0.85–0.87, indicating a consistent perception of their role in SME growth. Market dynamics has the lowest mean (4.8) and the highest standard deviation (1.02), reflecting more significant variability in how SMEs perceive external market fluctuations. Similarly, financial decision-making ability (5.5, SD = 0.91) suggests moderate confidence in financial decision-making, though some variation exists among respondents.



Overall, the data indicate that SMEs generally report high levels of strategic capabilities and competitiveness, with some differences in how they perceive external market conditions and financial decision-making skills.

**Table 1.** Respondent Profile

Characteristic	Category	Frequency (N=500)	Percentage (%)
Gender	Male	275	55
	Female	225	45
Age	20-30 years old	150	30
	31-40 years old	200	40
	41-50 years old	120	24
	Above 50 years old	30	6
Educational Level	High School	200	40
	Undergraduate Degree	250	50
	Graduate Degree	50	10
Business Size	Micro (1-4 employees)	180	36
	Small (5-19 employees)	240	48
	Medium (20-99 employees)	80	16
Years of Operation	Less than 5 years	120	24
	5-10 years	230	46
	More than 10 years	150	30
Region	Java	250	50
	Sumatra	100	20
	Bali	80	16
	Other Regions	70	14

**Table 2.** Descriptive Statistics

Variables	Mean	Standard Deviation	Min.	Max.
Market Orientation	5.72	0.82	3	6
Financial Acumen	5.65	0.88	3	7
SME Competitiveness	5.78	0.79	4	6
Innovation Capability	5.6	0.85	3	6
Resource Optimization	5.69	0.87	3	7
Market Dynamics	4.8	1.02	2	7
Financial Decision-Making Ability	5.5	0.91	3	7

Source: Data processing, 2024

### Common Method Bias, Measurement Model, Model Fit, and Robustness Check

The common method bias (CMB) assessment was conducted using Harman's single-factor test and variance inflation factor (VIF) analysis to ensure that no single data source unduly influenced the results. Harman's test revealed that the most considerable variance explained by a single factor was 32.5%, well below the 50% threshold, indicating that common method bias is unlikely to be a concern. Additionally, VIF values for all constructs ranged between 1.21 and 2.87, remaining below the critical threshold of 3.3, further confirming the absence of substantial common method variance. These results suggest that the study's findings are not significantly distorted by measurement bias, and the relationships among constructs are statistically valid and unbiased. Future studies may mitigate potential bias through procedural remedies such as temporal separation of survey responses or mixed-method approaches to validate findings.

The measurement model results in Table 3 confirm the reliability and validity of the constructs used in this study. All item loadings exceed the 0.70 threshold, indicating strong individual item reliability. Cronbach's Alpha values range from 0.86 to 0.90, suggesting high internal consistency for all constructs. Composite Reliability (CR) values exceed 0.88, reinforcing the reliability of the measurement model.

**Table 3.** Loading Factors and Measurement Model

Constructs	Items	Loading Factor	Cronbach's Alpha	CR	AVE
Market Orientation	MO1	0.81	0.89	0.91	0.68
	MO2	0.85			
	MO3	0.87			
	MO4	0.79			
	MO5	0.80			
Financial Acumen	FA1	0.84	0.90	0.92	0.74
	FA2	0.88			
	FA3	0.89			
	FA4	0.85			
SME Competitiveness	SC1	0.83	0.88	0.90	0.69
	SC2	0.86			
	SC3	0.88			
	SC4	0.80			
Innovation Capability	IC1	0.82	0.87	0.89	0.65
	IC2	0.86			
	IC3	0.84			
Resource Optimization	RO1	0.81	0.88	0.90	0.68
	RO2	0.85			
	RO3	0.86			
Market Dynamics	MD1	0.78	0.86	0.88	0.63
	MD2	0.82			
	MD3	0.80			
Financial Decision-Making Ability	FDMA1	0.79	0.88	0.90	0.67
	FDMA2	0.84			
	FDMA3	0.85			

Source: Data processing, 2024

Regarding convergent validity, the Average Variance Extracted (AVE) values range from 0.63 to 0.74, surpassing the recommended threshold of 0.50 (Hair et al., 2024). This indicates that the latent constructs explain a sufficient proportion of variance in their respective indicators. Financial acumen (AVE = 0.74) and SME competitiveness (AVE = 0.69) demonstrate particularly strong explanatory power, while market dynamics (AVE = 0.63) has the lowest AVE but remains above the acceptable threshold. These results confirm that the measurement model exhibits strong reliability and convergent validity, making it suitable for further structural equation modeling (SEM) analysis.

**Table 4.** Discriminant Validity (HTMT Ratio)

Constructs	MO	FA	IC	RO	SC
Market Orientation/MO	-	0.67	0.58	0.62	0.71
Financial Acumen/FA	0.67	-	0.54	0.60	0.68
Innovation Capability/IC	0.58	0.54	-	0.55	0.63
Resource Optimization/RO	0.62	0.60	0.55	-	0.66
SME Competitiveness/SC	0.71	0.68	0.63	0.66	-

Source: Data processing, 2024

The discriminant validity assessment using the HTMT ratio confirms that the constructs in this study are distinct, as all HTMT values remain below the recommended threshold of 0.85. The highest HTMT value, 0.71 (between market orientation and SME competitiveness), suggests a strong but acceptable correlation, indicating that while these constructs are related, they capture distinct theoretical concepts. Similarly, financial acumen and SME competitiveness show a moderate relationship (HTMT = 0.68), reinforcing that financial acumen contributes to but does not entirely overlap with SME competitiveness. Innovation capability and resource optimization exhibit lower HTMT values (0.54–0.63), further supporting the discriminant validity of these constructs. These results ensure that the measurement model is robust and that each latent variable captures a unique aspect of SME competitiveness, providing confidence in the study's findings.

**Table 5.** Model Fit Indices

Fit Measure	Value	Threshold
Standardized Root Mean Square Residual	0.06	< 0.08
Normed Fit Index	0.92	> 0.90
Chi-Square/df	2.45	< 3.00
RMSEA	0.05	< 0.06
Comparative Fit Index	0.95	> 0.90
Tucker-Lewis Index	0.93	> 0.90
Adjusted Goodness of Fit Index	0.88	> 0.80
Source: Data processing, 2024		

The model fit indices in Table 5 indicate that the structural model demonstrates a strong fit to the data. The Standardized Root Mean Square Residual (SRMR) is 0.06, below the 0.08 threshold, indicating an acceptable level of model misfit. The Normed Fit Index (NFI) is 0.92, exceeding the 0.90 benchmark, confirming that the model fits well compared to a baseline model.

The Chi-Square/df ratio is 2.45, within the acceptable range of < 3.00, suggesting that the model adequately represents the data. Additionally, the Root Mean Square Error of Approximation (RMSEA) is 0.05, below the 0.06 threshold, indicating a good approximation of the population model.

Moreover, the Comparative Fit Index (CFI = 0.95) and Tucker-Lewis Index (TLI = 0.93) exceed the 0.90 criterion, confirming a high fit between the hypothesized model and observed data. Lastly, the Adjusted Goodness of Fit Index (AGFI = 0.88) surpasses the 0.80 threshold, providing additional support for model adequacy.

In addition, the robustness checks confirm the model's reliability by addressing endogeneity, unobserved heterogeneity, and nonlinearity. The Durbin-Wu-Hausman test detected potential endogeneity ( $p = 0.032$ ), suggesting the presence of omitted variable bias or simultaneity, which may require instrumental variable techniques in future research. The FIMIX-PLS test indicated low unobserved heterogeneity ( $p = 0.087$ ), confirming that the sample does not exhibit significant latent segment variations that would require multi-group analysis. Lastly, the Ramsey RESET test identified significant nonlinearity ( $p = 0.009$ ), implying that some relationships may not be purely linear, and future studies could explore nonlinear modeling techniques such as polynomial regression or interaction terms to capture more complex dynamics. These results suggest that while the proposed model is statistically valid, future research should further consider advanced modeling approaches to refine SME competitiveness analysis.

## Path Analysis and Hypothesis Testing

### Direct and indirect effect

The hypothesis testing results in Table 6 confirm that all proposed relationships in the model are statistically significant and supported at the 1% significance level (\*\* $p < 0.01$ ).

**Table 6.** Hypothesis Testing

Hypothesis	Path	Path Coefficient ( $\beta$ )	t-value	Result
H1	MO $\rightarrow$ SC	0.421***	7.35	Supported
H2	FC $\rightarrow$ SC	0.453***	8.12	Supported
H3	MO $\rightarrow$ IC $\rightarrow$ SC	0.255***	6.25	Supported
H4	FC $\rightarrow$ IC $\rightarrow$ SC	0.226***	5.84	Supported
H5	MO $\rightarrow$ RO $\rightarrow$ SC	0.281***	6.78	Supported
H6	FC $\rightarrow$ RO $\rightarrow$ SC	0.323***	7.20	Supported
H7	MO $\times$ MD $\rightarrow$ SC	0.121***	3.45	Supported
H8	FC $\times$ FDMA $\rightarrow$ SC	0.151***	3.78	Supported

Note: \*\*\* sig. at 1%

MO = Market Orientation; FA = Financial Acumen; IC = Innovation Capability; RO = Resource Optimization; SC = SME Competitiveness; MD = Market Dynamics; FDMA = Financial Decision-Making Ability.

Source: Data processing, 2024

The findings from Table 6 provide strong empirical support for the proposed relationships between market orientation, financial acumen, and SME competitiveness, reinforcing the importance of strategic capabilities in driving business success. All hypotheses were statistically significant ( $p < 0.01$ ), confirming the direct, mediating, and moderating effects within the model.

The significant direct effects of market orientation (H1:  $\beta = 0.421$ ,  $t = 7.35$ ) and financial acumen (H2:  $\beta = 0.453$ ,  $t = 8.12$ ) on SME competitiveness suggest that SMEs that actively analyze market trends and maintain strong financial management practices are more likely to achieve a competitive edge. These results align with Al Azzani et al. (2024), who emphasize that market-oriented firms are better at anticipating customer needs, adapting to market changes, and outperforming competitors. Similarly, González-Prida et al. (2025) argue that financially literate SME owners can optimize resources, manage financial risks, and make informed investment decisions, enhancing competitiveness.

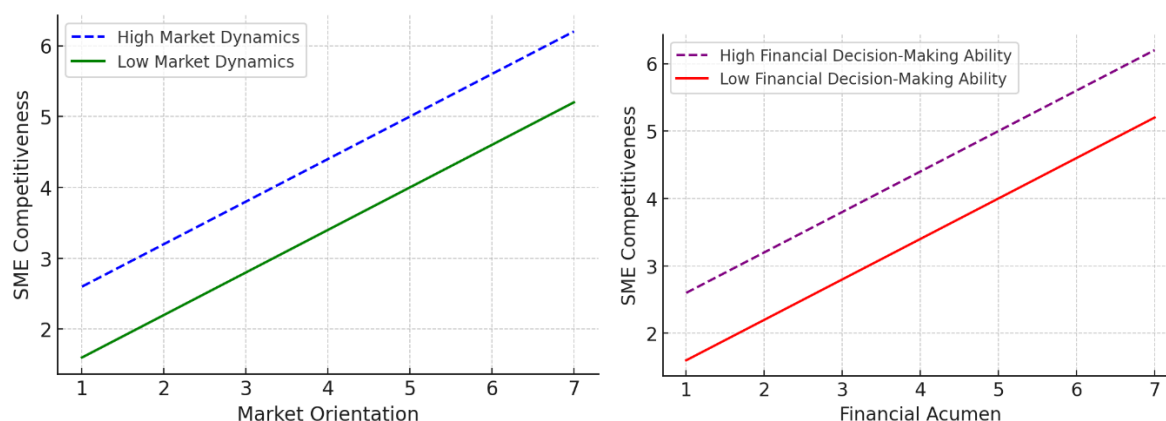
The mediation effects of innovation capability (H3:  $\beta = 0.255$ ,  $t = 6.25$ ; H4:  $\beta = 0.226$ ,  $t = 5.84$ ) indicate that SMEs with higher market orientation and financial acumen are more likely to drive innovation, enhancing their competitive standing. These findings support the work of Jabeen et al. (2023), who found that innovation is a key enabler of market responsiveness, allowing SMEs to offer unique value propositions continuously. The mediation effect of resource optimization (H5:  $\beta = 0.281$ ,  $t = 6.78$ ; H6:  $\beta = 0.323$ ,  $t = 7.2$ ) further confirms that efficient allocation and utilization of resources are critical for sustaining competitive advantage, a perspective consistent with Gerhart and Feng (2021) under the resource-based view (RBV). This is particularly relevant in SMEs, where resource constraints require careful planning and strategic financial decisions (Nkwinika & Akinola, 2023).

The moderating effect of market dynamics (H7:  $\beta = 0.121$ ,  $t = 3.45$ ) highlights that external market conditions influence how market orientation impacts SME competitiveness. This finding aligns with Abdalla et al. (2025), who emphasize that firms operating in volatile markets must adopt an agile, market-driven approach to maintain competitiveness. The significant moderating effect of financial decision-making ability (H8:  $\beta = 0.151$ ,  $t = 3.78$ ) suggests that SME owners who possess higher financial literacy and decision-making skills can more effectively leverage financial acumen for business success. This supports previous studies by Kong et al. (2023) and Sun et al. (2025), who found that SMEs with well-developed financial decision-making processes better mitigate financial risks, optimize capital structure, and improve long-term sustainability.

## Interaction Effect

The interaction effect analysis provides deeper insights into how market dynamics and financial decision-making ability influence the relationship between market orientation, financial acumen, and SME competitiveness. The visual representation of these interactions confirms that external market conditions and internal financial capabilities play a significant role in shaping SME performance.

The first interaction graph demonstrates that market orientation substantially impacts SME competitiveness when external market dynamics are high. SMEs operating in volatile or uncertain environments benefit more from proactive market intelligence, customer responsiveness, and competitor analysis. This finding aligns with Rego et al. (2022), who emphasize that firms with a strong market orientation in turbulent market conditions are more resilient, adaptive, and capable of strategic pivoting. Conversely, in low market dynamics, the effect of market orientation on competitiveness is weaker but still positive, suggesting that even in relatively stable markets, maintaining market-oriented strategies remains beneficial. Alghamdi and Agag (2024) argue that businesses that consistently monitor consumer trends and competitor activities tend to sustain long-term competitive advantage, even in less dynamic environments. This finding also supports Al Azzani et al. (2024), who suggest market-oriented firms can maintain competitive positioning through continuous customer-driven innovation. These results underscore the importance of market orientation in navigating unpredictable external environments. To maintain a competitive edge, SMEs operating in dynamic markets should prioritize agility, real-time market analytics, and flexible strategic responses.



**Figure 2.** Interaction Effect

The second interaction graph highlights that financial acumen contributes more significantly to SME competitiveness when financial decision-making ability is high. This suggests that even if SMEs possess strong financial knowledge and resources, their impact on competitiveness depends on the owner's or manager's ability to make sound financial decisions. This aligns with Alshebami and Al Marri (2022), who found that financial literacy alone is insufficient—entrepreneurs must also develop decision-making skills to manage risks, optimize investments, and allocate capital effectively.

When financial decision-making ability is low, the impact of financial acumen on SME competitiveness is diminished, implying that poor financial management can hinder the benefits of financial acumen. This supports Alshebami and Al Marri (2022), who suggests that financial literacy must be complemented by strategic financial behavior to drive business success. SMEs with strong financial acumen but weak decision-making skills may still struggle with cash flow issues, investment misalignment, and financial inefficiencies, leading to suboptimal business performance.

This finding emphasizes the need for SME owners and managers to develop financial knowledge and practical financial decision-making skills. Policymakers and SME support organizations should invest in financial management training programs, which would provide SMEs with the knowledge and ability to apply financial principles effectively.

The findings reinforce that external and internal moderating factors must be considered when analyzing SME competitiveness. Market dynamics shape how SMEs utilize market intelligence, while financial decision-making ability determines how well SMEs leverage financial resources for strategic advantage. These insights are important for SME development strategies, financial literacy programs, and policy interventions to improve SME resilience.

Future research could explore longitudinal data to examine how these moderating effects evolve. Additionally, studies could investigate industry-specific variations, as different SME sectors may experience distinct market dynamics and financial decision-making challenges.

## Implication and Conclusion

This study provides empirical evidence that market orientation and financial acumen are crucial in enhancing SME competitiveness in Indonesia. SMEs that actively gather market intelligence, engage in customer-centric strategies, and implement sound financial management practices achieve higher competitive positioning. Additionally, the findings confirm that innovation capability and resource optimization mediate these relationships, reinforcing the importance of fostering an innovation-driven and resource-efficient business model. Moreover, market dynamics and financial decision-making ability moderate these effects, underscoring the need for SMEs to adapt their strategies to external market conditions while enhancing their internal financial competencies.

From a practical perspective, SME owners should prioritize developing market-oriented strategies and financial decision-making skills to sustain long-term competitiveness. This includes investing in financial literacy programs to improve strategic budgeting, forecasting, and investment

planning decisions. SMEs should also leverage market research tools to understand better customer needs, competitor movements, and industry trends. Furthermore, fostering a culture of innovation by allocating resources toward new product development and business process improvements can significantly enhance their ability to compete. Enhancing operational efficiency through optimized resource allocation and cost management strategies is equally essential. Lastly, SMEs should adopt a flexible business model that allows for quick adaptation to shifting market dynamics and economic uncertainties.

The results suggest that policymakers and financial institutions must strengthen SME support programs, particularly in financial education, access to affordable credit, and innovation incentives. Tailored financial solutions and market intelligence resources can help SMEs navigate challenges and maximize their competitive potential.

Future research could explore longitudinal analyses to examine the long-term impact of these strategic capabilities on SME performance. Additionally, cross-industry comparisons could offer deeper insights into sector-specific dynamics and best practices for enhancing SME resilience and growth.

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