

Innovating to Survive: The Mediating Role of Innovation Capability on the Sustainable Performance of Culinary MSMEs

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ABSTRACT

Background: Culinary MSMEs face a structural paradox in developing regions where rapid growth is met with asymmetric and fluctuating government infrastructure support. Previous studies often overlook the holistic integration of psychological and structural factors in driving innovation and business resilience.

Purpose: This study aims to empirically examine the mediating role of innovation capability in the relationship between infrastructure support, capacity building, and self-efficacy on the sustainable performance of culinary MSMEs.

Methods: An explanatory quantitative approach was employed using a saturated sample of 180 culinary MSMEs receiving government interventions in Dompu Regency. Primary data were collected via structured questionnaires and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) through SmartPLS.

Results: The analysis reveals that capacity building and self-efficacy significantly enhance sustainable performance through the mediation of innovation capability. However, infrastructure support directly impacts sustainable performance but fails to trigger innovation capability, thus negating its mediation effect. Furthermore, self-efficacy emerged as the most dominant driver of innovation capability among MSME owners.

Conclusion: Innovation capability is a crucial mediator that translates managerial capacity and psychological resilience into sustainable performance. Meanwhile, physical infrastructure serves merely as a passive structural resource that ensures direct operational stability without stimulating adaptive innovation.

Keywords: Innovation capability; Sustainable performance; Self-efficacy; Capacity building; MSMEs

INTRODUCTION

The modern business landscape, characterized by economic turbulence and shifting consumer preferences, demands organizations, including Micro, Small, and Medium Enterprises (MSMEs), to possess extra resilience. The survival of a culinary business today is no longer solely represented by short-term financial profit metrics, but relies on sustainable performance, which encompasses economic resilience, social adaptability, and operational efficiency (Ananda & Bharata, 2026). The achievement of this multidimensional performance compels business entities to continuously transform through the drive of innovation capabilities and eco-innovation practices across all their operational lines (Oduro, 2024). Grounded in the Dynamic Capabilities View (DCV) (Teece, 1997), companies can achieve a sustainable competitive advantage if they are able to integrate, build, and reconfigure internal and external competencies to respond to a dynamic environment (Ma et al., 2025).

The demand for these dynamic capabilities becomes highly crucial, yet challenging, when confronted with the empirical realities in developing countries. The characteristics of the culinary industry, which is vulnerable (*perishability*), hyper-competitive, and sensitive to post-pandemic trends, require business actors to do more than just basic cost efficiency (Hindarwati et al., 2026; Novie, 2024). Operational sustainability now depends on local supply chain modifications, service digitalization, and quality consistency amidst fluctuating raw material prices (Sarman et al., 2025). For MSMEs in developing regions, this becomes a double burden when their structural support ecosystem is fragile and unpredictable.

The dynamics and vulnerability of this ecosystem are clearly illustrated in the MSME sector in Dompu Regency, West Nusa Tenggara. Data from the Department of Cooperatives and SMEs of Dompu Regency (2026) reveals a structural paradox. On the one hand, there was a massive growth in the quantity of MSMEs by 56.9%, from 3,004 units in 2023 to 4,716 units in 2025. However, this explosive growth is inversely proportional to the local government's infrastructure support capacity. During the same period, the total number of MSMEs receiving facilities and infrastructure assistance actually experienced a constant downward trend from 362 to 320 units. This gap is even sharper in the specific sector of culinary MSMEs, where the distribution of capacity building programs and facility assistance proved to be highly fluctuating; it even plummeted by nearly 50% in 2024, before finally being reactively pushed up to 180 units at the end of 2025. This specific group, consisting of the 180 culinary MSMEs receiving program interventions, serves as the measurable locus in this study, considering they are a direct representation of entities confronted with the asymmetry of local government structural support.

Theoretically, the synergy between *capacity building* and infrastructure provision creates an *enabling environment* that is essential for MSMEs (Tambunan, 2019). However, infrastructure elements and managerial literacy are essentially passive resources (*ordinary capabilities*) that do not automatically guarantee a competitive advantage without strategic intervention (Saputra et al., 2024). The inconsistent results of this structural support have sparked debate in the literature, indicating the need for a psychological catalyst from within the business actors, specifically self-efficacy (Msimango-Galawe & Mazonde, 2024). As the microfoundations of dynamic capabilities (*microfoundations* of DCV), MSME owners with high self-efficacy view infrastructural limitations not as obstacles, but rather as triggers for adaptive resilience to execute innovative problem-solving (Angeles, 2024; Jayawardhana & Weerakoon, 2024).

To bridge the gap between passive-structural capital, psychological capital, and the ultimate outcome of sustainable performance, this study positions innovation capability as a central mediating mechanism. Without this capability, both the trained capacity and the entrepreneur's self-confidence would be difficult to convert into real economic value. Innovation capability enables culinary MSMEs to translate fluctuating external support into adaptive product creation and agile operational processes (Jabbour et al., 2025; Elsayy & Abu-alhaija, 2026).

While traditional Dynamic Capabilities View (DCV) literature heavily emphasizes firm-level routines and resources, it often overlooks the individual human agency required to mobilize these assets in volatile emerging markets. In such fragile ecosystems, structural support alone is insufficient without a psychological catalyst; thus, integrating Social Cognitive Theory becomes essential to understand how entrepreneurial self-efficacy drives adaptive resilience. Addressing this theoretical gap, the urgency and novelty of this study lie in the holistic integration of external structural factors (infrastructure), organizational factors (capacity building), and individual psychological factors (self-efficacy) into a single structured model framework. The majority of previous studies have only captured the antecedents of performance partially (Biju & Thomas, 2025; Mu & Workneh, 2026). generally focusing on external environmental turbulence (Taghizadeh & Far, 2023), or limiting their scope purely to technological adaptation and organizational agility (Mikalef & Gupta, 2021). Furthermore, studies examining innovation capabilities in developing countries often fail to integrate elements of psychological resilience, such as self-efficacy (Sanchez-Garcia et al., 2024; Setyawati, 2026). Building upon these limitations, this study aims to empirically examine the mediating role of innovation capability within the MSME ecosystem in developing regions. The results of this study are projected to enrich the Dynamic Capabilities literature, while simultaneously formulating a data-driven advocacy foundation for designing a more precise regional mentoring ecosystem.

RESEARCH METHOD

Adopting the principles of positivistic research (Saunders et al., 2019), this explanatory quantitative research examined 180 culinary MSME actors in Dompu Regency who received infrastructure assistance and *capacity building* in 2025. Given that the target population is defined with clear and specific boundaries, a saturated sampling or census technique was applied to all 180 members of the population. This approach was chosen to minimize *sampling error* and ensure robust external validity in representing entities directly facing fluctuations in local government support (Sekaran & Bougie, 2016).

Primary data were collected using a 5-point structured Likert-scale questionnaire. The operationalization of constructs in this instrument was strictly derived from the Dynamic Capabilities View (DCV) (Teece, 2017) to capture the transformation of passive managerial resources into dynamic innovation capabilities. This measurement instrument also integrates Social Cognitive Theory (Bandura, 2006) to measure the role of microfoundations in the form of entrepreneurial self-efficacy, and adopts the Triple Bottom Line principles (Elkington, 1997) to validate sustainable performance indicators amidst the vulnerabilities of emerging market ecosystems.

Empirical data analysis was executed using Partial Least Squares Structural Equation Modeling (PLS-SEM) through SmartPLS. This variance-based method was chosen for its advantages in testing predictive models with multiple mediators, as well as its capability to facilitate theory extension with moderate sample sizes (Hair, 2014). Structural testing was conducted through a two-stage evaluation (Anderson & Gerbing, 1988; Hair, 2014): first, the assessment of the outer model to ensure convergent validity, internal consistency reliability, and discriminant validity. Specifically, discriminant validity was evaluated using the Fornell and Larcker (1981) criterion and reinforced with the Heterotrait-Monotrait Ratio of Correlations (HTMT) approach by Henseler and Sarstedt (2013) to detect latent collinearity issues that might be overlooked by traditional methods. Second, the assessment of the inner model focused on measuring the coefficient of determination (R^2), predictive relevance (Q^2), and effect size (f^2) to evaluate the substantive impact of the predictors based on Cohen (1988) standards, which was then followed by mediation hypothesis testing via bootstrapping with 5,000 subsamples.

Table 1. Variables and Measurements

Variable	Code	Indicator	Source
Infrastructure Support (X1)	IS.1	Adequacy of physical facilities	(Tambunan, 2019; Saputra et al., 2024)
	IS.2	Reliability of basic utilities	
	IS.3	Access to information and technology	
	IS.4	Local logistics support	
Capacity Building (X2)	CB.1	Relevance of technical training materials	(Tambunan, 2019; Saputra et al., 2024)
	CB.2	Improvement in managerial literacy	
	CB.3	Improvement in technical skills	
	CB.4	Sustainability of mentoring	
Self-Efficacy (X3)	SE.1	Confidence to survive	(Bandura, 2006; Sanchez-Garcia et al., 2024)
	SE.2	Crisis decision-making	
	SE.3	Persistence in problem-solving	
	SE.4	Opportunity identification	
Innovation Capability (Z)	IC.1	Product Innovation	(Saunila, 2020; Jabbour et al., 2025)
	IC.2	Process Innovation	
	IC.3	Marketing Innovation	
	IC.4	Managerial Innovation	
Sustainable Performance (Y)	SP.1	Economic Performance	(Elkington, 1997; Ananda & Bharata, 2026)
	SP.2	Business Resilience	
	SP.3	Social Performance	
	SP.4	Environmental Performance	

Source: Compiled from various references (2026).

RESULTS AND DISCUSSION

Results

This study focuses on the culinary Micro, Small, and Medium Enterprises (MSME) ecosystem in Dompu Regency, West Nusa Tenggara, which is currently facing a structural paradox: a massive surge in business growth that is inversely proportional to the availability of supporting infrastructure from the local government. Specifically, the measurable subjects in this study capture 180 culinary MSME actors definitively recorded as recipients of both infrastructure assistance and capacity building program interventions from the Department of Cooperatives and SMEs of Dompu Regency at the end of 2025. This group of business actors serves as a highly representative research locus because they are entities directly confronted with the vulnerabilities of the local business ecosystem and the asymmetry of government structural support. This real-world condition demands high resilience to convert limited structural assistance into dynamic innovation capabilities to achieve sustainable business performance.

Table 2. Reliability and Convergent Validity Test Results

Variable	Indicator	Outer Loadings	Cronbach's Alpha	Composite Reliability	Average Variance Extracted
Infrastructure Support (IS)	IS.1	0.890	0.913	0.939	0.794
	IS.2	0.935			
	IS.3	0.896			
	IS.4	0.840			
Capacity Building (CB)	CB.1	0.843	0.878	0.916	0.732
	CB.2	0.846			
	CB.3	0.862			
	CB.4	0.871			
Self-Efficacy (SE)	SE.1	0.782	0.866	0.909	0.714
	SE.2	0.842			
	SE.3	0.881			
	SE.4	0.872			
Innovation Capability	IC.1	0.850	0.867	0.910	0.716
	IC.2	0.895			

(IC)	IC.3	0.816	0.921	0.944	0.809
	IC.4	0.820			
Sustainable Performance (SP)	SP.1	0.857			
	SP.2	0.945			
	SP.3	0.883			
	SP.4	0.911			

Source: SmartPLS (2026).

Referring to the PLS-SEM outer model evaluation criteria by Hair (2014), all measurement instruments for the five research variables proved to be highly valid and reliable. The empirical data convincingly confirm that each indicator successfully exceeded the minimum acceptable threshold with outer loading values (> 0.782), Cronbach's Alpha and Composite Reliability (> 0.86), and Average Variance Extracted/AVE (> 0.71). The fulfillment of these conditions for convergent validity and robust internal consistency reliability ensures that the instrument is highly suitable to proceed to the structural model testing or hypothesis testing stage.

Table 3. Discriminant Validity Test Results (Fornell-Larcker Criterion)

Variable	Capacity Building	Infrastructure Support	Innovation Capability	Self-Efficacy	Sustainable Performance
Capacity Building	0.856				
Infrastructure Support	0.703	0.891			
Innovation Capability	0.679	0.595	0.846		
Self-Efficacy	0.740	0.646	0.768	0.845	
Sustainable Performance	0.649	0.620	0.770	0.688	0.899

Source: SmartPLS (2026).

Based on Table 3, the research instrument has proven to meet the requirements for good discriminant validity (Fornell and Larcker, 1981). This criterion emphasizes that a measurement model is declared to have discriminant validity if the square root of the Average Variance Extracted (AVE) for each variable indicated by the values on the main diagonal is greater than its correlation values with other variables in the model. The empirical data in the table clearly confirm the fulfillment of this criterion, where all values on the diagonal are consistently higher than all inter-construct correlation values below them. Therefore, it can be concluded that each latent variable in this study is unique and statistically completely distinct from one another, thus indicating that the model is free from significant indicator overlap issues.

Table 4. Discriminant Validity Test Results (HTMT)

Variable	Capacity Building	Infrastructure Support	Innovation Capability	Self-Efficacy	Sustainable Performance
Capacity Building					
Infrastructure Support	0.780				
Innovation Capability	0.776	0.663			
Self-Efficacy	0.852	0.723	0.884		
Sustainable Performance	0.718	0.672	0.856	0.771	

Source: SmartPLS (2026).

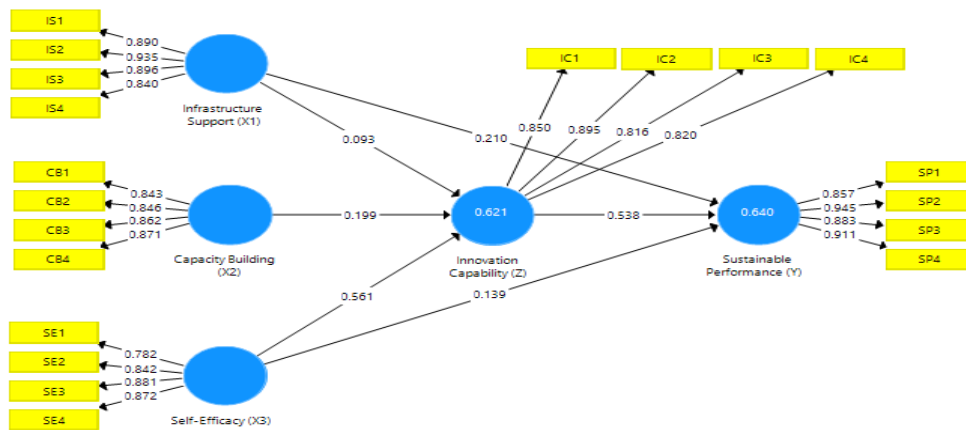
The discriminant validity testing showed satisfactory and valid results. All inter-construct correlation values fell within the range of 0.663 to 0.884, which consistently met the requirements by remaining below the critical threshold of < 0.90 . These results confirm the absence of overlapping latent indicator issues, thereby empirically proving that each variable in the study is a unique and clearly distinguishable construct (Henseler & Sarstedt, 2013).

Table 5. Evaluation of Predictive Model Quality and Multicollinearity

Endogenous Variable	R ²	Adjusted R ²	Q ²	Inner VIF Range	Model Assessment
Innovation Capability (Z)	0.621	0.614	0.421	2.124 – 2.735	Moderate
Sustainable Performance (Y)	0.640	0.634	0.492	1.791 – 2.820	Moderate

Source: SmartPLS (2026).

The evaluation of the inner model indicates that the structural framework of this study is free from multicollinearity issues, possesses a moderate level of explanatory power, and demonstrates robust predictive capabilities. This conclusion is supported by empirical data showing that the maximum Inner VIF value only reached 2.820, thus ensuring the model is clear of collinearity issues among predictors. Furthermore, the model's fitness is classified as "Moderate" because it can explain the data variance with an R² value of 0.621 (62.1%) for the Innovation Capability variable and 0.640 (64%) for Sustainable Performance. These findings are further reinforced by the predictive relevance (Q²) values of 0.421 and 0.492, which are well above zero, ensuring that the model has excellent predictive capabilities (Hair, 2014).

Figure 1. Path Analysis**Table 6.** Hypothesis Testing: Direct Effects

Hyp.	Path Coefficients	Original Sample	T-Statistics	P-Values	F ²	Decision
H1	Infrastructure Support → Sustainable Performance	0.210	3.052	0.001	0.069	Supported
H2	Infrastructure Support → Innovation Capability	0.093	0.951	0.171	0.011	Rejected
H3	Capacity Building → Innovation Capability	0.199	1.970	0.025	0.038	Supported
H4	Self-Efficacy → Innovation Capability	0.561	8.329	0.000	0.349	Supported
H5	Self-Efficacy → Sustainable Performance	0.139	1.702	0.045	0.019	Supported
H6	Innovation Capability → Sustainable Performance	0.538	5.583	0.000	0.317	Supported

Source: SmartPLS (2026).

Based on the direct effects hypothesis testing in Table 6, the majority of the relationships (H1, H3, H4, H5, and H6) proved to be significant and were empirically supported. In these findings, the psychological factor of self-efficacy stands out as the most dominant driver for the formation of MSME innovation capability. Conversely, hypothesis H2 was rejected, indicating that the availability of physical infrastructure support from the local government does not necessarily have a

direct impact on enhancing the innovation of culinary businesses in Dompu Regency. This empirical condition strongly aligns with the Dynamic Capabilities View (Teece, 1997), which regards physical infrastructure merely as passive structural capital. To be converted into an innovative advantage, such infrastructure support absolutely requires internal catalysts, namely the managerial capacity and a robust foundation of self-belief among the business actors.

Table 7. Hypothesis Testing: Specific Indirect Effects

Hyp.	Path Coefficients	Original Sample	T-Statistics	P-Values	Decision
H7	Infrastructure Support → Innovation Capability → Sustainable Performance	0.050	0.989	0.162	Rejected
H8	Capacity Building → Innovation Capability → Sustainable Performance	0.107	1.838	0.033	Supported
H9	Self-Efficacy → Innovation Capability → Sustainable Performance	0.302	4.266	0.000	Supported

Source: SmartPLS (2026).

Hypothesis testing in Table 7 indicates that innovation capability successfully mediates the influence of capacity building and self-efficacy on the sustainable performance of MSMEs (H8 and H9 are supported), yet it statistically fails to serve as a mediator for physical infrastructure support (H7 is rejected). These empirical findings clearly reinforce the Dynamic Capabilities View (Teece, 1997), which asserts that physical facilities provided by the government are merely passive structural capital. Consequently, to drive innovation so that it can be converted into real economic value and resilient business performance, MSME actors cannot rely solely on the availability of infrastructure; rather, they absolutely require a solid internal foundation comprising psychological resilience (self-efficacy) and refined managerial literacy.

Discussion

The Influence of Infrastructure Support on Sustainable Performance (H1)

The results of the first hypothesis testing (H1) prove that infrastructure support has a positive and significant direct effect on the sustainable performance of culinary MSMEs, as indicated by a path coefficient value of 0.210 and a p-value of 0.001. These empirical findings clearly answer the problem regarding the structural paradox in the MSME ecosystem of Dompu Regency, where although the availability of facilities and infrastructure from the local government experiences fluctuation and asymmetry, the physical assistance distributed to the 180 business actors proves to be an important foundation for their business continuity. In the reality of fragile emerging market ecosystems and the vulnerable, hyper-competitive characteristics of the culinary industry, the availability of basic utilities, local logistics support, and access to information tangibly enable MSMEs to maintain their operational stability. The achievement of multidimensional performance encompassing economic resilience, social adaptability, and operational efficiency cannot be realized in a vacuum, but rather rests on a foundation of adequate material and basic infrastructure.

The fact that this hypothesis is supported can be explained through a theoretical lens where the synergy of infrastructure provision directly creates an enabling environment that is essential for MSMEs to survive (Tambunan, 2019). Although within the Dynamic Capabilities View (DCV) framework physical infrastructure is often positioned merely as passive structural capital or ordinary capabilities (Teece, 1997; Saputra et al., 2024), the data in this study indicate that in a highly sensitive post-pandemic business context (Novie, 2024), such passive capital actually provides direct protection for business continuity. This confirms that the availability of physical facilities helps business entities dampen environmental shocks and raw material fluctuations to maintain sustainable

performance (as in Elkington's Triple Bottom Line concept, 1997), regardless of whether the infrastructure support successfully triggers innovation or not (Ananda & Bharata, 2026).

The Influence of Infrastructure Support on Innovation Capability (H2)

The statistical testing results for the second hypothesis (H2) show that infrastructure support is proven to have no significant effect on the formation of the innovation capability of culinary MSMEs, as indicated by a path coefficient value of 0.093 and a p-value of 0.171. The rejection of this hypothesis empirically addresses the anomaly and structural paradox in the MSME ecosystem in Dompu Regency, indicating that merely injecting physical facilities and infrastructure assistance does not necessarily make business actors more innovative. Given the vulnerable nature of the culinary industry, which constantly demands agile modifications to the local supply chain (Sarman et al., 2025), physical facilities such as basic utilities are merely prerequisites for smooth daily operations, not the main engine driving the creation of new ideas. Facts on the ground reveal that amidst the asymmetry and fluctuation of local government support, infrastructure often merely stagnates as static assets, failing to translate into agility in product, marketing, or managerial innovation.

The finding regarding the absence of a direct effect is highly consistent with and can be explained by the central postulate of the Dynamic Capabilities View (DCV) (Teece, 1997), which explicitly positions physical infrastructure support merely as passive structural capital or ordinary capabilities. The results of this analysis reinforce the argument by Saputra et al. (2024), which emphasizes that infrastructure elements are inherently passive resources that do not automatically guarantee competitive advantage in emerging markets without strategic interventions. The reason the empirical data reject H2 is that the engine of innovation capability requires an internal driving catalyst, rather than just inanimate objects or mere facilities. For such physical facilities to be integrated and reconfigured into an innovative response to a dynamic environment (Ma et al., 2025), MSMEs absolutely require the microfoundations of dynamic capabilities, specifically the advancement of managerial literacy through capacity building, as well as the psychological resilience derived from the self-efficacy of the business actors (Msimango-Galawe & Mazonde, 2024).

The Influence of Capacity Building on Innovation Capability (H3)

The results of the third hypothesis testing (H3) confirm that capacity building has a positive and significant effect on enhancing the innovation capability of culinary MSMEs, as evidenced by a path coefficient value of 0.199 and a p-value of 0.025. These empirical findings directly address the research objective regarding the role of managerial interventions amidst the local business ecosystem in Dompu Regency, which is fraught with vulnerability and asymmetry in structural support. Considering that MSME actors are confronted with hyper-competitive post-pandemic market fluctuations (Novie, 2024), government mentoring programs, the enhancement of managerial literacy, and technical skills training have proven to play an essential role. The facts within the data indicate that this knowledge provision has been successfully absorbed by business actors, enabling them not merely to survive passively, but to proactively execute the creation of product innovations, modify operational processes, and design marketing strategies that are adaptive to the dynamics of consumer preferences.

The acceptance of this hypothesis robustly strengthens the theoretical foundation of the Dynamic Capabilities View (DCV) (Teece, 1997), where capacity building acts as a driving lever that transforms resources into valuable dynamic capabilities. This simultaneously answers the analytical question of why the data showed rejection for the previous H2; physical infrastructure demands the cognitive and technical proficiency of its users in order to yield innovation. The enhancement of managerial literacy through mentoring fundamentally creates an essential enabling environment (Tambunan, 2019), thereby preventing structural capital from ending up as passive

resources or ordinary capabilities (Saputra et al., 2024). In line with previous literature (Jabbour et al., 2025; Elsaywy & Abu-alhaija, 2026), the research data confirm that strategic interventions in the form of capacity building are highly needed by culinary MSMEs to translate the fluctuations of external support into agile operational processes, which ultimately triggers a culture of innovative problem-solving.

The Influence of Self-Efficacy on Innovation Capability (H4)

The statistical testing results for the fourth hypothesis (H4) prove that self-efficacy has a highly positive and significant effect on the innovation capability of culinary MSMEs, as indicated by the highest path coefficient value in the model, reaching 0.561 with a p-value of 0.000. These empirical findings explicitly position internal psychological factors as the most dominant driver in the formation of business actors' innovation capabilities compared to other external factors. Correlating this with the reality of the structural paradox in the Dompu Regency ecosystem, these data tangibly address how MSMEs can navigate the asymmetry and fluctuation of local government support. Facts on the ground indicate that the strong belief of business actors to survive, their courage in making decisions amidst crises, and their persistence in identifying opportunities trigger the emergence of both product and operational innovations. Instead of surrendering to the vulnerability of the culinary industry and limited physical facilities, robust self-belief actually serves as the main engine for entrepreneurs to creatively design new ways to remain adaptive in the market.

The acceptance of this hypothesis essentially strengthens the integration between Social Cognitive Theory (Bandura, 2006) and the Dynamic Capabilities View (DCV), where self-efficacy is proven to fulfill its role as a crucial microfoundation of dynamic capabilities. Consistent with the debate in the literature indicating the need for an internal psychological catalyst from business actors (Msimango-Galawe & Mazonde, 2024), this finding explains why structural interventions alone are insufficient to trigger innovation. MSME owners with high self-efficacy cognitively perceive infrastructure limitations not as absolute barriers, but rather as triggers for adaptive resilience to execute innovative problem-solving (Angeles, 2024; Jayawardhana & Weerakoon, 2024). This finding simultaneously addresses the literature gap in developing regions (Sanchez-Garcia et al., 2024) by empirically proving that without solid psychological capital, passive resources available in the business environment would be exceedingly difficult to convert into dynamic innovation capabilities.

The Influence of Self-Efficacy on Sustainable Performance (H5)

The results of the fifth hypothesis testing (H5) prove that self-efficacy has a positive and significant direct effect on the sustainable performance of culinary MSMEs, with a path coefficient value of 0.139 and a p-value of 0.045. These findings directly address the operational challenges and vulnerability of the business ecosystem in Dompu Regency, where the carrying capacity of local government infrastructure has proven to be fluctuating and unpredictable. In the practical reality of the hyper-competitive culinary industry, which is highly sensitive to post-pandemic economic fluctuations, the strong self-belief of business actors acts as an essential protective shield to maintain the stability of business continuity. This empirical fact confirms that persistence in problem-solving and the courage to make decisions during crises enable entrepreneurs to maintain their economic resilience, social adaptability, and operational efficiency, even when faced with asymmetry and limitations in external physical infrastructure assistance.

The acceptance of this hypothesis enriches the literature by confirming the importance of psychological capital as a primary pillar of multidimensional business performance, which is highly consistent with the microfoundations concept of the Dynamic Capabilities View (DCV) and Social Cognitive Theory (Bandura, 2006). These findings incisively provide a theoretical answer as to why business entities in developing countries with fragile structural ecosystems remain capable of

achieving sustainable performance aligned with the Triple Bottom Line principle (Elkington, 1997). As debated in previous studies indicating that performance does not solely rely on passive structural capital (Msimango-Galawe & Mazonde, 2024; Sanchez-Garcia et al., 2024), the data in this study prove that high self-efficacy prevents MSME actors from surrendering to environmental turbulence. MSME owners with psychological resilience are tangibly proven to view infrastructure limitations not as insurmountable barriers, but rather as triggers for adaptive resilience to continuously drive their business continuity (Angeles, 2024; Jayawardhana & Weerakoon, 2024).

The Influence of Innovation Capability on Sustainable Performance (H6)

The statistical testing results for the sixth hypothesis (H6) confirm that innovation capability exerts a positive and highly significant effect on the sustainable performance of culinary MSMEs, as evidenced by a path coefficient of 0.538 and a p-value of 0.000. These empirical findings directly address the main research objective regarding the survival strategy of MSMEs in Dompu Regency, which are currently facing the paradox of asymmetric structural support from the local government. Given the characteristics of the culinary industry, which is vulnerable (perishability), hyper-competitive, and highly sensitive to post-pandemic trends, merely relying on basic cost efficiency has proven to be no longer adequate for survival (Hindarwati et al., 2026; Novie, 2024). The facts in the data indicate that the tangible ability of business actors to execute product innovations, design agile operational processes, and adapt marketing innovations serves as the primary key to dampening environmental shocks. It is this active transformation that ultimately enables MSMEs to secure their multidimensional performance, which rests on economic resilience, social adaptability, and sustainable operational efficiency (Ananda & Bharata, 2026).

The acceptance of this hypothesis essentially strengthens and enriches the theoretical construct of the Dynamic Capabilities View (DCV) by Teece (1997), by proving that innovation capability plays a crucial role as a mechanism that integrates and reconfigures both external and internal resources to respond to a dynamic market ecosystem (Ma et al., 2025). This finding provides an analytical answer as to why business entities with fluctuating passive infrastructure support can still achieve a competitive advantage; it is the innovation capability that translates these limitations into the creation of added value (Jabbour et al., 2025; Elsaywy & Abu-alhaija, 2026). In line with previous literature, the research data confirm that achieving sustainable performance absolutely requires the impetus of adaptive transformation practices (Oduro, 2024). In the context of fragile developing countries, innovation capability ensures that culinary MSMEs are able to agilely modify local supply chains and maintain quality consistency amidst raw material price fluctuations (Sarman et al., 2025), thereby making it an absolute prerequisite for long-term business sustainability.

The Mediation Role of Innovation Capability in Mediating Infrastructure Support to Sustainable Performance (H7)

The statistical testing results for the seventh hypothesis (H7) indicate that innovation capability fails to significantly mediate the influence of infrastructure support on the sustainable performance of culinary MSMEs, as evidenced by a very low path coefficient value of 0.050 and a p-value of 0.162. The rejection of this hypothesis is empirically highly logical and consistent with the findings of the previous direct path analysis (the failure of H2), while simultaneously providing a comprehensive picture of the structural paradox reality in Dompu Regency. Amidst the asymmetry and fluctuation of physical assistance from the local government, infrastructure facilities are proven to function purely as direct support for basic business operational stability, but fail to act as a stimulant for the creation of innovation. Therefore, the facts within the data conclude that the availability of utilities, access to information, and local logistics cannot be transformed into sustainable performance through the pathway of either product or managerial innovation, because

the infrastructure itself does not possess the inherent driving force to trigger adaptive agility among MSME actors without the intervention of human agents.

The failure of this mediation role sharply validates and reinforces the postulate within the theoretical framework of the Dynamic Capabilities View (DCV) (Teece, 1997), which explicitly positions physical facilities from the government merely as passive structural capital or ordinary capabilities. These empirical findings answer the analytical question of why infrastructure support cannot be relied upon as a lever for innovation; physical elements cannot automatically reconfigure their own functions to respond to hyper-competitive post-pandemic market dynamics (Ma et al., 2025; Novie, 2024). These facts on the ground are highly consistent with the argument by Saputra et al. (2024), which indicates that infrastructure elements do not automatically guarantee the creation of an innovative competitive advantage without strategic interventions. To drive the wheels of innovation so that these passive facilities are ultimately converted into real economic value and sustainable performance, business actors absolutely require a solid internal foundation in the form of capacity-building interventions and adequate managerial literacy (Tambunan, 2019).

The Mediation Role of Innovation Capability in Mediating Capacity Building to Sustainable Performance (H8)

The statistical testing results for the eighth hypothesis (H8) prove that innovation capability significantly and successfully mediates the influence of capacity building on the sustainable performance of culinary MSMEs, as indicated by a path coefficient value of 0.107 and a p-value of 0.033. These empirical findings directly address the problem regarding the vulnerability of the business ecosystem in Dompu Regency, where business actors are faced with fluctuations in the distribution of capacity-building programs from the local government. Considering the characteristics of the culinary industry, which is hyper-competitive and highly sensitive to post-pandemic fluctuations (Hindarwati et al., 2026; Novie, 2024), interventions in the form of technical guidance are proven to not have a maximum impact if they merely stop at the level of cognitive knowledge enhancement. The facts within the data show that the improvement in managerial literacy and technical skills from these mentoring programs only becomes meaningful when successfully converted by MSME actors into agility in creating product, marketing, and operational process innovations, which in turn becomes the primary key to securing multidimensional sustainable performance.

The acceptance of this mediation hypothesis essentially strengthens the theoretical foundation of the Dynamic Capabilities View (DCV) (Teece, 1997) by tangibly demonstrating how resources are cultivated and reconfigured into a competitive advantage in a dynamic market. This finding provides an analytical answer as to why innovation capability acts as a central mechanism; although capacity building successfully creates an enabling environment (Tambunan, 2019), such literacy fundamentally retains the potential to become a passive resource (ordinary capabilities) if not executed through strategic action (Saputra et al., 2024). In line with previous studies (Jabbour et al., 2025; Elsayy & Abu-alhaija, 2026), the research data confirm that without innovation capability, the trained capacity would be difficult to convert into real economic value. It is the innovation capability that enables MSMEs to translate this enhancement of managerial capacity into adaptive operational practices, so that business sustainability amidst a fragile developing country ecosystem can be optimally realized.

The Mediation Role of Innovation Capability in Mediating Self-Efficacy to Sustainable Performance (H9)

The statistical testing results prove that innovation capability significantly and convincingly successfully mediates the influence of self-efficacy on the sustainable performance of culinary MSMEs, as indicated by a mediation path coefficient value of 0.302 with a p-value of 0.000. These

empirical findings directly address the central research objective in responding to the vulnerability of the business ecosystem and the structural paradox in Dompu Regency, where local government infrastructure support has proven to be fluctuating and asymmetric. Amidst the hyper-competition of the post-pandemic culinary industry, the high self-belief of business actors evidently does not stop at mere mental resilience. The facts within the data show that this psychological resilience acts as the primary fuel triggering MSME actors to agilely execute the creation of product innovations, modify processes, and adapt marketing strategies. It is through the leverage of this innovation capability that the internal belief of entrepreneurs in facing crises is successfully translated into tangible actions that ultimately secure continuous economic resilience, social resilience, and operational sustainability.

The acceptance of this mediation hypothesis essentially strengthens the conceptual integration between the microfoundations of the Dynamic Capabilities View (DCV) by Teece (1997) and Social Cognitive Theory (Bandura, 2006). This finding provides a sharp analytical explanation regarding the vital role of psychological capital; without positioning innovation capability as a central mediating mechanism, even the strong self-belief of entrepreneurs would be highly difficult to convert into real economic value. In line with debates in previous literature, the research data empirically prove that MSME owners with high self-efficacy perceive infrastructure limitations not as barriers, but rather as triggers for adaptive resilience to execute innovative problem-solving (Angeles, 2024; Jayawardhana & Weerakoon, 2024). Innovation capability enables culinary MSMEs to harness this self-belief to translate fluctuations in external support into agile business processes (Jabbour et al., 2025; Elsayy & Abu-alhaija, 2026), which ultimately becomes the determining key to realizing sustainable performance in emerging markets fraught with uncertainty.

CONCLUSION

This study concludes that innovation capability plays a central role as a mediating mechanism in realizing the sustainable performance of culinary MSMEs amidst the vulnerability of the market ecosystem and the asymmetry of local government structural support. Empirically, innovation capability has proven successful in mediating the influence of capacity building programs and self-efficacy on sustainable performance, yet it statistically fails to serve as a mediator for physical infrastructure support. This finding confirms that physical facilities act purely as passive structural capital that directly supports basic operations, but lacks the power to trigger innovative agility without the intervention of human agents. Conversely, psychological capital in the form of self-efficacy actually serves as the most dominant driving force in shaping innovation, which then combines with managerial literacy to be transformed into economic resilience and robust business performance.

Considering that this research has a specific locus on the group of culinary MSMEs receiving assistance in Dompu Regency, the recommendation for future research is to expand the geographical scope as well as involve a variety of other industrial sectors to test the generalizability of this model framework. In addition, future studies are advised to adopt a qualitative or longitudinal approach to more deeply explore the dynamics of psychological processes regarding how policy fluctuations and the absence of infrastructure gradually shape the self-efficacy of business actors over time. This continuous series of further research is absolutely necessary to refine the current findings, so that the design of the regional mentoring ecosystem can be formulated more precisely and be tangibly effective for the wider community.

CONTRIBUTIONS

The authors express their deepest gratitude and highest appreciation to the Department of Cooperatives and SMEs of Dompu Regency for the facilitation and access to research data, as well as to the 180 culinary MSME actors in Dompu Regency who actively participated in providing

valuable empirical data. The same appreciation is also directed for the institutional and academic support from the leadership and academic community of Universitas Pendidikan Mandalika, Universitas Muhammadiyah Mataram, and Sekolah Tinggi Ilmu Ekonomi Yapis Dompu, where the collaboration of all these parties has enabled this series of research to run smoothly and produce optimal outputs.

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