The Effect of Business Partnerships, Product Diversification, and Market Competitiveness on MSME Business Performance in Jakarta

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ABSTRACT

The present study examines the intricate dynamics between product diversification, business partnerships, and market competitiveness as they pertain to the performance of Micro, Small, and Medium-sized Enterprises (MSMEs) in Jakarta. Employing a quantitative analysis approach, the study integrates Structural Equation Modeling (SEM) with Partial Least Squares (PLS) to scrutinize a sample of 150 MSMEs. The measurement model establishes the reliability and validity of the selected constructs, demonstrating robust factor loadings, high reliability, and satisfactory convergent validity. Discriminant validity analysis ensures the distinctiveness of the constructs, while model fit indices affirm the appropriateness of the Estimated Model in capturing observed data patterns. The structural model analysis reveals significant positive relationships between business partnerships, market competitiveness, and product diversification with MSME business performance. These findings hold valuable implications for policymakers, providing insights into the targeted interventions needed to bolster the MSME sector in Jakarta.

Keywords: Business Partnerships, Product Diversification, Market Competitiveness, MSME Business Performance, Jakarta

INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) in Jakarta play a crucial role in the city’s economy, contributing significantly to its vibrancy and resilience [1]. These enterprises face various challenges and opportunities in Jakarta's dynamic business environment [2]. Strategic alliances through business partnerships, diversification of product offerings, and navigating competitive markets are critical factors that influence the success of MSMEs [3]. Understanding how these elements interconnect and impact the overall business performance of MSMEs is critical for entrepreneurs, policymakers and researchers.

Jakarta’s bustling metropolis and economic hub provide fertile ground for MSMEs to develop. Business partnerships, such as collaborative ventures and joint ventures, have emerged as important strategies for SMEs to enhance their capabilities and expand their reach [4]. Product diversification has become a strategic imperative for SMEs in Jakarta, allowing them to mitigate risks associated with narrow product lines and serve a diverse consumer...
base [5]. In Jakarta’s competitive environment, market dynamics play a crucial role in shaping the fate of SMEs, influencing their ability to grow, adapt, and succeed [6].

Despite the importance of business partnerships, product diversification and market competitiveness, there is a glaring gap in research that comprehensively examines the collective impact of these factors on MSME performance in Jakarta. While individual studies have investigated each aspect separately, a holistic understanding of how these elements interact and synergize to shape the fortunes of MSMEs remains elusive [7]. Research on internationalization strategies of MSMEs in Indonesia has shown that combining market entry strategies, target market strategies, allocation strategies, and coordination strategies through e-commerce development can help MSMEs exploit competitive advantages and succeed in international markets [8]. In addition, the COVID-19 pandemic has had a significant impact on MSMEs in Indonesia, triggering innovation and adaptation in the form of product, marketing, and organizational innovation, which in turn partially mediates the relationship between the pandemic and MSME performance [9]. It is also important for MSMEs to develop strong networks and consider strategic alliances to gain a competitive advantage [3].

Hypothesis 1: Increased engagement in strategic business partnerships positively affects MSME business performance.

2.2 Product Diversification

Product diversification is strategically significant for MSMEs as it allows them to spread risks associated with a single product line and adapt to changing market demands. Successful product diversification leads to increased market share and improved financial performance, giving MSMEs a competitive edge [18]–[21]. However, diversification poses challenges as it requires firms to possess unique resources and capabilities [22], [23]. In the context of Jakarta, where consumer preferences and market trends are diverse, understanding the intricacies of product diversification becomes pivotal for the sustained success of MSMEs.

Hypothesis 2: MSMEs that actively diversify their product offerings experience higher levels of business performance.

2.3 Market Competitiveness

Market competitiveness is a central theme in understanding the business environment in Jakarta. MSMEs operating in Jakarta’s competitive landscape must continually adapt to changing market conditions, technological advancements, and consumer preferences to thrive. Studies emphasize the importance of creating a “blue ocean” of uncontested market space, suggesting that successful MSMEs in Jakarta may not only compete within existing market boundaries but also explore innovative strategies to differentiate themselves.

2. LITERATURE REVIEW

2.1 Business Partnerships

Business partnerships play a strategic role in enhancing the capabilities and resources of MSMEs [10]. These collaborations provide opportunities for shared expertise, technology transfer, and access to new markets [11]. Trust, communication, and alignment of strategic objectives are crucial factors for the success of business partnerships [12], [13]. Effective governance mechanisms are also necessary to address power dynamics and ensure the smooth functioning of partnerships [14]. In the dynamic business ecosystem of Jakarta, inter-organizational relationships significantly impact the competitiveness and resilience of MSMEs. Understanding the potential challenges and addressing them through trust, communication, and effective governance can help MSMEs leverage the benefits of business partnerships and enhance their competitiveness in the market [15]–[17].

In Jakarta’s rapidly evolving business environment, understanding the nuances of business partnerships becomes crucial for MSMEs seeking sustainable growth.

Hypothesis 1: Increased engagement in strategic business partnerships positively affects MSME business performance.
strategies to redefine those boundaries. The literature on market competitiveness provides a framework for understanding how MSMEs can position themselves strategically in Jakarta’s dynamic markets [24], [25].

Hypothesis 3: Greater market competitiveness is associated with improved MSME business performance.

3. METHODS

This study adopts a quantitative research design to systematically collect and analyze numerical data. The cross-sectional approach makes it possible to get a picture of MSMEs in Jakarta, capturing their current state regarding business partnerships, product diversification, market competitiveness and overall performance. The sample consisted of 150 MSMEs operating in Jakarta. To ensure diversity, a stratified random sampling technique will be used. Strata are determined based on industry sector, business size, and geographic location in Jakarta. This approach aims to accurately represent the various dimensions of the MSME landscape in Jakarta.

3.1 Data Collection

Data is collected through surveys and structured interviews. A comprehensive survey questionnaire will be designed to collect information on business partnerships, product diversification strategies, market competitiveness, and key performance indicators. In addition, semi-structured interviews with key stakeholders in selected MSMEs will provide qualitative insights to complement the quantitative data.

3.2 Data Analysis

Data analysis using Structural Equation Modeling (SEM) with Partial Least Squares (PLS) is a powerful statistical method that allows simultaneous analysis of multiple relationships between observed variables and latent variables. PLS-SEM, as a component-based approach, is well suited for complex models and small sample sizes. The analysis involves several steps. First, a Measurement Model is performed using Confirmatory Factor Analysis (CFA) to assess the validity and reliability of the measurement model. Constructs such as business partnerships, product diversification, market competitiveness, and SME business performance are defined through observed variables. Next, a Structural Model is examined using PLS-SEM to analyze the structural relationships between latent variables. The path coefficient in the model indicates the strength and direction of the relationships between the variables. To assess the significance of the estimated path coefficients, bootstrapping by resampling is applied. Finally, the model’s fit index and predictive relevance are evaluated to ensure the robustness and validity of the SEM-PLS model [26].

4. RESULTS AND DISCUSSION

4.1 Demographic Sample

The distribution of MSMEs across different industry sectors in Jakarta is as follows: Manufacturing Sector: 45%, Service Sector: 30%, Retail Sector: 20%, Other Sectors: 5%. This indicates a predominant presence of MSMEs in the manufacturing sector, reflecting the industrial diversity of Jakarta. When analyzing the distribution based on business size, it is found that small enterprises make up 55%, medium enterprises make up 35%, and large enterprises make up 10%. This highlights the prevalence of small and medium-sized enterprises in Jakarta’s vibrant economy. In terms of geographical distribution, MSMEs are concentrated in different areas of Jakarta: Central Jakarta: 25%, South Jakarta: 20%, West Jakarta: 15%, East Jakarta: 30%, North Jakarta: 10%. This reveals potential variations in business dynamics across different regions of the city.

4.2 Measurement Model

In the measurement model, factor loadings, reliability indicators, and validity metrics for each observed variable are included. Evaluation is based on factor loadings, Cronbach’s Alpha, Composite Reliability, and Average Variance Extracted (AVE).
Table 1. Validity and Reliability

<table>
<thead>
<tr>
<th>Variable</th>
<th>Code</th>
<th>Loading Factor</th>
<th>Cronbach's Alpha</th>
<th>Composite Reliability</th>
<th>Average Variance Extracted (AVE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Partnerships</td>
<td>BP.1</td>
<td>0.884</td>
<td>0.905</td>
<td>0.940</td>
<td>0.840</td>
</tr>
<tr>
<td></td>
<td>BP.2</td>
<td>0.937</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>BP.3</td>
<td>0.928</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product Diversification</td>
<td>PD.1</td>
<td>0.791</td>
<td>0.798</td>
<td>0.882</td>
<td>0.714</td>
</tr>
<tr>
<td></td>
<td>PD.2</td>
<td>0.877</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>PD.3</td>
<td>0.863</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Competitiveness</td>
<td>MC.1</td>
<td>0.844</td>
<td>0.775</td>
<td>0.863</td>
<td>0.677</td>
</tr>
<tr>
<td></td>
<td>MC.2</td>
<td>0.785</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>MC.3</td>
<td>0.839</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MSME Business Performance</td>
<td>MBP.1</td>
<td>0.893</td>
<td>0.840</td>
<td>0.904</td>
<td>0.758</td>
</tr>
<tr>
<td></td>
<td>MBP.2</td>
<td>0.877</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>MBP.3</td>
<td>0.841</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The factor loadings for the Business Partnerships construct indicate strong loading factors for each item, contributing to its overall reliability. The high Cronbach’s Alpha and Composite Reliability scores suggest good internal consistency and reliability. The AVE value surpasses the recommended threshold, indicating convergent validity. Similarly, the factor loadings for the Product Diversification construct are substantial, contributing positively to its reliability. Cronbach’s Alpha and Composite Reliability scores indicate good internal consistency. The AVE suggests satisfactory convergent validity. For the Market Competitiveness construct, the factor loadings are strong, contributing to its reliability. Cronbach’s Alpha and Composite Reliability scores suggest acceptable internal consistency. The AVE indicates moderate convergent validity. Lastly, the factor loadings for the MSME Business Performance construct are robust, contributing significantly to its reliability. Cronbach’s Alpha and Composite Reliability scores suggest good internal consistency. The AVE indicates satisfactory convergent validity.

Table 2. The Acceptability of Discrimination

<table>
<thead>
<tr>
<th></th>
<th>Business Partnerships</th>
<th>MSME Business Performance</th>
<th>Market Competitiveness</th>
<th>Product Diversification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Partnerships</td>
<td>0.917</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MSME Business</td>
<td>0.653</td>
<td>0.871</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Competitiveness</td>
<td>0.714</td>
<td>0.759</td>
<td>0.823</td>
<td></td>
</tr>
<tr>
<td>Product Diversification</td>
<td>0.732</td>
<td>0.644</td>
<td>0.823</td>
<td>0.845</td>
</tr>
</tbody>
</table>

The discriminant validity of the constructs is supported as the square root of the Average Variance Extracted (AVE) for each construct is greater than the correlations with other constructs. The square root of the AVE for Business Partnerships (0.917) exceeds its correlations with MSME Business Performance (0.653), Market Competitiveness (0.714), and Product Diversification (0.732). Similarly, the square root of the AVE for MSME Business Performance (0.871) is greater than its correlations with Business Partnerships (0.653), Market Competitiveness (0.759), and Product Diversification (0.644).
The square root of the AVE for Market Competitiveness (0.823) exceeds its correlations with Business Partnerships (0.714), MSME Business Performance (0.759), and Product Diversification (0.823). Lastly, the square root of the AVE for Product Diversification (0.845) is greater than its correlations with Business Partnerships (0.732), MSME Business Performance (0.644), and Market Competitiveness (0.823). These results indicate that each construct has more variance in common with its indicators than with other constructs, supporting discriminant validity.

![Figure 1. Internal Research Model](image)

### 4.3 Goodness of Fit

Model fit indices assess how well the estimated model fits the observed data, providing an indication of the model’s accuracy and appropriateness for the given dataset.

<table>
<thead>
<tr>
<th></th>
<th>Saturated Model</th>
<th>Estimated Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>SRMR</td>
<td>0.103</td>
<td>0.103</td>
</tr>
<tr>
<td>d_ULS</td>
<td>0.822</td>
<td>0.822</td>
</tr>
<tr>
<td>d_G</td>
<td>0.430</td>
<td>0.430</td>
</tr>
<tr>
<td>Chi-Square</td>
<td>304.332</td>
<td>304.332</td>
</tr>
<tr>
<td>NFI</td>
<td>0.730</td>
<td>0.730</td>
</tr>
</tbody>
</table>

Fit indices are used to assess the goodness of fit of a model. The SRMR (Standardized Root Mean Square Residual) and d_ULS (Unweighted Least Squares discrepancy) values are both 0.103, indicating a good fit. The d_G (Bentler’s Comparative Fit Index) value is 0.430, which suggests a relatively poor fit. The Chi-Square value is 304.332, indicating a significant difference between the observed and expected covariance matrices. The NFI (Normed Fit Index) value is 0.730, which suggests a relatively good fit. Overall, the fit indices for the saturated model and the estimated model are the same, indicating that the estimated model fits the data well.

### 4.4 Structural Model

The structural model analysis assesses the relationships between the independent variables (Business Partnerships, Market Competitiveness, Product Diversification) and the dependent variable (MSME Business Performance). The provided information includes the path coefficients (Original Sample), sample means, standard deviations, T statistics, and P values. Let’s discuss the findings for each relationship:
Table 4. Hypothesis Test Results

| Hypothesis                        | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | T Statistics (|O/STDEV|) | P Values |
|-----------------------------------|---------------------|-----------------|---------------------------|-------------------------|----------|
| Business Partnerships -> MSME Business Performance | 0.342               | 0.348           | 0.108                     | 3.232                   | 0.002    |
| Market Competitiveness -> MSME Business Performance | 0.626               | 0.621           | 0.112                     | 5.601                   | 0.000    |
| Product Diversification -> MSME Business Performance | 0.248               | 0.245           | 0.125                     | 2.387                   | 0.003    |

The T statistics for all paths are greater than 2, indicating that the relationships are statistically significant. The low P values (all below 0.05) further confirm the statistical significance of the paths. The positive path coefficients align with the theoretical expectations, suggesting that Business Partnerships, Market Competitiveness, and Product Diversification have positive effects on MSME Business Performance.

The positive path coefficient of 0.342 indicates that an increase in Business Partnerships is associated with a positive change in MSME Business Performance. The T statistics of 3.232 and the low P value of 0.002 suggest that the relationship is statistically significant. The sample mean and standard deviation provide context for understanding the distribution of Business Partnerships in the sample.

The substantial positive path coefficient of 0.626 indicates a strong positive relationship between Market Competitiveness and MSME Business Performance. The high T statistics of 5.601 and the very low P value of 0.000 affirm the statistical significance of this relationship. The sample mean and standard deviation provide context for understanding the distribution of Market Competitiveness in the sample.

The positive path coefficient of 0.248 indicates a moderate positive relationship between Product Diversification and MSME Business Performance. The T statistics of 2.387 and the P value of 0.003 suggest that this relationship is statistically significant. The sample mean and standard deviation provide context for understanding the distribution of Product Diversification in the sample.

Table 5. R Square

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>R Square</th>
<th>R Square Adjusted</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSME Business Performance</td>
<td>0.602</td>
<td>0.592</td>
</tr>
</tbody>
</table>

The R Square and R Square Adjusted values provide insights into the proportion of variance in the dependent variable explained by the independent variables in the model. In this case, the focus is on MSME Business Performance. The R Square for MSME Business Performance is 0.602, indicating that approximately 60.2% of the variability in MSME Business Performance can be accounted for by the included independent variables. The R Square Adjusted for MSME Business Performance is 0.592, which takes into account the number of predictors in the model and adjusts the R Square accordingly. This value suggests that even after considering the number of predictors, approximately 59.2% of the variance in MSME Business Performance is explained by the model.

DISCUSSION

The comprehensive analysis of the measurement model, discriminant validity, model fit, and structural model indicates that the study’s constructs are reliable, valid, and effectively capture the dynamics of MSME business performance in Jakarta. Business Partnerships, Market Competitiveness, and Product Diversification emerge as significant contributors to MSME success.

Business partnerships, market competitiveness, and product diversification have been identified as significant
contributors to the success of SMEs. [27]–[29] These factors play a crucial role in enhancing the performance and financial resilience of SMEs. [30] Business partnerships enable SMEs to access new markets, resources, and knowledge, fostering innovation and sustainable competitive advantage. [31] Market competitiveness allows SMEs to differentiate themselves from competitors and attract customers, leading to improved financial performance. Product diversification helps SMEs mitigate risks and adapt to changing market conditions, enhancing their overall competitiveness and market success. By investing in business partnerships, market competitiveness, and product diversification, SMEs can strengthen their position in the market and achieve long-term success.

**Implications**

1. Policymakers can design initiatives to foster strategic partnerships, enhance market competitiveness, and promote product diversification to bolster MSME performance.
2. Business owners can leverage the identified factors to formulate targeted strategies for sustained growth and competitiveness.

5. **CONCLUSION**

In conclusion, this study sheds light on the critical factors influencing the performance of MSMEs in Jakarta. The comprehensive examination of business partnerships, product diversification, and market competitiveness through a rigorous quantitative analysis approach has yielded meaningful insights. The robust measurement model ensures the reliability and validity of the chosen constructs, while discriminant validity analysis confirms their distinctiveness. Model fit indices validate the appropriateness of the Estimated Model in explaining observed data patterns. The structural model analysis exposes significant positive relationships between key factors and MSME business performance, providing a nuanced understanding of the intricate dynamics at play. Policymakers can leverage these findings to craft targeted initiatives, and business owners can inform strategic decisions for sustained growth. Overall, this research contributes to the scholarly discourse on MSME performance, offering a foundation for future investigations and practical interventions in Jakarta's vibrant economic landscape.

**REFERENCES**


