

SMEs SURVIVAL STRATEGY IN THE TIME OF THE COVID-19 PANDEMIC

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ABSTRACT : This study aims to empirically examine the effect of cost leadership strategies, differentiation strategies, focus strategies, and combination strategies on the performance of SMEs in Denpasar Bali Municipality. The theories used include: Porter's (1980) strategic generic theory, Resources Based View (RBV) in analyzing the survival strategy of SMEs in Indonesia, especially in Bali. The population in this study were all SMEs in the Province of Bali registered at the Cooperatives Service totaling 326,009 SMEs. The sample used is 100 SMEs which is calculated using the Slovin formula, the criteria for determining the respondents are using purposive sampling. This study uses primary data, which was collected by survey method. The analytical method used is multiple linear regression analysis, which is assisted by the SPSS version 22.0 analysis tool. Based on the results of the analysis, it is found that the differentiation strategy, focus strategy and combination strategy have a significant effect on the performance of SMEs, while the cost leadership strategy has no effect on the performance of SMEs in Bali. SMEs are expected to create a simple cost accounting system so that the determination of the cost of production is carried out more accurately, thus cost efficiency can be maintained and performance can be improved.

Keywords -Cost Leadership Strategy, Differentiation Strategy, Focus Strategy, Combination Strategy, SMEs Performance)

I. INTRODUCTION

In Indonesia, small business activities, both in the traditional and modern sectors through Small and Medium Enterprises (SMEs) are very significant in supporting economic growth. Micro, small and medium enterprises (SMEs) have a very large role in national economic growth. The number of Indonesian SMEs in the last 5 years has averaged 62,699,224 SMEs or about 99.99% of the total number of businesses in Indonesia. The SMEs are able to absorb an average of 117,806,139 workers per year or 96.90% per year. Judging from its contribution to Gross Domestic Product (GDP), in the last 5 years SMEs contributed 60.75% of the total GDP per year. Meanwhile, SMEs contributed to non-oil and gas national exports in the last 5 years an average of 14.93% [1].

But now the SMEs sector is one of the worst sectors due to the Covid-19 pandemic. This epidemic has almost paralyzed the wheels of the domestic economy, along with the high threat to the community that they will lose household income, because they cannot work due to rampant layoffs, and the large-scale social restriction (PSBB) policy. The government also does not remain silent, the credit relaxation policy provided by the government in the midst of the Covid-19 pandemic, is expected to help the business sustainability of SMEs players so that they are able to survive facing challenging conditions like today.

Competitive strategy is one of the strategies that can be used by business actors in facing competition and ever-changing situations. It is very important for the company to adopt its activities continuously to ensure survival [2], the company is exposing itself to an external environment, which is very unstable which leads to new opportunities and challenges. In order to remain competitive, companies need to regularly review their strategies, while maintaining their effectiveness and sustainable competitiveness to take advantage of opportunities and threats in the market. In this case, it takes courage for companies to be firm and proactive in running their business and implementing sustainable strategies to remain competitive. Therefore, strategic success requires a proactive business approach [3]. Competition is very important to ensure an up to date and competitive business approach. Several studies have been conducted which found that competitive strategy has a positive and significant effect on organizational performance [4]; [5]; [6]; [3] and [7].

[2]Porter's competitive strategy can be used to address the core issues that concern most organizations,

namely efficiency (cost) and product/service quality. It was originally a common strategy used in the early 1980s and seems to be becoming more popular today. They outline four strategic options open to organizations seeking to achieve a sustainable competitive advantage. [2] says that there is no single competitive strategy that is guaranteed to achieve success and even some companies have successfully implemented one competitive strategy. Porter found that the company could not sustain the strategy. Companies that engage in any general strategy but fail to achieve it are trapped in it. It indicates the company does not have a competitive advantage. Companies that are stuck in the middle will compete at a disadvantage because cost leaders, differentiators or focusers will be in a better position to compete in any segment [2]. With the changing competitive conditions facing companies and the strategies they choose, companies must explore the capabilities needed to achieve competitive advantage.

The theory of resource-based view emphasizes practice and company resources as a fundamental determinant of performance [8]. Knowledge-based theory considers knowledge as the most strategic company resource because it is difficult to imitate and becomes a source of competitive advantage and sustainable company performance [9]. Contingency theory argues that the competitive strategies used by firms are contextual over time and not 'one size fits all' [10]. Thus, there is no one best way or approach to managing an organization [5].

In addition to conducting e-commerce trading, SMEs actors are also required to be able to communicate products intensively by marketing products using digital marketing and utilizing social media to be able to reach consumers directly and reduce promotional costs. Digital Marketing helps companies or business actors in promoting and marketing their products and services and being able to expand new markets that were previously closed or limited due to limited time, distance and ways of communicating [11]. The results of the study state that digital marketing has a positive and significant effect on increasing SMEs sales [12][13][14]

The novelties of this research are: first, judging from the place of research, where the Isaboke study (2018) was conducted on SMEs in Nairobi County, Kenya while this research was conducted in Bali, Indonesia which has different cultures and characteristics. Second, the Isaboke study (2018) was conducted on SMEs that had not yet experienced the impact of the COVID-19 pandemic, while this study was conducted when SMEs were affected by the COVID-19 pandemic. This study intends to examine the effects of cost leadership strategies, differentiation strategies, focus strategies, and combination strategies. on the performance of SMEs in Bali.

II. LITERATURE REVIEW

2.1 Porter's Generic Strategy Model

This model was described by Michael Porter in 1980. Porter's general strategy describes how a company pursues a competitive advantage across its chosen market scope. There are three/four general strategies, either low cost, differentiation, or focus. Cost leadership as a strategy enables firms to become low-cost producers and thus generate more profits than competitors due to low production costs and economies of scale. These companies take advantage of low production costs to be able to sell at below average prices [15][16]. Firms pursuing a cost leadership strategy gain a cost advantage by improving processes, increasing efficiency, and gaining access to lower production costs or material costs either through vertical integration or adopting optimal outsourcing [15]. Differentiation as a second generic strategy allows a company to offer a unique product or service at a premium price that is pegged on added value. The added value is usually the buyer's perception of the product. The added value and usefulness of the product as perceived by the buyer allows the product to be distinguished by costs that include extra value or features in it [5]. The third general strategy is focus that combines the two general strategies above. This strategy is based on serving certain clients to the exclusion of others in the market. The implementation of this strategy varies across firms and is strongly influenced by industry characteristics [15]. This strategy allows the company to concentrate on a narrow market segment to achieve the above two cost leadership and differentiation strategies. It is based on the assumption that the specific needs of a narrow customer group can be better met by focusing entirely on this group [16][15].

2.2 Resource-Based View Theory

The resource-based view (RBV) of Wernerfelt (1984) suggests that competitiveness can be achieved by innovatively delivering superior value to customers. The existing literature focuses on the strategic identification and use of resources by firms to develop a sustainable competitive advantage [8]. International business theorists also explain the success and failure of companies across borders by considering the competitiveness of their subsidiaries or local alliances in emerging markets. Local knowledge provided by local subsidiaries or alliances becomes an important resource for conceptualizing values according to local needs [17].

2.3 SMEs Performance

SMEs performance is a collection of workers who are interdependent in tasks and various responsibilities for results that allow people to work together [18]. Understanding performance according to [19]

and [18] is a multidimensional concept, and the relationship between entrepreneurial orientation and performance can depend on the indicators used to access performance.

2.4 Cost Leadership and Performance Strategy

Cost leadership is a concept developed by Michael Porter, used in business strategy. It describes ways to build a competitive advantage. Cost leadership, in basic words, means the lowest operating costs in the industry. In many situations, the cost leader attracts a large market share because most potential customers find paying low prices for goods and services of acceptable quality very attractive. The need for efficiency means that the cost leader's profit margins are often smaller than the margins enjoyed by other companies. However, the ability of the cost leader to make a small profit from each of a large number of customers means that the total profit of the cost leader can be substantial [4]. The results show that the cost leadership strategy has a positive and significant effect on organizational performance [4],[5],[6],[3] and [7]. Based on this description, the proposed hypothesis is as follows:

H1: The cost leadership strategy has a positive and significant effect on the performance of SMEs in Bali Province

2.5 Differentiation Strategy and Organizational Performance

This could include patents or other Intellectual Property (IPR), unique technical expertise, talented personnel, or innovative processes. Successful differentiation is demonstrated when a company achieves a premium price for its product or service, an increase in revenue per unit, or consumer loyalty to purchase the company's product or service (brand loyalty). Differentiation drives profitability when the product's price exceeds the additional cost of acquiring the product or service, but is ineffective when its uniqueness is easily imitated by its competitors. Successful brand management also results in perceived uniqueness even when the physical product is the same as competitors [5]. Several research results show that the differentiation strategy has a positive and significant effect on organizational performance [4],[5],[6],[3] and [7]. Based on this description, the proposed hypothesis is as follows:

H2: The differentiation strategy has a positive and significant impact on the performance of SMEs in Bali Province

2.6 Focus Strategy and Organizational Performance

A focus strategy identifies market segments in which the company can compete effectively. Ideally, the cost of reaching these consumers is low, supporting managers in sustaining a price advantage while focusing on increasing sales [5]. Several research results show that the focus strategy has a positive and significant effect on organizational performance [4],[5],[6],[3] and [7]. Based on this description, the proposed hypothesis is as follows:

H3: The focus strategy has a positive and significant impact on the performance of SMEs in Bali Province.

2.7 Combination strategy and organizational performance.

The hybrid strategy seeks simultaneously to achieve differentiation and lower prices compared to competitors. This strategy success hinges on being able to deliver increased benefits to customers at low prices while achieving sufficient margin for reinvestment to maintain and grow the differentiation base [4]. Several research results show that the combination strategy has a positive and significant effect on organizational performance [4],[5],[6],[3] and [7]. Based on this description, the proposed hypothesis is as follows:

H4: The combination strategy has a positive and significant impact on the performance of SMEs in Bali Province

Conceptual framework

The following describes the conceptual framework of this research as shown in Figure 1 below:

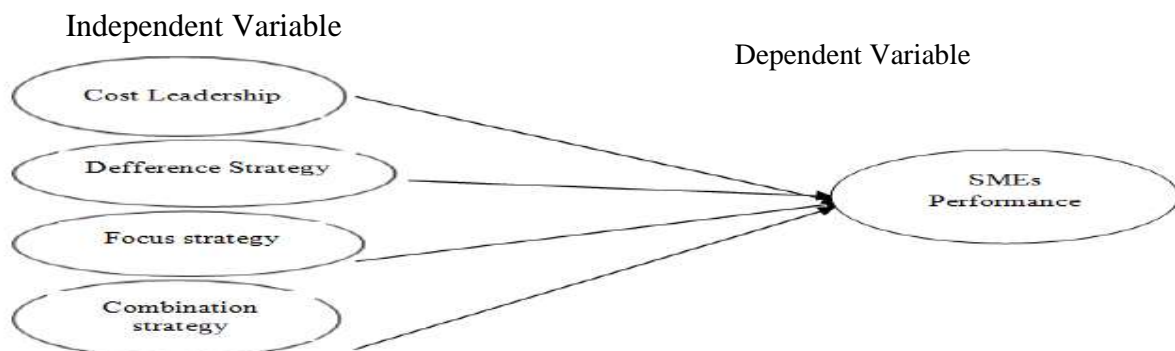


Figure 1. Conceptual Framework

III. RESEARCH METHODS

This research was conducted on SMEs in Bali. The population in this study were SMEs actors in Bali in 2019 totaling 326,009 SMEs spread across nine city districts in Bali. The method of determining the number of samples uses the slovin formula, while the determination of the respondents uses a random method, namely SMEs that are engaged in the handicraft business and are still surviving during the COVID-19 pandemic (in 2021). While the measurement of variables is stated as follows: SMEs performance is the dependent variable with 2 indicators, namely profitability, growth. (2) The cost leadership strategy consists of 3 indicators, namely efficiency, reduced operating costs and cheaper commodities. (3) The differentiation strategy consists of 3 indicators, namely unique product features, unique promotion and distribution. (4) The focus strategy consists of 3 indicators, namely: target market, market segmentation and geographic location. (5) The combination strategy consists of 4 indicators, namely; quality, style, pricing and comfort. The five variables were measured by a 5-point Likert scale. The survey data was processed using multiple linear regression analysis techniques.

IV. RESULT AND DISCUSSION

4.1 Data Collection

There were 125 questionnaires distributed and 115 returned questionnaires and 15 were incomplete so that 100 questionnaires could be processed.

4.2 Validity and Reliability Test

Validity test is used to measure the validity or validity of the questionnaire. The questionnaire is said to be valid if the question is able to reveal something that will be measured by the questionnaire [20]. The questionnaire is said to be valid if the corrected Item-total Correlation value exceeds 0.30. The results of statistical data processing show that the Corrected Item-total Correlation is 0.820 exceeding 0.30 which indicates that the data collected is valid. The results of the reliability test are as follows:

Table 1. Reliability Test

No.	Variable	Cronbach'Alpha	Criteria
1.	Cost Leadership Strategy (X1)	0,764	Reliable
2.	Defference Strategy (X2)	0,690	Reliable
3.	Focus strategy (X3)	0,706	Reliable
4.	Strategi Kombinasi (X4)	0,749	Reliable
5.	SMEs Performance (Y)	0,745	Reliable

Based on table 1, it can be seen that the research instrument of a variable is declared reliable because it has a reliability coefficient greater than 0.60. This shows that these measurements can give consistent results, if repeated measurements are made on the same subject.

4.3 Classic Assumption Test

The classical assumption test is used to determine whether or not there are violations in the multiple linear regression model that has been made. Classical assumption tests used in this study include:

4.3.1 Normality test

Normality test aims to test whether in the regression model, the confounding and residual variables have a normal distribution. This study tested the normality of the residuals using the non-parametric Kolmogorov-Smirnov (K-S) test [21]. Based on the Kolmogorov-Smirnov test as shown in table 3, it has a significance level of 0.662 so Asymp. Sig (2-tailed) is greater than the level of significance used, namely 0.05, it can be said that the analyzed residuals are normally distributed.

Table.2 Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		100
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	2.72894902
Most Extreme Differences	Absolute	.073
	Positive	.056
	Negative	-.073
Kolmogorov-Smirnov Z		.729
Asymp. Sig. (2-tailed)		.662

a. Test distribution is Normal.

b. Calculated from data.

4.3.2 Heteroscedasticity Test

Heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residual of one observation to another observation. [21].The results of the analysis of heteroscedasticity using the glejser test are as follows:

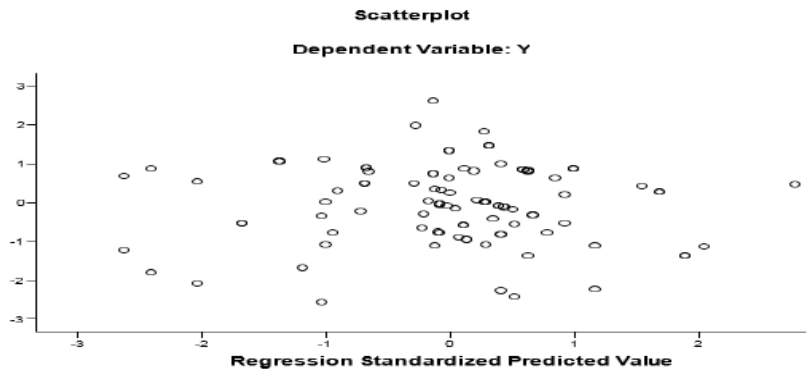


Figure 2. Scaterplot

Figure 2 shows that the data is randomly distributed and there is no clear pattern, and the points are spread above and below the number 0 (zero) on the Y axis, so it can be concluded that there is no heteroscedasticity.

4.3.3 Multicollinearity Test

Multicollinearity test aims to test whether the regression model found a correlation between the independent variables (independent).

Table 3. Multicollinearity Test Results

No.	Variable	Collenearity statistic	
		Tolerance	VIF
1.	Cost Leadership Strategy (X1)	0.874	1.145
2.	Defference Strategy(X2)	0.816	1.225
3.	Focus strategy (X3)	0.823	1.214
4.	Strategi Kombinasi (X4)	0.749	1.335

From table 3 it can be seen that the tolerance value of each variable is greater than 0.10 and the VIF value of each variable is below 10, so it can be said that there is no multicollinearity relationship in the regression model.

4.3.4 Multiple Linear Regression Analysis

Multiple linear regression analysis is a linear relationship between two or more independent variables (X1, X2, Xn) and the dependent variable (Y).

Table 4. Multiple Linear Regression Test Results

Coefficients ^a											
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	2.294	3.665		.626	.533					
	X1	-.178	.108	-.138	-1.650	.102	.097	-.167	-.129	.874	1.145
	X2	.510	.095	.465	5.384	.000	.551	.484	.420	.816	1.225
	X3	.477	.188	.218	2.539	.013	.398	.252	.198	.823	1.214
	X4	.329	.139	.213	2.365	.020	.427	.236	.185	.749	1.335

^a. Dependent Variable: Y

Based on table 4, multiple linear regression test equations can be made as follows:

$$Y = 2,294 + -0,178X1 + 0,510X2 + 0,477X3 + 0,329X4 + \epsilon$$

4.3.5 Coefficient of Determination Test (R²)

The coefficient of determination (R²) is used to measure how far the model's ability to explain the dependent variation.

Table 5. Coefficient of Determination Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.649 ^a	.421	.397	2.78581

Based on table 5 the results of testing the coefficient of determination (R^2) obtained the Adjust R Square value of 0.421 This is 42.10% of SMEs performance in Bali can be explained by the variables of Cost Leadership Strategy, Defference Strategy, Focus Strategy and Combination Strategy, while 57.90% others are determined by other variables and factors not examined in this study.

4.3.6 F-Statistic Test (F-test)

This test is used to test the fit model, where the F test shows whether all independent variables are included in the model together with the dependent variable.

Table 6. F Statistical Test Results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	536.121	4	134.030	17.270	.000 ^a
	Residual	737.269	95	7.761		
	Total	1273.390	99			

Based on table 6, it can be seen that the F value is 17.270 with a significance of 0.000, this means that the regression model used is feasible. It can be said that together, the Cost Leadership Strategy, Defference Strategy, Focus Strategy and Combination Strategy affect SMEs Performance in Bali.

4.4 The Influence of Cost Leadership Strategy on SMEs Performance in Bali.

The results of the regression test show that the Cost Leadership Strategy has a positive beta coefficient of -0.178 and a significance level of $0.102 > 0.05$. From the results of these statistical tests, the first hypothesis (H1) is not accepted. Thus it can be said that the Cost Leadership Strategy is not able to improve the performance of SMEs in Bali. In accordance with the contingency theory and the RBV theory, the difference in the ability of SMEs in accessing resources, especially physical resources, forces lagging companies to fight hard either for scarce resources or to increase competitiveness through increasing innovation power. In addition to the limitations in resources that are unique and rare and cannot be imitated, the scarcity of financial resources makes it difficult for SMEs to compete in a competitive market. The second limitation of SMEs is the limitations of intellectual capital causing SMEs to have difficulty in innovating, ultimately SMEs are not efficient in the production process. SMEs trapped in the midst of competition will force SMEs to be in a less profitable position as a result of the cost leader. SMEs that are involved in every general strategy but fail to achieve it, will be trapped in it, this indicates that SMEs do not have a competitive advantage. The results of this study are different from the results of research from [4],[5],[6][3] and [7] which states that the cost leadership strategy has a positive and significant effect on organizational performance.

4.5 The Effect of Defference Strategy on SMEs Performance in Bali

The results of the regression test showed that the Defference Strategy had a positive beta coefficient of 0.510 and a significance level of $0.000 < 0.05$. From the results of these statistical tests, the second hypothesis (H2) is accepted. Thus it can be said that the Defference Strategy is able to improve the performance of SMEs in Bali. This shows that SMEs actors in Bali are able to access, empower and explore resources that are valuable, unique, difficult to imitate and cannot be replaced so that they can improve their performance. In the end, they were able to survive in the era of the Covid-19 pandemic that was hitting people all over the world. The results of the study support the Resource Based View Theory (RBV), which states that companies gain competitive advantage and achieve superior performance by owning, acquiring, and using strategic assets effectively. The strategic assets in question include tangible assets in the form of physical assets and assets. intangible assets that firms have owned, developed, and used in maintaining competitive and profitable strategies [8].[22]also argue that investment in intangible resources enables emerging SMEs to gain an advantage sustainable competitiveness and superior performance in dynamic markets.Indeed, intangible resources are cheaper but provide more benefits. Therefore, SMEs emphasize intangible resources, especially IC to improve its position in the market [23] and [24].

4.6The Influence of Focus Strategy on MSME Performance in Bali.

Based on the data in Table 4, it can be seen that the results of the t statistical test obtained by the Focus Strategy have a positive beta coefficient of 0.477 and a significance level of $0.013 < 0.05$. From the results of these statistical tests, the third hypothesis which states that the Focus Strategy has a positive and significant

effect on the performance of SMEs in Bali (H3) is accepted. These results are in line with the results of his research conducted by [4],[5],[6][3] and [7].

SMEs in Bali have served customers well by fulfilling orders according to the criteria that customers want. A focus strategy involves segmenting the market and attracting only one or a few groups of customers or industry buyers. The focus strategy identifies market segments in which the company can compete effectively [5]. However, SMEs in Bali still need to intensify the expansion of their market opportunities in order to increase their sustainable competitive advantage and ultimately improve their potential performance.

4.7 The Effect of Combination Strategy on SMEs Performance in Bali.

Based on the data in Table 8, it can be seen that the results of the t-statistical test obtained by the Combination Strategy have a positive beta coefficient of 0.329 and a significance level of $0.020 < 0.05$. From the results of these statistical tests, the fourth hypothesis which states that the Combination Strategy has a positive and significant effect on SMEs Performance in Bali is accepted. This study seeks to determine the extent to which Porter's generic combination strategy has been adopted by selected SMEs in Bali. When viewed per indicator of the combination strategy, the focus strategy has the most influence on the performance of SMEs compared to the cost leadership strategy and differentiation strategy. These results are in line with the results obtained by [5].

V. CONCLUSION

Based on the results of the analysis, it can be concluded that the differentiation strategy, focus strategy and combination strategy have an effect on MSME performance, whereas the cost leadership strategy has a negative but not significant effect. The differentiation strategy has the highest contribution to the performance of SMEs in Bali. This proves that the innovation strategy of MSME actors is very high, because it is supported by cultural factors. This is followed by a Focus strategy, a Combination Strategy and the last is a cost leadership strategy. The cultural uniqueness of the Balinese people makes MSME actors able to apply the differentiation strategy to the fullest. These results are different from the results obtained by [5] where Isaboke finds the focus strategy that most dominantly affects the performance of SMEs, followed by a combination strategy, differentiation strategy, and finally a cost leadership strategy. This shows that cultural differences can lead to differences in the characteristics of the SMEs themselves.

The government is advised to improve its program in the form of coaching, training for SMEs employees, especially in the cost accounting system, financial accounting system so that cost leadership strategies can be improved. SMEs actors are advised to regularly provide training and education opportunities to their employees so that they become more competent and professional.

The limitation of this research is that the population is still limited to SMEs in Bali. Researchers are advised to expand the population to the national level so that it can be more generalized. With no effect of the variable cost leadership strategy on the performance of SMEs, it is suggested in the next research to add a variable of management knowledge, accounting system as a moderating variable on the relationship between these two variables

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