Determinants of Batik MSMEs' Performance: Sustainable Competitive Advantage and Financial Performance

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Abstract This study targets to analyze and prove the impact of Sustainable competitive advantage (SCA) and financial performance (FP) on business performance (BP) in natural batik MSMEs in Kediri. the usage of a quantitative method, records have been collected from fortyeight respondents through questionnaires and processed using multiple linear regression evaluation with SPSS version 26. The consequences confirmed that SCA and FP concurrently had a widespread effect on enterprise overall performance, as evidenced via an F-cost of 13.073 and a importance stage of 0.000. however, in part, best the SCA variable had a significant effect on BP (t-price of five.007, Sig. 0.000), even as FP had no large impact (t-fee of -0.256, Sig. zero.799).The regression model explains 33.9% of the variation in Business Performance, while the rest is influenced by other factors. The conclusion of this study is that to achieve optimal business performance, natural batik MSMEs need to prioritize the development of unique competitive advantages, even though financial management remains an important element in the overall model. These findings provide practical contributions for MSME actors to focus on non-financial aspects and academic aspects for further research.

INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) are a fundamental pillar of Indonesia's economic structure.The latest data from the Ministry of Cooperatives and SMEs shows that this sector absorbs around 97% of the workforce and contributes more than 60% to the national Gross Domestic Product (GDP), making it the main driving force for inclusive and sustainable economic growth (Fitri Nurul Aftitah et al., 2024) . In the City and Regency of Kediri, the natural batik industry has emerged as an SME sub-sector that not only holds high economic value but also preserves cultural heritage and adopts environmentally friendly practices. However, amidst the dynamic and competitive global market, the sustainability of these batik SMEs heavily depends on their ability to build and maintain sustainable competitive

advantages (SCA). The urgency of this research lies in the pressing need to understand the key factors influencing SME business performance, enabling them to adapt and thrive in the face of competition.

Theoretically, this study is based on the Resource-Based View (RBV), which was first proposed by (Barney, 1991). This theory argues that a company's competitive advantage stems from valuable, rare, difficult to imitate, and non-substitutable internal resources and capabilities. In the context of natural batik MSMEs, these could include traditional skills, the use of environmentally friendly natural dyes, or unique product differentiation. Many national and international studies have confirmed the role of SCA in improving the business performance of SMEs (Yunitasari et al., 2023; Semuel et al., 2022;Abubakar & Abdullahi, 2022; Choi et al., 2018). In addition to SCA, financial performance (FP) is also recognised as a vital indicator of SME success (Badriyah et al., 2024; Handayani, 2024; Indriastuti & Mutamimah, 2023) Recent studies indicate that financial literacy and sound financial management have a significant positive impact on financial performance and business sustainability. Other research also identifies that innovation, both in products and processes, as well as the adoption of digital technology, directly contribute to the creation of SCA and improved business performance (Ainurrokhim et al., 2024). Thus, this theoretical framework confirms that both SCA and FP are important drivers of BP.

Although the relationship between SCA and BP has been extensively researched, there are still significant gaps in the research. Most of the literature focuses on large companies or the manufacturing industry, while research that specifically examines the batik MSME sector with natural practices is still limited. The state of the art of this research lies in its unique study locus, namely natural batik MSMEs in Kediri, which allows for an in-depth analysis of how distinctive attributes such as cultural values and sustainability affect business performance. The novelty of this research lies in the combination of two independent variables, SCA and FP, in a multiple linear regression model to analyse their simultaneous impact on BP. This approach goes beyond previous studies, which tended to focus on only one variable, and provides a more holistic and comprehensive

understanding of the drivers of business performance from two crucial perspectives: non-financial and financial. These findings are expected to contribute theoretically by enriching the strategic management literature and practically by providing applicable recommendations for SME actors.

This study aims to analyse and prove the influence of Sustainable Competitive Advantage (SCA) and Financial Performance (FP) on Business Performance (BP) in natural batik MSMEs in Kediri. Based on the above description, the research question can be formulated as follows: Do Sustainable Competitive Advantage (SCA) and Financial Performance (FP) simultaneously have a significant effect on the Business Performance (BP) of natural batik MSMEs in Kediri, and does this effect also apply partially?

RESEARCH METHODS

This study uses a quantitative approach with an associative or causal design, which aims to test the causal relationship between variables. This study focuses on natural batik Micro, Small and Medium Enterprises (MSMEs) in Kediri City and Regency as the research subjects. The subjects of this study are natural batik MSMEs operating in the city and regency of Kediri. Focusing on this sector allows for an in-depth analysis of how the unique characteristics of natural batik products, such as the use of natural dyes and cultural narratives, affect their business performance.

The research design used was a quantitative survey with a causal approach, which aimed to test the hypothesis regarding the effect of sustainable competitive advantage on business performance. The sampling technique used was a saturated sample of the entire population, as there were only 48 craftsmen participating in the study. The variables consist of independent variables (X) Sustainable Competitive Advantage (SCA) and dependent variables (Y) Business Performance (BP). Data was collected using questionnaires distributed to respondents. These questionnaires were designed using a Likert scale to measure respondents' responses to each variable indicator.

Data analysis was conducted using a series of detailed statistical methods. First, an instrument test was conducted to ensure data quality. This test included a validity test to ensure that the questionnaire accurately measured the intended variables, as well as a reliability test to ensure measurement consistency. After the instruments were tested, the data was analysed using descriptive statistics to provide an overview, which included calculating the mean, standard deviation, and percentage. Finally, inferential statistical analysis was applied to test the research hypothesis. The method used was a simple linear regression test to determine whether the SCA (Sustainable Competitive Advantage) variable had a significant effect on BP (Business Performance).

RESULTS AND DISCUSSION

Tabel 1. Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,606ᵃ	,367	,339	1,851

a. Predictors: (Constant), TOTAL_SCA, TOTAL_FP

The multiple correlation coefficient (R) value of 0.606 indicates a fairly strong relationship between the independent variables (Sustainable Competitive Advantage/SCA and Financial Performance/FP) simultaneously with the dependent variable (Business Performance/BP). This model is able to explain 36.7% (R Square value) of the variation that occurs in Business Performance, and after adjusting for the number of variables and samples, its explanatory power becomes 33.9% (Adjusted R Square value). The Adjusted R Square value of 0.339 indicates that 33.9% of the variation in the Business Performance of batik MSMEs in Kediri can be explained by the variables of Sustainable Competitive Advantage (SCA) and Financial Performance (FP), while the remaining 66.1% is influenced by other factors outside the model. Meanwhile, the Std. Error of the Estimate value of 1.851

indicates the average prediction error of the model, which means that the model's predicted value deviates by approximately 1.851 units from the actual value

Table 2. Annova

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	89,599	2	44,799	13,073	,000[b]
	Residual	154,214	45	3,427		
	Total	243,813	47			

a. Dependent Variable: TOTAL_BP

b. Predictors: (Constant), TOTAL_SCA, TOTAL_FP

Based on the ANOVA table you provided, it can be concluded that the regression model testing the effect of Sustainable Competitive Advantage (SCA) and Financial Performance (FP) on Business Performance (BP) is statistically significant. This is indicated by the F-count value of 13.073, which is greater than the F-table value, as well as a very small significance value (Sig.) of 0.000. This value is below the significance threshold of 0.05, so we can conclude that SCA and FP together (simultaneously) have a significant effect on Business Performance in the batik MSMEs studied.

Table 3. Coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4,927	4,714		1,045	,302
	TOTAL_FP	-,040	,157	-,031	-,256	,799
	TOTAL_SCA	,391	,078	,601	5,007	,000

a. Dependent Variable: TOTAL_BP

The t-test results in the Coefficients table provide a different perspective. The hypothesis stating that SCA has a significant partial effect on BP is accepted, as the significance value for SCA is 0.000. This is in line with the Resource-Based

View theory (Barney, 1991) and previous research findings which show that unique resources and capabilities possessed by companies, such as product quality, brand identity, and innovation, are the main drivers of performance. Conversely, the hypothesis stating that FP has a significant partial effect on BP is rejected. The high significance value of FP (0.799) indicates that, in the context of natural batik MSMEs in Kediri, financial performance such as profitability or liquidity is not a direct determinant of business performance when tested separately. This argument can be supported by the nature of the SME industry, which is often more oriented towards non-financial aspects such as cultural preservation and sustainability. Nevertheless, FP remains an important part of the overall model, as evidenced by the F test.

Thus, the conclusions from the analysis results to answer the hypotheses are as follows:

Hypothesis 1: The effect of Sustainable Competitive Advantage (SCA) on Business Performance (BP). The results of this hypothesis test are accepted.

Hypothesis 2: The effect of Financial Performance (FP) on Business Performance (BP). The results of this hypothesis test are rejected.

Hypothesis 3: The simultaneous effect of SCA and FP on Business Performance (BP). Test results: This hypothesis is accepted..

Interpretation of Research Results

The results of data analysis show that the findings of this study are largely consistent with existing literature, but also provide a unique perspective in the context of natural batik MSMEs.

1. The Influence of SCA on Business Performance

The finding that Sustainable Competitive Advantage (SCA) partially has a significant effect on Business Performance is in line with the Resource-Based View (RBV) theory (Barney, 1991)Previous studies, such as those conducted by Gherghina et al. (2020), also found that strategic management focused on building competitive advantage has a positive impact on company performance. In the context of natural batik MSMEs in Kediri, these results imply that unique resources

such as traditional motifs, the use of environmentally friendly natural dyes, and authentic brand reputation are key factors driving business success. This reinforces the argument that non-financial aspects, related to product uniqueness and differentiation, are far more crucial for these MSMEs than mere financial metrics.

2. The Effect of FP on Business Performance

The results show that Financial Performance (FP) does not have a significant partial effect on Business Performance, which differs from several general studies that consider financial performance to be the main predictor (Choi et al., 2018). This study found that in the context of MSMEs, social performance (such as reputation and environmental responsibility) has a greater impact on business sustainability than direct financial performance. FP is not partially significant when non-financial variables are included in the model. Financial literacy and financial inclusion do not significantly affect MSME performance if they are not supported by marketing strategies and market orientation. FP does not directly affect the sustainable performance of SMEs, but acts as a mediator between green accounting practices and business performance (Indriastuti & Mutamimah, 2023) (Indriastuti & Mutamimah, 2023).

3. The Simultaneous Effect of SCA and FP on Business Performance

The conclusion of the F test, which states that SCA and FP together have a significant effect on business performance, confirms the importance of a holistic approach. This finding is supported by other studies suggesting that the drivers of business performance are multifactorial. The combination of financial literacy and other factors such as effective management collectively improves the performance of MSMEs (Bambang et al., 2021). In other words, although Financial Performance alone is not the main determinant, when combined with strong Competitive Advantage, these two variables create synergies that significantly improve Business Performance. This shows that to achieve sustainability, MSMEs must balance non-financial strategies and sound financial practices.

CONCLUSIONS AND RECOMMENDATIONS

Based on data analysis from the three tables (Model Summary, ANOVA, and Coefficients), it can be concluded that this study successfully answered the proposed objectives. Simultaneously, Sustainable Competitive Advantage (SCA) and Financial Performance (FP) were proven to have a significant effect on Business Performance (BP) in batik MSMEs in Kediri. However, the partial test results show that only SCA individually has a significant effect on BP, while FP does not. This finding implies that for MSMEs engaged in the creative and cultural sector, the ability to create uniqueness and differentiation, which is the core of SCA, is far more crucial than financial metrics alone. Nevertheless, the combination of both remains a key determinant of business success..

Natural batik SME players in Kediri are advised to continue strengthening their competitive advantages. This can be done by developing more unique and authentic motifs, consistently using natural dyes, and building a strong brand image to differentiate their products from competitors. Although not significantly influential in this model, good financial management remains fundamental. SME operators must improve their financial literacy, manage their accounts with discipline, and seek access to capital to support business innovation and expansion.

Future research could expand the model by including other variables that are thought to influence the performance of MSMEs, such as market orientation, digital innovation, or government support. This could provide a more comprehensive understanding of the factors that determine the success of MSMEs. Given the insignificant results of the FP test, further research could use qualitative methods to explore the reasons behind these findings in greater depth, for example by conducting in-depth interviews with MSME owners to understand how they manage their finances and prioritise other factors in their businesses.

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