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MSMEs' Financial Performance Based on Determinants of Competitive Advantage

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ABSTRACT

This study strives to empirically test the determinants of competitive advantage and their consequences towards financial performance. A total of 260 MSME owners in the culinary sector in the cities of Semarang, Salatiga, and Surakarta, in Central Java Province, Indonesia, were selected as respondents. The survey data was processed using a Partial Least Squares Structural Equation Modeling (PLS-SEM) analysis. The study results revealed that environmentally friendly behavior and entrepreneurial marketing increase competitive advantage. Furthermore, competitive advantage, environmentally friendly behavior, and entrepreneurial marketing have a direct effect on financial performance. In another finding, competitive advantage is demonstrated to partially mediate the influence of environmentally friendly behavior and entrepreneurial marketing on financial performance. However, this study could not prove that hygienic behavior affects competitive advantage and financial performance. It is expected that the findings of this study will add to the literature regarding the role of environmentally friendly behavior and entrepreneurial marketing on competitive advantage, as well as the impact of competitive advantage on the financial performance of MSMEs in the culinary sector, especially when the economic conditions have entered the new normal era after the COVID-19 pandemic. In addition, these findings can be utilized as reference material that can be implemented by MSME actors and policymakers.

INTRODUCTION

Up until now, micro, small, and medium enterprises (MSMEs) have been recognized as the backbones of the economies of the majority of developing countries, including Indonesia. The existence of MSMEs contributes positively to strengthening the Indonesian economy and helps balance development. However, the COVID-19 pandemic has negatively impacted the performance of MSMEs. Referring to data from the Indonesian Central Statistics Agency (BPS, 2020), almost 80% of MSMEs experienced a decline in demand from customers, as 62.21% of MSMEs faced financial and operational problems and 84.20% of MSMEs saw their revenues decline. Therefore, various efforts are needed to improve the performance of MSMEs, especially their financial performance after the COVID-19 pandemic.

The financial performance of MSMEs is not only caused by external factors, but it can also come from internal factors inherent in the business itself which are not found in other businesses, namely competitive advantage. A firm is said to have a competitive advantage when it implements a value creation strategy that is difficult for its competitors to imitate now or in the future (Barney, 1991). Through a competitive advantage, MSMEs will be able to create new markets, increase the number of customers, and boost sales, so that it is expected to contribute to higher financial performance compared to their competitors. Therefore, this study will investigate the determinants of competitive advantage in MSMEs operating in the culinary sector. The culinary sector was chosen based on the consideration that Indonesia has the largest number of business units and they are capable of being household economic saviors.

In line with the trend of customer awareness of environmentally friendly products, the capability of culinary entrepreneurs to provide environmentally friendly services and products is thought to be one of the determinants of competitive advantage. Consumers are willing to pay more for products that support environmental preservation (Wei et al., 2018). Besides that, the hygienic aspect is also just as important. Consumer preferences are more for hygienic products to maintain their body health (Rouf et al., 2018). MSMEs are often faced with a high level of competition because their entry barrier is quite low (Astro & Ghazali, 2022). They are required to have the capability to market their services and products creatively or also known as entrepreneurial marketing. The term entrepreneurial marketing is interpreted as the ability to retain customers through innovative approaches, resource utilization, and value creation (Morish et al., 2010). Previous studies also demonstrated that entrepreneurial marketing increases competitive advantage (Hidayatullah et al., 2019; Suryani & Claudya, 2021). However, there have been no known studies that have attempted to integrate environmental, hygienic, and entrepreneurial marketing issues as determinants of competitive advantage and its impact on financial performance in the context of MSMEs in the culinary sector.

The aims of this research are to: (a) examine the determinants of competitive advantage, (b) assess the direct effects of competitive advantage on financial performance, and (c) test the direct and indirect effects of competitive advantage determinants on the financial performance of MSMEs in the culinary sector in Central Java Province, Indonesia. The theoretical contributions of this research are to expand the literature regarding the role of environmentally friendly behavior, hygienic behavior, and entrepreneurial marketing on competitive advantage, as well as the impact of competitive advantage on financial performance which have been done on a limited number of previous studies. In addition, the results of this study can be used in devising policies to improve the competitive advantage and financial performance of MSMEs in the culinary sector.

1. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

1.1 Determinants of Competitive Advantage

Several theories that are often used as references in discussing competitive advantage include the competitive strategy (Porter, 1985), the resource-based view (Barney, 1991), and the dynamic capabilities theory (Teece et al., 1997). Competitive advantage is generated by companies that successfully implement generic strategies (cost leadership or differentiation) sustainably in their businesses, so that they are able to outperform their competitors (Azmi et al., 2019; Porter, 1985). A cost leadership strategy can implement cheaper prices while still paying attention to quality. Meanwhile, the differentiation strategy is carried out by producing unique products. Whatever strategy the company

chooses, it is tailored to the target customers it will serve. MSMEs that have a highly competitive advantage are able to understand market changes and choose effective marketing strategies (Suryani & Claudya, 2021). Therefore, if the strategy matches the target market, there will be an increase in the number of new customers and loyal customers, and the goods sold can reach their target.

A competitive advantage basically develops from a value or benefit that a company can create for its customers (Nurbasari & Harani, 2016). One of the values promoted in the culinary sector is environmentally friendly behavior. A competitive advantage in the culinary business can be achieved if the business actors continue to strive to increase their functional value by strengthening the green attributes in products and services that are beneficial to humans and the environment (Ferdinand et al., 2023), namely by implementing the 3R principle (reduce, reuse, recycle). Not all culinary MSMEs have or are able to implement these three principles. For culinary MSMEs who can successfully implement it, they have a golden opportunity to be superior to their competitors.

In the culinary sector, there are food safety risk factors that can be caused by contamination and inadequate processing of ingredients, as well as employee hygiene (Yasami et al., 2022). Therefore, culinary entrepreneurs need to understand, prioritize, and implement hygienic behavior to minimize risks to their customers' health. Hygienic behavior consists of knowledge, attitudes, and practices that prioritize cleanliness and safety in processing and serving food/drinks (Jeinie et al., 2016). The hygienic behavior of culinary entrepreneurs represents quality service that determines the success of their businesses (Sikora & Bojar, 2009).

A competitive advantage can also be created through entrepreneurial marketing. It is a business development concept derived from collaboration in the fields of entrepreneurship and marketing (Prihadini & Krishantoro, 2021), which produces innovative, proactive, and risky marketing strategies (Teguh et al., 2021). Similar to entrepreneurial activities, entrepreneurial marketing begins with the process of identifying opportunities related to target markets, whether serving underserved markets, heeding existing customers, redefining markets, or creating new markets (Morrish et al., 2010). To carry out this strategy, MSME actors can innovate products, pay attention to customer needs, maintain good relationships with customers and suppliers, and conduct market observations (Darman et al., 2021). The entrepreneurial marketing paradigm is applied to get closer to customers to create strong long-term bonds. Based on the previous explanation, several hypotheses are proposed as follows:

H1. Environmentally friendly behavior increases the competitive advantage.

H2. Hygienic behavior increases the competitive advantage.

H3. Entrepreneurial marketing increases the competitive advantage.

1.2 Determinants of Competitive Advantage and Financial Performance

Business performance measurements are often represented based on financial measures (Bhadu et al., 2022). Referring to Sohn et al. (2007), financial performance is measured by several indicators such as: total asset growth, sales growth, income to total assets ratio, and debt ratio. Nguyen et al. (2021) provided evidence that a competitive advantage has a positive impact on financial performance as measured by sales volume, profit levels, and return on investment.

A shift in customer lifestyles that prefer green business concepts can lead to environmentally friendly behavior which is thought to be one of the determinants of competitive advantage and contributes to improving financial performance. Culinary MSMEs are considered to be one of the contributors to environmental damage because they produce chemical waste from food processing materials and use packaging which is difficult to recycle (Siregar & Pinagara, 2022). If culinary MSMEs are able to produce environmentally friendly services and products, they have the potential to attract consumers' interest. Therefore, several studies have succeeded in validating that environmentally friendly behavior has a positive effect on financial performance (Ariani et al., 2023; Iskandar & Febriyantoro, 2019).

Wardana et al. (2022) and Latif et al. (2017) explained that cleanliness and safety aspects are one of the recommended strategies for culinary businesses. In this regard, it has been demonstrated that

perceptions regarding food hygiene have a positive impact on customers' purchase intentions (Ratasuk, 2023) and return visit intentions (Tastan & Soylu, 2023). Apart from that, Qoura and Ali (2016) found that food safety practices can create a competitive advantage by being a quality differentiator for consumers so there is also the possibility that hygienic practices can influence financial performance through their ability to create a competitive advantage.

Financial performance can be considered as the basis of marketing activities. However, entrepreneurs often face marketing obstacles related to weak trademarks, a lack of bargaining power over prices, and limited access to market information (Azmi et al., 2019). Therefore, entrepreneurial marketing is needed which allows MSME actors to read a situation and utilize internal and external resources to innovate services/products for customers (Darman et al., 2021). Innovation is a specific characteristic for MSME entrepreneurial marketing to retain and develop consumers which has an impact on improving the financial performance (Ouragini & Lakhal, 2023). Based on the arguments above, the following hypotheses are put forward:

H4. A competitive advantage improves the financial performance.

H5. Environmentally friendly behavior improves the financial performance.

H6. Hygienic behavior improves the financial performance.

H7. Entrepreneurial marketing improves the financial performance.

H8a. A competitive advantage mediates the influence of environmentally friendly behavior towards the financial performance.

H8b. A competitive advantage mediates the influence of hygienic behavior towards the financial performance.

H8c. A competitive advantage mediates the influence of entrepreneurial marketing towards the financial performance.

2. RESEARCH METHODOLOGY

2.1 Data Sample and Collection

This study was conducted on MSMEs in the culinary sector in Central Java Province, which is an MSME center with the largest number of MSMEs in Indonesia, namely 20%. Meanwhile, the culinary sector was chosen because it is one of the sectors that was able to survive during the COVID-19 pandemic. The targeted sample size is based on the Slovin formula with an e value of 10% and resource capabilities of 260 respondents.

The data collection was carried out through field surveys in three cities known as being culinary cities, namely Semarang, Salatiga, and Surakarta. These surveys had two enumerators in each city, with each enumerator interviewing 40-50 respondents. With a deadline of three weeks, 260 respondents were obtained. This number of respondents met the requirements suggested by Hair et al. (2014), namely a minimum of 100 samples for a structural equation model with ≤ 5 constructs and each consisting of 3 items with high communality.

2.2 Measurements

The measurements involved dependent, independent, and mediating variables. The variable measurements in this research used a series of measurement items adapted from previous research or developed based on previous concepts and ideas. Starting from the dependent variable, financial performance was developed from Sohn et al. (2007) and (Lähtinen & Toppinen, 2008), which consisted of four items: increased sales, profit, working capital, and business assets. The independent variables included environmentally friendly behavior measured by referring to Ismail et al. (2010), which consisted of four items: managing rubbish/waste, reducing materials that produce plastic waste, saving energy and water

usage, and repairing damaged equipment first before finally buying a new one. Hygienic behavior consisted of four items: implement clean behavior, provide sanitation facilities, processing raw materials according to standards cleanliness and prioritizing cleanliness in serving food/beverage products. Entrepreneurial marketing involved four items developed from Darman et al. (2021), which included: being able to develop products, being creative in sales (e.g.: discounts/bundling purchases), producing products that are different from competitors, and having various types of products/services that follow customers' tastes. Lastly, for the mediating variable, the competitive advantage was developed by the author, which included four items: the number of consumers on average was greater than the competitors, many had regular customers, the buyers were not just people around the location, and there was rarely a lack of buyers and the merchandise sold as expected. All the research variables were measured using a 7-point scale, with the number 1 inferring "strongly disagree" and the number 7 meaning "strongly agree".

2.3 Estimation Models

Based on the hypotheses that were formulated, two estimation models were devised as follows:

$$\text{Model 1: } FIP = \beta_1 CAD + \delta_1 \quad (1)$$

$$\text{Model 2: } CAD = \beta_3 EFB + \beta_4 HYB + \beta_5 ETM + \delta_3 \quad (2)$$

Description:

FIP	=	Financial Performance
CAD	=	Competitive Advantage
EFB	=	Environmentally Friendly Behavior
HYB	=	Hygienic Behavior
ETM	=	Entrepreneurial Marketing

The equations were tested using the Structural Equation Modeling Partial Least Squares (SEM-PLS) method. However, beforehand it had convergent and discriminant validity tests, a reliability test, and a goodness-of-fit test. Convergent validity occurs if the loading value is greater than 0.6. Discriminant validity happens if the correlation value is greater than AVE. Next, reliability occurs if the Cronbach's alpha value is >0.60 and the composite reliability value is >0.80. Meanwhile, the goodness-of-fit was examined through SRMR < 0.1, $R^2 > 0.1$, and $Q^2 > 0$.

3. RESULTS AND DISCUSSION

3.1 Descriptive Statistics

The descriptive statistics for all the variables examined are presented in Table 1. All the average values for the variables of environmentally friendly behavior, hygienic behavior, entrepreneurial marketing, competitive advantage, and financial performance are above 5. The average value is in the range of 5.087 to 5.568. Thus, the respondents can be said to have high perceptions for these five variables.

Table 1. Descriptive Statistics

Variable	Avg*	Skewness	Kurtosis	St. Dev
Environmentally Friendly Behavior	5.320	-0.478	-0.270	1.030
Hygienic Behavior	5.208	-0.894	0.068	1.250
Entrepreneurial Marketing	5.162	-0.869	0.473	1.198
Competitive Advantage	5.568	-0.712	0.217	0.898
Financial Performance	5.087	-0.682	-0.252	1.393

Note: *A score of 1 – 2.99 depicts low perception; a score of 3 - 4.99 reveals medium perception; and a score of 5 - 7 shows high perception.

Meanwhile, the results of the correlation analysis in Table 2 revealed that there is no multicollinearity issue, because the correlation values between variables tend to be low (in the range of 0.008 – 0.441).

Table 2. Correlation Analysis

<i>Variable</i>	<i>PRL</i>	<i>PH</i>	<i>EM</i>	<i>CA</i>	<i>FP</i>
Environmentally Friendly Behavior	1.000	0.187 (0.000)	0.441 (0.000)	0.269 (0.000)	0.248 (0.000)
Hygienic Behavior		1.000	0.287 (0.000)	0.180 (0.000)	-0.008 (0.921)
Entrepreneurial Marketing			1.000	0.367 (0.000)	0.267 (0.000)
Competitive Advantage				1.000	0.413 (0.000)
Financial Performance					1.000

Note: The numbers in parentheses () show a significant value.

To ensure the quality of the measurements, validity and reliability testing was carried out. Table 3 shows that the convergent validity test has an outer loading value from 0.650 to 0.927. By excluding the PRL1 and CA3 indicators because they have a loading value <0.5, all other indicators can be said to have met the requirements for convergent validity. This is reinforced by the AVE value for all constructs being > 0.5.

Table 3. Validity and Reliability Assessments

<i>Latent Construct</i>	<i>Items</i>	<i>Loading</i>	<i>CA</i>	<i>CR</i>	<i>AVE</i>
Environmentally Friendly Behavior	PRL2	0.804	0.602	0.782	0.546
	PRL3	0.740			
	PRL4	0.666			
Hygienic Behavior	PH1	0.882	0.908	0.935	0.782
	PH2	0.900			
	PH3	0.897			
	PH4	0.859			
Entrepreneurial Marketing	EM1	0.798	0.789	0.839	0.567
	EM2	0.677			
	EM3	0.806			
	EM4	0.743			
	EM5	0.652			
Competitive Advantage	CA1	0.762	0.742	0.839	0.567
	CA2	0.650			
	CA4	0.818			
	CA5	0.771			
Financial Performance	FP1	0.916	0.874	0.915	0.730
	FP2	0.927			
	FP3	0.840			
	FP4	0.718			

Source: own

Meanwhile, Table 4 reveals the Fornell-Lacker Criterion or AVE root values for testing the discriminant validity. If the AVE square root value for each construct is greater than the correlation value between other constructs, it can be said to have met the requirements for good discriminant validity (Fornell &

Larcker, 1981). Thus, it can be concluded that all indicators are considered valid for both the convergent and discriminant validity. The test results in Table 5 also convey that all the constructs in the research are reliable. This is validated by the Cronbach's alpha (CA) value >0.60 and the composite reliability (CR) value >0.70.

Table 4. Fornell-Lacker Criterion Value (AVE Root)

<i>Variable</i>	<i>PRL</i>	<i>PH</i>	<i>EM</i>	<i>CA</i>	<i>FP</i>
Environmentally Friendly Behavior	0.739	0.187	0.441	0.269	0.248
Hygienic Behavior		0.885	0.287	0.180	-0.008
Entrepreneurial Marketing			0.736	0.367	0.267
Competitive Advantage				0.753	0.413
Financial Performance					0.855

Source: own

Next, the goodness-of-fit test results are presented in Table 5. The standardized root mean square residual (SRMR) is 0.074 or lower than 0.10. Besides that, the R-Square (R²) value is 0.199 or greater than 0.1 and the Q-Square (Q²) value is 0.145, greater than 0. Thus, the model can be declared as being fit.

Table 5. Goodness-of-Fit

<i>Criteria</i>	<i>Parameters</i>	<i>Rule of Thumb</i>
Standardized Root Mean Square Residual (SRMR)	0.074	SRMR < 0.1
R-Square (R ²)	0.199	R ² > 0.1
Q-Square (Q ²)	0.145	Q ² > 0
NFI	0.742	NFI < 0.80

Source: own

The results of the direct influence test in Panel A of Table 6 show that environmentally friendly behavior has a positive influence on the competitive advantage of MSMEs in the culinary business sector ($\beta = 0.128$, sig. 0.023), which means that H1 is accepted. However, the results of this study failed to document the effect of hygienic behavior on competitive advantage ($\beta = 0.094$, sig. 0.243), which means that H2 cannot be accepted. Furthermore, in testing H3, it shows that entrepreneurial marketing can influence competitive advantage ($\beta = 0.289$, sig. 0.000). Thus, H3 is accepted. These findings confirm that culinary MSMEs which implement environmentally friendly behavior and entrepreneurial marketing are demonstrated to have superior opportunities compared to their competitors. Meanwhile, hygienic behavior is not yet capable of being a source of competitive advantage, so it is not in line with the results of the study by Sikora and Bojar (2009), and it also has the potential not to contribute to financial performance.

Related to the financial performance, competitive advantage shows a positive and significant influence ($\beta = 0.360$, sig. 0.000), so that H4 is accepted. Furthermore, environmentally friendly behavior is also proven to have a positive influence on financial performance in culinary business MSMEs ($\beta = 0.123$, sig. 0.033), so H5 is accepted. Meanwhile, hygienic behavior actually has a negative influence on financial performance ($\beta = -0.129$, sig. 0.032). Thus, H6 is rejected. In line with environmentally friendly behavior, entrepreneurial marketing has a positive influence on financial performance ($\beta = 0.118$, sig. 0.086), which means that H7 is accepted. Consistent with its influence on competitive advantage, only the hygienic behavior variable is not proven to be able to improve the financial performance of culinary MSMEs. Thus, these results are only in line with the studies of Ariani et al. (2023) and Iskandar and Febriyantor (2019) who found that environmentally friendly behavior can improve financial performance and Ouragini and Lakhal (2023) who demonstrated that business actors who are innovative and able to read customer needs are better able to improve their financial performance.

Table 6. Hypothesis Testing

<i>Panel A. Direct Influence</i>			
Hypothesis	Path Coefficient	P-Value	Decision
EFB → CAD	0.128	0.023**	H1 is accepted
HYB → CAD	0.072	0.243	H2 is rejected
ETM → CAD	0.289	0.000***	H3 is accepted
CAD → FIP	0.360	0.000***	H4 is accepted
EFB → FIP	0.123	0.033**	H5 is accepted
HYB → FIP	-0.129	0.032**	H6 is rejected
ETM → FIP	0.118	0.086*	H7 is accepted
<i>Panel B. Indirect Influence</i>			
EFB → CAD → FIP	0.046	0.001***	H8a is accepted
HYB → CAD → FIP	0.026	0.272	H8b is rejected
ETM → CAD → FIP	0.104	0.036**	H8c is accepted

Description: EFB= Environmentally Friendly Behavior; HYB= Hygienic Behavior; ETM = Entrepreneurial Marketing; CAD = Competitive Advantage; FIP = Financial Performance

*** significant at $\alpha = 1\%$, ** significant at $\alpha = 5\%$, * significant at $\alpha = 10\%$.

The indirect test results in Panel B of Table 6 reveal that competitive advantage is demonstrated to partially mediate the influence of environmentally friendly behavior on financial performance ($\beta = 0.046$, sig. 0.001) and partially mediate the influence of entrepreneurial marketing on financial performance ($\beta = 0.104$, sig. 0.036). However, this study cannot verify that there is an indirect effect between hygienic behavior on financial performance and the mediation of competitive advantage ($\beta = 0.026$, sig. 0.272).

CONCLUSION

This study investigated the determinants of competitive advantage and its effects on financial performance by involving 260 respondents from culinary MSMEs. The study results showed that if entrepreneurs are committed to being environmentally friendly and carrying out entrepreneurial marketing, it can increase their competitive advantage. Apart from that, entrepreneurs' commitment to being environmentally friendly and conducting entrepreneurial marketing also has an impact on increasing the financial performance of MSMEs both directly and through moderating competitive advantage. Meanwhile, the influence of hygienic behavior on competitive advantage and financial performance cannot be substantiated.

Theoretically, this study contributes to the literature by expanding on previous research regarding the determinants and effects of competitive advantage. The study findings documented the interrelations between environmentally friendly behavior, entrepreneurial marketing, and competitive advantage on the financial performance of MSMEs in the culinary sector, especially when the economy has entered the new normal era due to the COVID-19 pandemic. The results of this study offer several implications for MSME actors, namely first, MSME actors need to pay attention to the competitive advantage of their businesses in order to achieve increased financial performance. Second, in an effort to achieve a competitive advantage, MSME actors should pay attention to environmental issues, namely by having environmentally friendly behavior and also implementing marketing activities that focus on product innovation, customer needs, and good relationships with customers and suppliers.

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