



Article

Business Strategies and Competitive Advantage: The Role of Performance and Innovation

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Abstract: This study aims to examine the effect of business strategies to improve the competitive advantages of small and medium enterprises (SMEs). Further, our study considers the importance of performance and innovation as mediating variables in the relationship between business strategies and competitive advantage. The sample of the study consists of 150 SMEs in the construction and real estate industry. Our findings show that business strategies have a positive impact on competitive advantage. Better business strategies improve the competitive advantage of SMEs. Further, business performance and innovation also mediate the relationship between business strategies and competitive advantages. These results provide evidence of the importance of performance and innovation to improve the competitive advantage. It is suggested that SMEs improve their performance and innovation capability to strengthen their competitive advantages.

Keywords: business strategies; competitive advantage; performance; innovation



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1. Introduction

Small and medium enterprises (SMEs) play an important role in economic revival and growth [1] and can lead countries to increase competitiveness [2]. They are foundational to their industries and promote strong commercial space sectors, that encourage innovation and creativity to develop and facilitate the industrialization [3]. While SMEs explicitly and implicitly affect a country's economic growth, they also create significant opportunities in the labor market, with SMEs accounting for 99.7% of the United Kingdom's 4.7 million businesses [4]. Globally, SMEs form part of the private sector [4]. The economy and society also depend on SMEs [5], and several factors support and influence their strategies which in turn affect their business development [6].

The development of a dynamic business environment affects every company [7]. Technological changes and product variations are two factors that significantly affect business development [8]. As such, pre-selected superior strategies are often in adequate and the selection and determination of new strategies are needed to foster a more competitive company. From a resource-based strategy perspective, this exemplifies the importance of the resources and capabilities enterprises need to develop their competitive advantage [9]. Competitive advantages that every company needs to compete in the global market are the mastery of technology [10]; high-quality human resources (workers and managers); high creativity and motivation; a high level of efficiency and productivity in the production process; the production of good quality goods [11]; good management systems and organizational structures; a high level of entrepreneurship; a broad vision of the products and the environment around the business (economic, social, political, etc.); and the ability to face fierce competition in the global market [12].

From a resource-based strategy perspective, the importance of resources and capabilities in developing a company's competitive advantages are emphasized [13]. Innovation is key to gaining competitive advantages [1]. Innovation strategies are the most important

factor in small and medium-sized industries, especially in improving operational reliability [5]. Innovation is classified into two types: radical and incremental [14]. Radical innovation is when a drastically different and novel innovation becomes the main solution in the industry. Meanwhile, incremental innovation is the innovation that makes slight changes and adjustments to existing practices. Innovation is an important driver of business competitiveness and improvement for a company performance, especially for SMEs [15].

Innovation is key to a company's performance [16] and innovation ability has a significant effect on product quality and operational performance [12]. While the ability to innovate does not directly affect a company's financial performance, but rather an indirect effect on its operational performance [17], companies have an opportunity to improve their overall performance. Innovation is an important driver of business competitiveness and improvement for a company's performance, especially for SMEs [18].

The literature on the relationship between innovation strategies and business performance is extensive (see, e.g., [19–21]). However, for SMEs, several studies report mixed and/or inconclusive findings [20,21]. On one hand, robust large-scale data surveys for SMEs as well as general, research in this area are scarce [22]. These inconclusive results maybe because innovation requires a combination of resources, such as financial, technology, and human capital resources, as well as certain organizational capabilities, which may be a significant constraint [23,24].

Thus, this research was conducted using innovation and business performance variables as mediators for SME business strategies with competitive advantages in Indonesia. An additional competitive advantage variable is included in this research, because it is rarely studied, especially for SMEs and micro, small, and medium enterprises (MSMEs). This research is carried out in Indonesia (using the construction and real estate industries featuring MSME actors in 34 provinces in Indonesia) to make other contributions to previous research [25]. A phenomenon that will be added, namely, the COVID-19 pandemic, will increase the relevance of this study. The research methods include examining quantitative and survey data, as well as testing structural equation modelling with the help of variance-based smart PLS. The current study is expected to provide evidence on the importance of innovation and business performance to strengthen the relationship between business strategy and competitive advantages of SMEs.

2. Literature Review

Recently, as the era of business competition has become tougher, business people must continuously find ways and strategies to overcome competition in their respective fields [26]. In choosing the business models and concepts to be used, ideally, business people should be able to combine internal factors, particularly resources, and look at the structure of the industry externally [27,28]. After analyzing the industry structure based on external factors, the company might have maximized all components of internal resources (resources) by creating various advantages. Competitive advantage factors are those that are gained or can be developed/created [29].

Competitive advantage stems from a company's strategic choices to seize market opportunities [7]. A business strategy, also called competitive strategy, is usually developed at the divisional level, and emphasizes improving the competitive position of a company's products/services in the specific industry /market segment served by the division [30]. The division's business strategy may focus on increasing profits in the production and sale of products and services [31]. Business strategies should integrate various functional activities to achieve divisional goals [32].

The concept of a company's competitive advantage was developed using the generic strategy proposed in earlier studies [13]. Measurements that show competitive advantage variables are imitability, durability, and ease of matching [33]. Competitive advantage is at the heart of a company's performance in a competitive market [34,35]. A company's advantage grows from the value or benefits that the company can create for its buyers. If the company can create an advantage over one of these three generic strategies, it may

gain a competitive advantage. Competitive advantage can be understood by looking at the company stemming from the many activities that a company undertakes in designing, producing, marketing, delivering, and supporting sales [36]. Thus, competitive advantage is a position in which the organization is still working to beat competitors.

This research was conducted based on the concept of dynamic capability theory [37], since dynamic capability allows a company to be superior to its competitors [38,39]. An example of this is the fall of the Nokia Company in the mobile phone industry. Nokia underestimated the changes and technological developments of the mobile industry, where the emergence of smartphones was not taken seriously at first. This resulted in Nokia losing its smartphone revolution, as its products were not equipped with modern technology that was new and innovative compared to other smartphones, such as Apple and Samsung [40].

Capabilities, unlike resources, are built on developing, administering, and exchanging information through a company's human capital [9]. Capabilities exemplify that when the competitive landscape changes rapidly and can be unpredictable, an organization can achieve a competitive advantage through regular adjustments and development of its resources (innovation) [41]. Capabilities are very diverse, meaning that a company's capabilities can be better compared to others' capabilities. This inspired Teece to develop the idea of dynamic capabilities [9].

Organizational capabilities can be divided into operational and dynamic capabilities [42]. Operational capabilities involve carrying out an activity, such as producing a particular product. A set of routines is used to execute and coordinate the various tasks required to carry out an activity. Dynamic capability is a company's ability to integrate, build, and reconfigure internal and external competencies to face a rapidly changing environment. Thus, dynamic capabilities reflect an organization's ability to achieve new and innovative forms of competitive advantage [43].

Dynamic capability comprises two terms: capability and dynamic [9]. The word "capability" is the key role of strategic management in matching the adaptation, integration, and reconfiguration of internal and external organizational skills, resources, and functional competencies according to the needs of a changing environment [37]. Meanwhile, the word "dynamic" relates to the capacity to renew competencies, so that achieving conformity with the changing business environment requires innovative responses, rapid technological changes, and an analysis of the future market competition that is difficult to determine [44,45]. The question persists as to whether all companies can use dynamic capabilities at various levels [46]. Based on the author's search of the literature, there is no requirement that dynamic capabilities can only be carried out by large companies, such as Apple, Toyota, and Wal-Mart, but SMEs can also carry out this dynamic capability with some adjustments [47].

2.1. Generic Competitive Strategy Model

Companies must be able to integrate strategy and various resources in creating superior competitiveness [16]. For instance, one company in Porter's generic strategies, runs its business to achieve and maintain its advantages [13]. Porter explains that three types of strategies are used by businesses to achieve and maintain competitive capabilities. These three strategies are distinguished according to their capabilities [48]. They are seen from the demand side as well as from the size and composition of the market to be entered. The ability to practice this strategy is seen from the supply side or owned and seen from the company's ability. Here, Porter identifies two competencies that are considered quite important: product differentiation and product price (equated with efficiency) [49].

At the beginning of its formation, Michael Porter divided his strategy into three dimensions, namely, low, medium, and high, and gave an approach as a three-dimensional matrix [13]. This categorical scheme is represented by a $3 \times 3 \times 3$ cube. However, most of the 27 cube combinations are not commonly used in business. Currently, three primary strategies are most commonly used by companies [13]. These three strategies are cost leadership strategy, differentiation strategy, and focus strategy [50]. A cost leadership strategy can inhibit competitors by reducing the cost of the production process, which

offers lower prices to buyers [51]. In addition, if you want to obtain a good supplier, the company may find it easier to negotiate with large-scale suppliers so that raw materials are easier to obtain. In terms of competition, companies that use a low-cost strategy face threats from both similar companies and those companies that produce substitute goods by bringing low prices as an advantage. This strategy emphasizes customer loyalty, thus from an entry barrier perspective, companies can gain easier access to marketing [52]. Product differentiation helps increase a company's competitiveness in the presence of substitutes and the threat of similar companies [53,54]. The best cost strategy emphasizes the competence of the company; thus, its competitiveness is very high. In addition, the number of competitors and substitute goods also is tiny [55]. These three strategies have their respective areas of excellence, so no provision solely determines which strategy is the best of all, because it depends on the type of business or product type, market share, and various other factors.

2.2. Business Strategies with Business Performance

Business strategies are important for directing a company's goals to achieve virtuoso performance [11]. Business strategies focuses on improving the competitive position of a company's products and services in a particular industry or market segment served by the company [49]. Through a competitive position, the company's products can improve its performance, to achieve excellent results. A stronger business strategy can also help companies create new ideas, open up opportunities to penetrate the market and conduct experiments, despite the risk, so they may become market leaders by implementing their long-term strategies and goals [54]. Business strategies differ from strategy at the corporate level. At the business level, this strategy focuses more on improving the competitive position of the company's products or services in certain market segments [55].

A good business strategy can improve organizational performance by implementing the company's business processes [56]. In companies that implement a prospector strategy, more emphasis is placed on product innovation and market effectiveness [57]. The company focuses on product research to develop innovative products. Companies focusing on prospector strategies will continue to strive to become leading companies or primary drivers in their fields. Organizational performance results from the strategy chosen by the manager. Determining the strategic policies carried out by the company will affect its performance. To achieve good performance, the company chooses a prospector business strategy [57]. To achieve one of the company's goals, the company's capabilities must be managed based on an established strategy and information system. This is useful for maintaining and developing the sustainability of a company's competitive advantage [11]. Companies with different strategies have different functional capability development processes. A company characterized as a prospector places more emphasis on innovation with market effectiveness in mind [58,59]. Companies that emphasize innovation and always strive to be prime movers will try harder than their competitors will. This can encourage an increase in a company's capability to manage its competitive advantage. Thus, we present the following hypothesis:

Hypothesis 1 (H1). *Strategy has a positive effect on business performance.*

2.3. Business Strategies with Innovation

Innovation can be used as a strategy to improve business performance [59]. Customers want innovative products according to their wishes [60]. Rapid technological advances and high levels of competition require every company to continuously innovate products, which ultimately increases the company's competitive advantage. For companies to have a competitive advantage, every company must be creative with the products they market regularly [61–63].

Due to the rapid development of technology, as previously mentioned, companies are required to maintain their competitive advantage in various ways so that they can

continue to compete in the market and not lose to their competitors [64]. The concept of innovation has a long history and various meanings, mainly based on the competition between firms and the different strategies firms employ [65]. Innovation is defined as an unknown element introduced in the operation of products and services within a company, such as raw materials, task specifications, mechanisms, and equipment used to produce products or services. We thus present the following hypothesis:

Hypothesis 2 (H2). *Strategy has a positive effect on innovation.*

2.4. Business Strategy and Competitive Advantage

Without a competitive advantage, a company will only be able to enjoy normal returns, namely the level of profit that can be expected from other investments that have the same level of risk [66]. Companies that can create a sustainable competitive advantage depend not only on the strength of the company, but also strive to design strategies that cover all aspects [67]. The way to obtain this competitive advantage has been planned in “Generic Strategies”, including: cost leadership, differentiation, and focus [13]. Cost leadership is the most obvious of the three generic strategies, where a company aims to be the lowest-cost producer in its industry.

In a differentiation strategy, a company seeks to be unique in its industry along several dimensions that buyers value [68]. A company is valued at a premium price because of its uniqueness. A focus strategy selects a segment or a group of segments within the industry and adapts its strategy to serve customers to the exclusion of others [69]. The focus strategy, divide into (1) cost focus, in which the company seeks cost advantage in its target segment, and (2) differentiation focus, in which the company seeks differentiation in its target segment [13]. We therefore present the following hypothesis:

Hypothesis 3 (H3). *Strategy has a positive effect on competitive advantage.*

2.5. Business Strategies and Competitive Advantage through Business Performance

When the complexity, dynamics, and intensity of competition are in the macro-environment, businesses increase [70]. This means that companies are encouraged to further strengthen their strategic bases, to ensure sustainable growth, especially in the long term [71]. This is expected to be the market performance. Previous research shows that new product attributes, such as quality (new product quality), reliability (reliability), novelty (newness), and uniqueness, provide a more concrete picture of the company's ability to meet customer needs [72–74]. Differences between alternatives in important attributes provide direct evidence for the superiority of a product [75,76]. The advantages of new products affect product market performance, which refers to the level of financial and competitive outcomes in the market, such as profit, return on investment (ROI), and market share [77]. Evidence shows that additional product benefits lead to superior product performance. Thus, the greater the advantages of the new product, the better the market performance of the product. We therefore present the following hypothesis:

Hypothesis 4 (H4). *Business performance mediate the relationship between strategies and competitive advantage.*

2.6. Business Strategies and Competitive Advantage through Innovation

Competitive strategies can be used by business actors to face their competition [78]. This strategy can be interpreted as a process by which companies build and develop various strategic resources with the potential to generate competitive advantage [79]. These advantages have two roles: to be a tool to generate performance, and a tool to neutralize assets and competitive competencies owned by competitors [80–82]. By making careful innovations, companies can create products that improve their business performance [83]. Essentially, if

a company makes product innovations, its business performance will also increase. This is due to the market orientation that has been implemented, creating a competitive advantage and improving the company's business performance [84]. Competitive advantage can be achieved if customers obtain a consistent difference in the products produced compared to competitors [85,86], where the difference is obtained from the results of the company's market orientation. Therefore, in this study, the innovation variable needs to be included as a mediator of the influence of business strategies on competitive advantage. A positive influence exists between competitive advantage and performance as measured by sales volume, profit level, market share, and return on investment [87]. Thus, we present the following hypothesis:

Hypothesis 5 (H5). *Innovation mediates the relationship between strategy and competitive advantage.*

Based on the explanation of the hypotheses discussed, the following is a framework for the research model used, as shown in Figure 1.

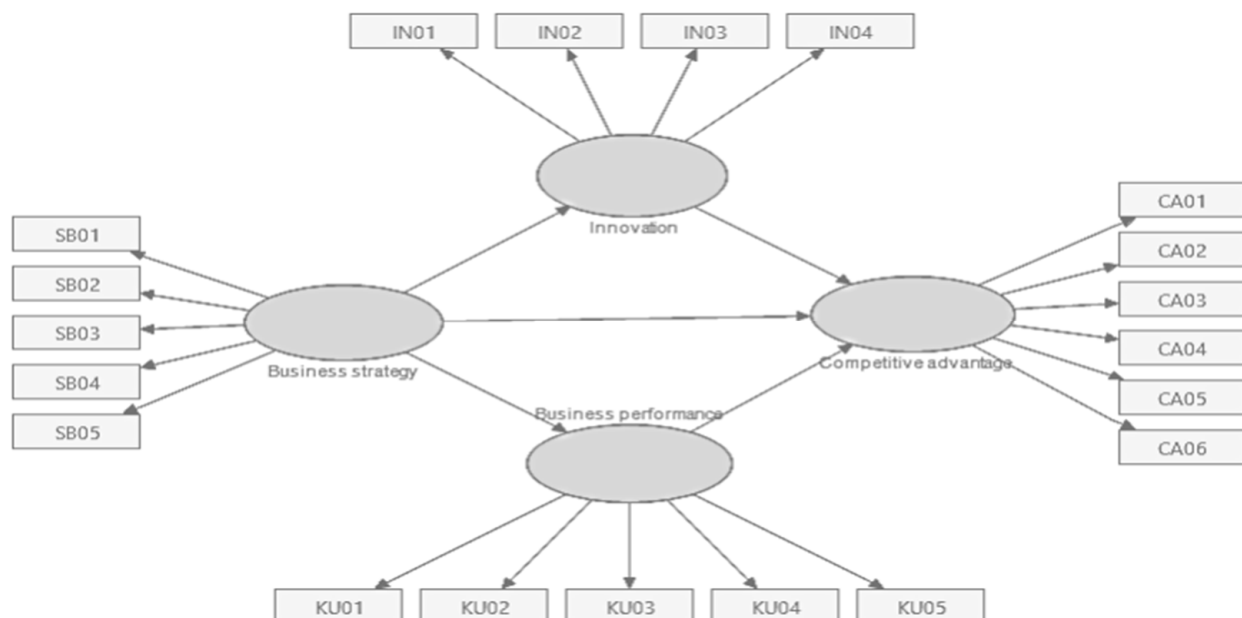


Figure 1. Conceptual framework.

3. Materials and Methods

Our methodology used quantitative data. Data collection techniques included surveys and analyses of several studies or other references that support the concept of this research. The research objects used were all actors/owners of MSME construction and real estate businesses in Indonesia. This study focuses on the SME in Java Island who receive assistance from Bank Indonesia. Further, the next criteria is the number of employees being a minimum of 50 employees. Based on these criteria, the final sample consists of 150 SMSs. This research was conducted from February 2022 to June 2022 or over four months with an estimated data tabulation process and test for one month. The survey was conducted using a questionnaire via Google Form and disseminated to all respondents in Indonesia via email or through the construction and real estate MSME association forums in each of Indonesia's province. The current study uses five Likert scales for each variable, ranging from strongly agree to strongly disagree. Table 1 describes the variables of the study.

Table 1. Measurement of research variables.

Research Variable	Variable Indicator	Variable Measurement
Business strategy is the direction or path that an organization will to carry out its business mission to achieve its business vision [11].	a. Employee skills and competencies, b. Product market strategy. c. Competitive products, d. Good service quality, e. Low price strategy [11].	Likert scale
Business performance is the result of work achieved by an individual and can be completed with the individual's tasks within the company and a certain period, and will be associated with the size of the value or standard of the company that the individual works for [11].	Performance measurement using items that have been developed by [11]. The measurement includes long-term profitability, sales growth, liquidity resources, investment capacity, and customer loyalty.	Likert scale
Innovation is a comprehensive process that is tied to a business strategy for enterprise use. This includes company policies, market interactions, research, technology, and resource capabilities [34].	(1) Organizational leadership, (2) Collaboration and partnership, (3) Business and technology, (4) Knowledge management [75].	Likert scale
Competitive advantage is a competitive strategy that is difficult for competitors to imitate, namely making products that truly have regional unique values and are carried out sustainably, so that competing products do not have the opportunity to attract consumers' attention [33].	1. Innovation, 2. Quality, 3. Price, 4. Delivery dependability, and 5. Time to market [33].	Likert scale

The analytical method used in this study is the partial least square (PLS) method through a statistical test tool for variance-based structural equation model (SEM). Data analysis of this research was carried out using Smart PLS, and applying verification analysis comprised three stages: measuring the outer model, evaluating the structural model (inner model), and testing the research hypotheses.

4. Results

Table 2 provides information on the distribution of our sample based on the province in Java island.

Table 2. Distribution of respondents' areas.

Respondent's Work Area	Amount
Central Java	56 respondents
West Java	18 respondents
DKI Jakarta	30 respondents
East Java	26 respondents
Special Region of Yogyakarta	17 respondents
Total	150 respondents

After distributing the questionnaires, sample data of 150 respondents were received, with the following details. The data obtained from the respondents then identified the following characteristics:

4.1. Characteristics of Respondents

This explanation of the respondent's characteristics was carried out to inform the reader about the profile of the respondent used as a sample in this test. The respondent's profile included gender, educational background, length of business, business location, and the number of employees managed by the respondent. The respondents were construction

and real estate SMEs in Indonesia, represented by five provinces: Central Java, West Java, DKI Jakarta, East Java, and the Special Region of Yogyakarta.

Based on Figure 2, respondents who comprised the final sample of this study were mostly male and the highest level of education obtained was senior high school. This is likely because some senior high schools in Indonesia have vocational lessons, namely, in business development. The length of business of the respondents varied, ranging from one year to over 15 years; however, the sample data show that the length of business of the respondents who dominate this research was between 11–15 years. All businesses run by these respondents held varying numbers of employees, ranging from 3 to over 100 employees; however, in this research sample, the average number of employees managed by respondents was between 21–40 employees.

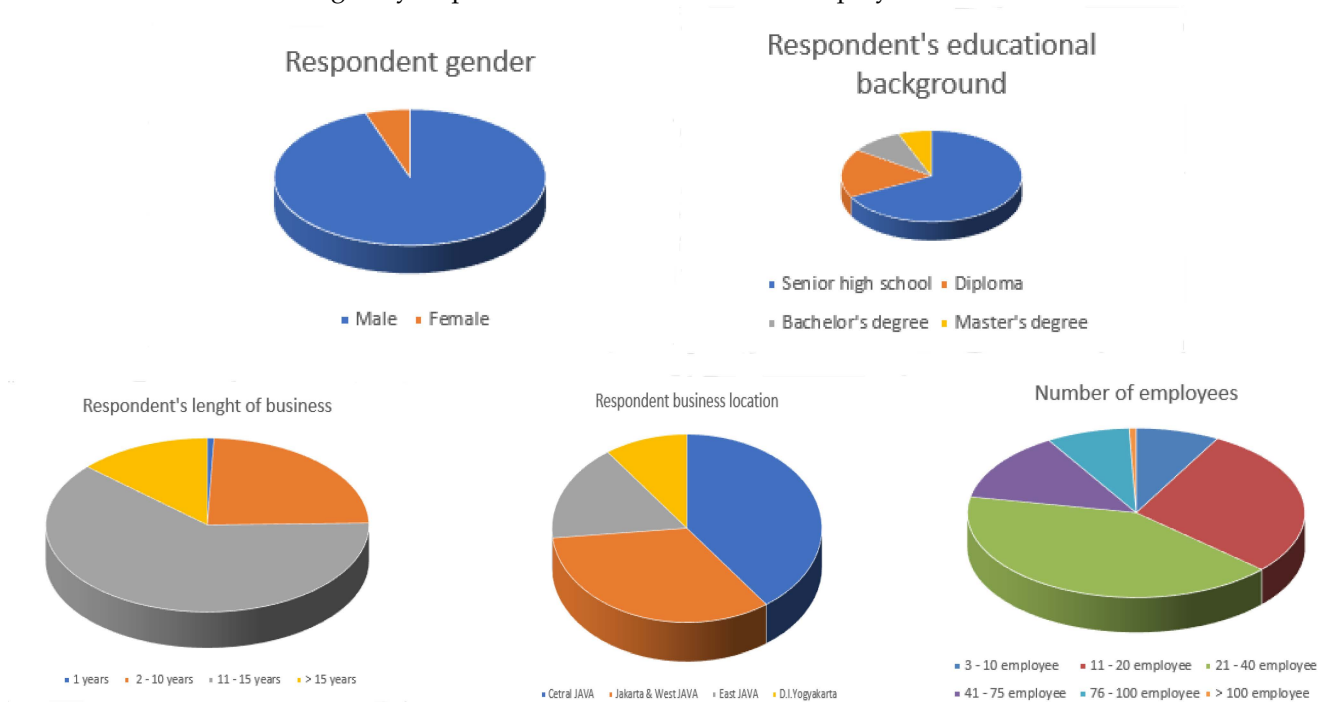


Figure 2. Characteristics of respondents.

4.2. Validity and Reliability Test

The survey data were obtained from the first test, namely, the validity and reliability test, to determine the accuracy of the tabulated data. The test results are listed in Tables 3 and 4.

Table 3 shows that all the question items from the variables of business strategy, business performance, innovation, and competitive advantage, were under the provisions set, namely the value of $r_{\text{count}} > r_{\text{table}}$, so that with a 150 questionnaires data, and by using the degree equation of freedom ($DF = N - 2$) or $DF = 150 - 2 = 148$, the r_{table} value of 148 is obtained by 0.161. The smaller the alpha value, the more reliable are the items. The standard used was $\alpha > 0.70$ (sufficient reliability). Based on the test results, the data show that all statement items from all variables are valid and reliable, and can be used in research.

4.3. Testing the Outer and Inner Models

The outer model test used composite reliability data, to measure a construct. Dimensions were considered reliable if they had a composite reliability value (ρ_c) above 0.7. The test results are presented in Table 5 and Figure 3. Figure 3 shows the output results of the data test model that was carried out with the help of PLS, and Table 5 provides information about the statistical values of the results of the inner and outer tests that have been carried out, this is shown below.

Table 3. Validity and reliability test.

Variable	Items	Correlation (r)		Coefficient	
		r	Status	Alpha	Status
business strategy	SB01	0.421	valid	0.770	reliable
	SB02	0.963	valid		
	SB03	0.963	valid		
	SB04	0.959	valid		
	SB05	0.951	valid		
Business performance	KU01	0.576	valid	0.815	reliable
	KU02	0.924	valid		
	KU03	0.924	valid		
	KU04	0.426	valid		
	KU05	0.924	valid		
Innovation	IN01	0.635	valid	0.795	reliable
	IN02	0.661	valid		
	IN03	0.770	valid		
	IN04	0.744	valid		
Competitive advantage	CA01	0.622	valid	0.777	reliable
	CA02	0.846	valid		
	CA03	0.459	valid		
	CA04	0.846	valid		
	CA05	0.846	valid		
	CA06	0.506	valid		

Table 4. Composite reliability calculation results.

Dimension	Composite Reliability	R-Square
Business strategy (X)	0.945	-
Business performance (Y1)	0.880	0.974
Innovation (Y2)	0.761	0.785
Competitive advantage (Y3)	0.843	0.988

The inner model was evaluated using R-square for the dependent construct. The results of the calculations that were carried out to find the R-Square value for competitive advantage show a value of 0.974 (97.4%), 0.785 (78.5%), and 0.988 (98.8%), respectively. These results indicate that the effect of business strategy variables on competitive advantage through business performance and innovation has a dominant and large influence so that it is more appropriate for the business strategy implemented by the company, be it through innovation or business performance, and the competitive advantage of MSME contractors and real estate in Indonesia will also be more reliable.

Table 5. Testing the research hypotheses.

Hypothesis				t Count	Coef. Path	Information
H1	business strategy	→	Business performance	198.883 *	0.005	Sig.
H2	business strategy	→	Innovation	36,505 *	0.024	Sig.
H3	business strategy	→	Competitive advantage	137,778 *	0.007	Sig.
H4	business strategy	→	Business performance → Competitive advantage	2139 *	0.268	Sig.
H5	business strategy	→	Innovation → Competitive advantage	2035 *	0.081	Sig.

* significant at 5% level, t table value at 5% level = 1.975.

4.4. SEM (Structural Equation Modeling)

Hypothesis testing was performed by comparing the t-count value with the t-table value; if the t-count value was greater than the t-table, then the relationship was significant between the variables, and vice versa when the t-count was smaller than the t-table, then no significant relationship exists between the variables. The number of data tested was 150, and the value of the t table ($\alpha = 5\%$) was 1975. The remainder of this paper is organized as follows.

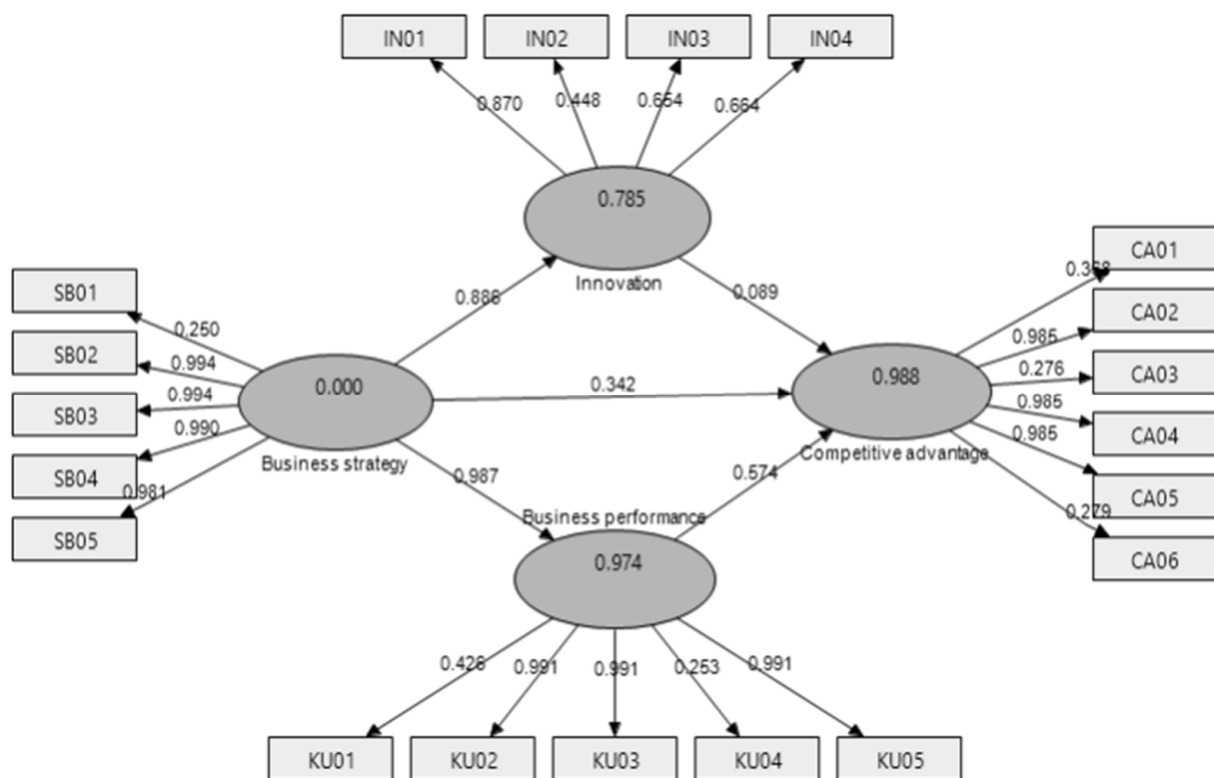


Figure 3. Test results of outer and inner models.

Figure 4 shows the output results of the data test model that was carried out with the help of PLS, and Table 5 provides information about the statistical value of the results of the hypotheses that were carried out. It looks as follows.

4.5. Discussion

The test results shown in Table 5 are thus presented and discussed with the previous literature. An explanation is as follows:

Business strategy has a positive and significant effect on business performance. This finding is supported by the value of the t count $> t$ table ($193.883 > 1.975$), and a path coefficient of 0.005. This coefficient shows a significant positive relationship between business strategy and business performance. The more precise the business strategy that is implemented, the better the business performance of the organization. This finding supports those of previous studies [76,77]. The development of an increasingly competitive business world has caused major changes in the face of competition, production, marketing, human resources management, and the handling of transactions between customers and companies, and companies with other companies [78]. Business organizations must therefore respond to and accommodate various changes quickly and efficiently so that the company's performance remains optimal. Thus, H1 is accepted.

Business strategy has a positive and significant influence on innovation. This finding is supported by the value of the t count $> t$ table ($36.505 > 1.975$), and a path coefficient of 0.024. This coefficient shows a significant positive relationship between business strategy and innovation. Companies that are adaptive and easy to adapt to changing industrial conditions by innovating can certainly compete with other competitors, so that innovation is part of an organization's business strategy when it wants to continue to compete and exist in its industry in the long term [79]. The right business strategy can provide a wider scope for producing products or services that are more valued and considered unique than other competing companies. In addition, a good business strategy must be correct, which is also influenced by the existence of accurate information about the situation and condition of the company. This finding supports those of previous studies [80]. Thus, H2 is accepted.

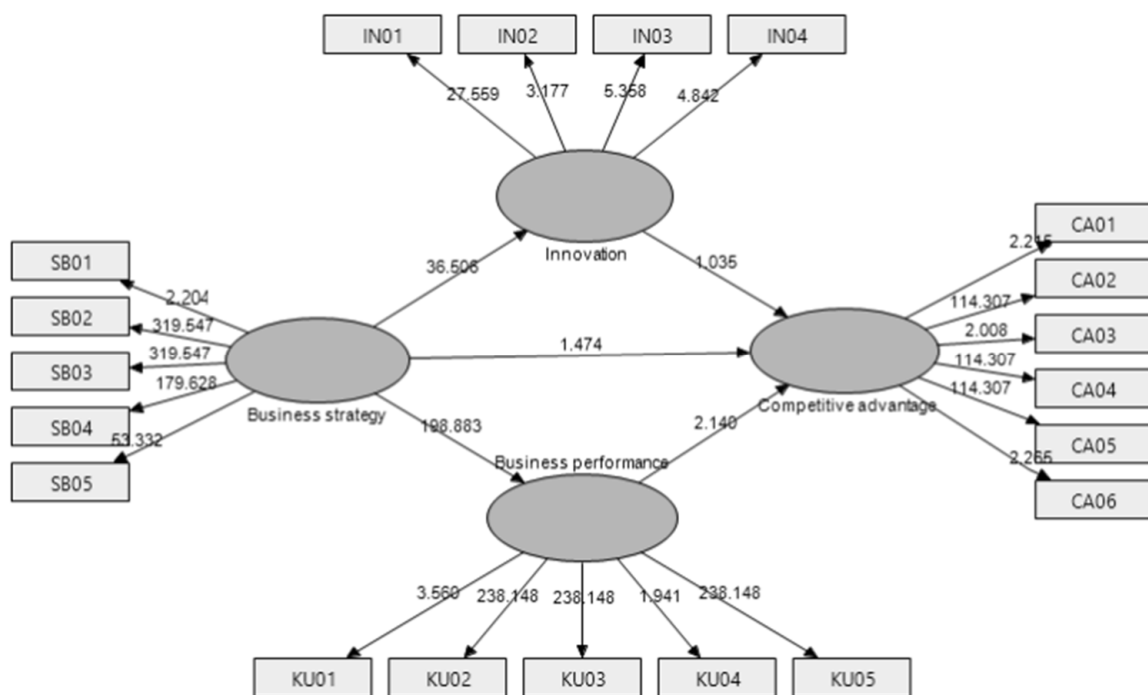


Figure 4. Hypothesis test results.

Business strategy has a positive and significant influence on competitive advantage, which is supported by the value of t count $>$ t table ($137.778 > 1.975$) and a path coefficient of 0.007. This coefficient shows a significant positive relationship between business strategy and competitive advantage. Companies that implement the right business strategy can certainly compete with other competitors, so that the organization's sustainability period can survive in the long term. This finding supports those of previous studies [81], [82]. A good understanding of the strategic concept and other related concepts determines the success of the strategy. This business is oriented to the functions of management activities, such as marketing strategy, production or operational strategy, distribution strategy, organizational strategy, and strategies related to financing [83]. Thus, H3 is accepted.

Business performance can mediate a strong relationship between business strategy and competitive advantage. This finding is supported by the value of the t count $>$ t table ($2.139 > 1.975$) and a path coefficient of 0.268. This finding supports those of previous studies, such as Soewarno and Tjahjadi [84]. Companies that have the right business strategy and can be implemented properly can improve the organization's business performance according to the set targets. Other contributions it creates also provide a competitive advantage for the organization to compete with other competitors. Thus, H4 is accepted.

Innovation can mediate the strong relationship between business strategy and competitive advantage. This finding is supported by the value of the t count $>$ t table ($2035 > 1975$), and a path coefficient of 0.081. This finding proves that innovation needs to be carried out by MSME contractors and real estate as a business strategy to increase the competitive advantage of the organization and be able to compete with other competitors. Innovation is a word that is familiar to our ears and is a keyword in the business world [85]. In this new era of the millennium, where the sales market has moved to the buyer's market, the role of innovation seems increasingly important and decisive in winning the competition. In the twenty-first century, which can be said to be the real era of globalization, the role of innovation will certainly be more important, although the format is slightly different due to market shifts from local and regional markets to global markets. This finding supports those of previous studies [85,86]. This finding also shows that H5 is accepted.

The result of the study provides empirical evidence on the importance of innovation to improve the firms' competitive advantage position. A previous study shows that SMEs

should consider the open innovation to improve firm performance [86]. SMEs use the open innovation to strengthen their position and strategically achieved better competitive advantage [87]. The managers believe that open innovation provides advantage on market gains and financial gains. Thus, open innovation pushes SMEs to achieve better outcomes.

5. Conclusions

Every organization has a strategy, and for every company, the term strategic planning is more than common [88]. This helps evaluate how to achieve goals, how the company can advance and develop, and how to enlarge market shares amid increasingly fierce business competition. This idea is that competitive advantage can be achieved through various strategies, one of which is a good business strategy.

Meanwhile, the company's innovative activities to achieve these goals cannot be separated from its operational performance, where operational performance is a resource activity that influences the company in realizing company achievements and performance [89]. A company's achievements and performance can be measured through financial performance and operational performance, and financial performance can be measured through the company's financial condition from year to year. Operational performance can be measured through the conditions of achievement in operating a company. The achievement of good operational performance requires support from organizational performance, which is a competitive advantage that is not the end goal, but a tool to achieve organizational goals, namely, an organizational performance that produces relatively high profits.

Whether these innovation activities work well is also determined by the ability of human resources and innovations owned by the company to implement them, such as technological innovation, product innovation, and business strategy innovation [30]. One of the entrepreneurs' most important characteristics is their ability to innovate. Companies cannot survive without innovation [34]. This is because of the dynamic changes in the business environment and the changing needs, wants, and demands of customers. Customers do not always consume the same products. Customers will look for products from other companies that they feel can satisfy them. For this reason, continuous innovation is needed if the company continues to stand with its business. Innovation is related to goods, services, or ideas perceived as new by someone. Although this idea has been around for some time, it can be said to be an innovation for people who have just seen or felt it. Innovation is not limited to objects or goods. However, it also includes attitudes toward life, behavior, and movements towards the process of change in all forms of community life. One organizational innovation capability is the organization's ability to adopt or implement new ideas, processes, products, and services.

This study shows that business strategy has a positive influence on the business performance, innovation, and competitive advantage of SME contractors and real estate in Indonesia. Business performance and innovation also mediates the strong relationship between business strategies and the competitive advantage of SME contractors and real estate in Indonesia. Currently, the need for housing continues to grow, in addition to a relatively high backlog (the gap between the number of houses built and the number of houses needed). Indonesian society, which is still young and productive, continues to grow as well. This trend is expected to continue and drive the prospect of the property business in the future, so that contractors and real estate MSME actors who have effective business strategies may take advantage of the property business opportunities so that their businesses continuity may flourish.

This finding provides a signal for several developing countries, such as Indonesia, and especially for SMEs, to innovate as one of their business strategies to increase their competitive advantage, so that their business sustainability can last. Indeed, this research is not significantly different from other business strategy themes [90]. However, conducting tests with respondents of MSME contractors and real estate is still rare in Indonesia, and this finding can be used as the initial knowledge for the development of similar research, by adding several other factors that may increase the sustainability of MSME contractors

and real estate in Indonesia. It is interesting to investigate the effect of gender on the relationship between strategy and performance [90,91].

The current study has several limitations. First, our measurement of business strategy focuses on the Porter generic study. Therefore, future studies may use different types of business strategies, such as the Miles and Snow typology. Furthermore, the current study focuses on MSMEs in Java. Therefore, future studies might use MSMEs in Indonesia to obtain a full picture of MSME in the construction and real estate industries.

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