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of Egypt / Egyptology**THE EFFECT OF MANAGEMENT CAPABILITY ON THE  
PERFORMANCE OF BATIK SMES: THE ROLE OF SUSTAINABLE  
INNOVATION MEDIATION AND BUSINESS STRATEGY**

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**Keywords: Batik UKM, Management Ability, Sustainable Innovation, Low-Cost Strategy, Differentiation Strategy, UKM Performance.**

**ABSTRACT:**

This study aims to test, analyze and explain the effect of management capabilities on the performance of Batik SMEs mediated by sustainable innovation and business strategy in East Java, Indonesia. This research's design is explanatory research. The population is 2151UKM, and the sampling is done by using the Proportional random sampling method, using the Slovin formula with a sample size of 164 Batik UKM owners. Data were analyzed using descriptive methods and Partial Least Square (PLS). The findings of this study are that management ability has a significant positive effect on low-cost strategy and differentiation strategy (novelty); management ability has a significant positive effect on the performance of Batik SMEs; continuous innovation has a significant positive effect on low-cost strategies and differentiation strategies; management ability has a significant effect on continuous innovation; Low-cost strategy and differentiation strategy each have a significant effect on the performance of Batik SMEs.

**INTRODUCTION:**

Small and Medium Enterprises (SMEs), as one of the components of economic development, have a very strategic role in the economy in developing countries, because they

can support the realization of an increase in community income, equalize development, expand employment and business opportunities as well as preserve and develop traditional cultural arts crafts. And increase income / foreign exchange. The growth of batik SMEs in East Java Indonesia in 2018 - 2019 amounted to 10.03% or 948 SMEs, much higher than the batik SMEs in Madura, which grew by 0.51% or 11 SMEs. Furthermore, the absorption of labor by batik SMEs in East Java experienced a positive growth of 5.76%, or there was a development of 7,051 people, while batik SMEs in Madura showed a growth of 0.73%. The contribution to gross domestic product (GDP) in East Java batik SMEs grew by 13.15% or Rp. 565,996.7 billion and Madura Batik UKM of 5.28% or Rp. 48,781.5 billion. Seeing its very large role in labor absorption and its contribution to GDP, efforts to develop Madura Batik SMEs should be given more attention, especially those related to efforts to increase competitiveness. Tambunan (2002) states that the problems of SMEs are a lack of knowledge in production technology, limited human resources, and weak management capabilities. The results of the empirical study show that most UKM owners do not have management skills, due to their low educational background. According to Suci (2009), most UKM owners do not have a higher education background, but they only have experience from themselves and inherited from their parents. Management ability has a significant effect on business performance in small and manufacturing industries (Valmohammadi et al., 2019; Dani et al., 2013;). The results of this empirical study also found that business strategy has a significant effect on performance in small and medium enterprises (Hashim et al., 2001;), not so with Josiah & Nyagara (2015), the results of their research state that low-cost strategies have a significant effect on performance. However, their research by Gorondutse & Hilman (2019) states that low-cost strategies have a significant effect on company performance; and the differentiation strategy has a significant negative effect on performance. It is supported by the research of Hossain et al. (2019), which states that the differentiation strategy and low-cost strategy are long-term strategies for performance and are the strategies used compared to the focus strategy. In contrast to the results of research by Indarwanto & Manurung (2019), it is stated that competitive strategies affect organizational performance, which prioritizes low-cost strategies.

Batik is an Indonesian cultural heritage whose existence has been recognized by the world, the potential for the batik industry should be getting better. Based on preliminary research conducted on several batik SMEs in Madura, East Java Province, Indonesia, it can be seen that the low-cost strategy has been applied to the batik industry by innovating in the manufacturing process, namely, alternative basic fabrics that are cheaper in price and differentiation strategies in Madurese batik SMEs. East Java is carried out by developing batik motifs that are tailored to the characteristics and uniqueness of the region. The various strategies carried out by the batik UKM were not carried out based on strategic studies, but only based on the experiences they had.

Several studies that examined the relationship and influence of business strategy on company performance gave different results; Ireland and Hitt (1997) concluded that low-cost strategies significantly affect SME performance. On the other hand, Suci (2009) concluded that low cost and differentiation strategies could not affect the performance improvement of SMEs. The research that examines the effect of management ability on performance is proposed by Suci (2009) and Surachman (2007), which states that management ability has a significant effect on the performance of SMEs. Furthermore, Dani et al. (2013), the results showed that (1) management ability indirectly affects business strategy; (2) management ability has a direct effect on business performance; and (3) business strategy has a direct effect on business performance. Research that examines and analyzes the effect of continuous innovation on company performance also yields different findings. There are several differences in the relationship between innovation and performance from the research results.

Research Valmohammadi et al. (2019), Apaydin (2011), and Sitohang (2006), state that continuous innovation has a positive and significant effect on performance; Zhang (2019) concluded that continuous innovation mediates innovation management and organizational performance; Hilman & Kaliappen (2014), states that continuous innovation mediates low-cost strategies on organizational performance; However, according to Hilmi (2010), product innovation is negatively related and does not have a significant effect on performance, on the other hand, process innovation has a significant positive effect on the performance of SMEs.

The originality and novelty of this research lie in the ability of management to influence the low-cost strategy, and the management ability to influence the differentiation strategy. Considerations for choosing management capabilities affect low-cost strategies, and management capabilities affect differentiation strategies: (1) empirical research (Ngah, 2018; Dani et al., 2013) shows that management capabilities have a significant effect on business strategies (which consist of low-cost strategies). and differentiation strategies); (2) based on the reality of batik SMEs Madura, East Java, Indonesia, namely slow sales growth and most Batik SME entrepreneurs lacked management skills. Tidd, et al., (1998) stated that management capability is very important because the process of developing products or services for SMEs requires management activities.

#### **LITERATURE REVIEW:**

This research is based on the RBV (Resource Based View) view, which sees the company as a unique collection of resources and capabilities, which is a source of competitive advantage (Barney, 1991). RBV theory emphasizes that resources are what actually help companies to exploit opportunities and neutralize threats. The basic idea of RBV is that the mix of types, the number, and nature of the company's internal resources must be considered first, and the most important thing in developing a strategy is one that can lead to a sustainable competitive advantage (David, 2006). The RBV approach proposed by Christensen (2005) and Pearce & Robinson (2007) suggests that organizational performance is basically determined by internal resources, especially those related to intangible assets such as human resources oriented towards management capabilities and human resources capabilities. Managerial and scientific knowledge and innovation resources in the form of ideas and the capacity to innovate.

This study examines the relationship between management capabilities, sustainable innovation, low-cost strategies, and differentiation strategies, and the performance of SMEs. SMEs sometimes have difficulty developing the management skills necessary to survive in complex environments. According to Suci (2009), most UKM owners do not have management skills, because they do not have a higher education background, but they only have experience from themselves and inheritance from their parents. Several empirical studies found that management ability significantly affects competitive advantage in small and manufacturing industries (Dani et al., 2013). Porter (2000) argues that competitive advantage basically develops from the value that the company can create for its buyers, which exceeds the company's cost in creating it. Dani et al., (2013) explored the role of management capabilities on business performance and the role of management capabilities that directly affect business performance. Suci (2009) states that the competitive advantage of generic strategies is the achievement of low costs in the industry and creating unique or differentiated products; then Ngah (2018), in her research, concludes that management ability has a positive effect on competitive advantage. In contrast to Acquah & Agyapong's (2015) research, it is stated that management ability strengthens the effect of low-cost strategies on performance, and management capabilities weaken the influence of differentiation strategies on performance. The level of business success is influenced by the management skills a person has to manage the company in the aspects of marketing, production, finance, and

human resources. Surachman's research (2007) found that management skills had a significant effect on product development.

The results of an empirical study conducted by Valmohammadi et al. (2019) and Ngah (2018) state that management ability has a significant and positive effect on sustainable innovation. Suci (2009), shows that management ability has a positive and significant effect on business strategy in SMEs. According to Tidd and Pavitt (1998), management capability is very important because the process of product or service development in SMEs and large industries each requires management activities to coordinate the resources owned by the company. Ansoff (1990) states that business capability includes making plans, determining strategies, and correct strategies. Through integrated planning, an industry will be able to allocate company resources optimally. Peters (1998) stated that making comprehensive planning accompanied by controlling production management, human resources, finance, and marketing can create long-term success. In small and medium enterprises (UKM), the role of the leader or business owner to understand and be able to carry out management functions is the main thing for the success of the business (Latief, 2002). In the increasingly fierce competition, having a strategy is not enough, but it is necessary to implement innovation (Kim, 2005). Research Ireland and Hitt (1997) concluded that low-cost strategies have a positive effect on company performance. Likewise, Josiah & Nyagara (2015) stated that the low-cost strategy significantly affects performance. Zhang's (2019) research results concluded that continuous innovation mediates innovation management and organizational performance.

In contrast to Gloet & Terziovski's (2004) research, it is concluded that sustainable innovation supports sustainable competitive advantage and improves company performance. Furthermore, Ferdinand's (2005) study states that companies must create and develop various points of differentiation because customers are always positioned as individuals who tend to look for something different. Strategic orientation can encourage performance improvement through high-intensity innovation (Hult & Ga.K, 2004). The strategic orientation has a positive influence on the level of innovation. Innovation is the implementation of strategy and as a response to environmental uncertainty. Hurley & Hult (1998) found that companies with large innovation capacities will be more successful in responding to the environment and developing new capabilities that support low-cost strategies.

According to Miles & Snow (1978), companies should focus more on innovation in a situation of economic instability. As an internal factor, innovation is under the company's control, and if it is used properly, it can help the company get superior performance. Companies that are oriented towards continuous innovation will be able to create new products or services, which is advantageous for the company to lead the market because it has something unique that is not shared by other companies, which ultimately improves the company's performance. Research by Valmohammadi et al. (2019); Sitohang (2006), concludes that sustainable innovation has a positive and significant effect on performance, while Zhang (2019) concludes that continuous innovation mediates innovation management and organizational performance; Hilman and Kaliappen (2014) state that continuous innovation mediates low-cost strategies on organizational performance. According to Andrews & Smith (1996): Menon, et al., (1996), creativity has a significant effect on company performance, which is measured by the dimensions of sales volume, sales growth rate, and customer growth rate (Voos and Voos, 2000). Companies that carry out continuous innovation are seen as a source of competitive advantage that can impact improving performance (Prakosa, 2006). Innovative products lead to growth and expansion of opportunities for business (Wang & Ahmed, 2004). Likewise, Lee (2010) found that the innovation process has a strong impact on industry performance.

Based on the empirical study and theory and previous research described, the following hypotheses are set.

**H1: Management ability has associated with the low-cost strategy**

**H2: Management capability has associated with continuous innovation**

**H3: Management ability has associated with differentiation strategy**

**H4: Management ability has associated with the performance of SMEs**

**H5: Continuous innovation has associated with the low-cost strategy**

**H6: Continuous innovation has associated with the performance of SMEs**

**H7: Continuous innovation has associated with differentiation strategies**

**H8: Low-cost strategy has associated with the performance of SMEs**

**H9: The differentiation strategy has associated with the performance of SMEs**

#### **METHOD:**

This research is designed with explanatory research, which tests and analyzes the management ability variable as an exogenous variable, a continuous innovation variable, a low-cost strategy, a differentiation strategy as an intervening variable, and the performance of SMEs as an endogenous variable. The population was 2151 SMEs, using the Slovin formula, the sample size was 164 Batik UKM owners. The sampling method was Proposional random sampling, with details of the city of Pamekasan as many as 63 Batik UKM, Sumenep City 23 Batik UKM, Sampang City 17 Batik UKM, and Bangkalan City 61 Batik UKM. Data were analyzed using descriptive methods and Partial Least Square (PLS).

#### **RESULT AND DISCUSSION:**

The results of the PLS test and evaluation of this study analyzed five reflective latent variables, namely management ability, sustainability innovation, low-cost strategy, differentiation strategy, and company performance. The outer loading value of the processing results at WarpPLS shows that all indicator items from the variable management ability, sustainability innovation, low-cost strategy, differentiation strategy, and company performance show that the value is at loading  $> 0.60$  and significant at  $p < 0.05$ , so that it fulfills convergent validity requirements. The results of discriminant validity show that all indicators on each variable have a value above 0.5. has been considered valid (Hair et al., 2014). It means that overall, the indicators built can accurately and validly explain the variables. The reliability test results show that all variables have a Cronbach's alpha coefficient of more than 0.60, also a composite reliability coefficient of more than 0.60. Thus, all measurement models used in this study already have high reliability (Hartono & Abdillah, 2009). The R<sup>2</sup> calculation for the differentiation strategy variable is 0.450, continuous innovation is 0.456, and the low-cost strategy is 0.472. the performance of UKM is 0.537. The results of the calculation of R-Square show that the inner model Rm<sup>2</sup> value is 93%, explaining that the contribution of the model to explain the structural relationship of the five variables studied is 93%, and the rest is explained by other variables not involved in the model.

The direct relationship between variables is described as follows: management ability to low-cost strategy, shows that the path coefficient of 0.210 ( $p < 0.05$ ) provides a decision that management ability has a significant positive effect on low-cost strategies increasing management capability will improve strategy. Low cost; Likewise with the same understanding in the following, management's ability to continuous innovation shows a path coefficient of 0.675 ( $p < 0.05$ ); Management ability towards differentiation strategy shows a path coefficient of 0.295 ( $p < 0.05$ ); Management ability towards SME performance shows a path coefficient of 0.186 ( $p < 0.05$ ); Continuous innovation on the low-cost strategy shows that the path coefficient is 0.528 ( $p < 0.05$ ); continuous innovation on SME performance

shows a path coefficient of 0.229 ( $p < 0.05$ ); continuous innovation on differentiation strategy shows a path coefficient of 0.435 ( $p < 0.05$ ); low-cost strategy towards SME performance shows a path coefficient of 0.172 ( $p < 0.05$ ); The differentiation strategy on SME performance shows a path coefficient of 0.265 ( $p < 0.05$ ).

## DISCUSSION:

The effect of management ability on low-cost strategies is significant; it means that the skills and competencies both administratively and operationally in carrying out management functions include: planning, organizing, directing, and supervising. In making decisions as a variable forming management capability, it can be used directly to improve low-cost strategies. The low-cost strategy referred to here is the availability of raw materials, relationships with suppliers, optimizing production facilities, and optimizing marketing facilities, as indicators of low-cost strategy variables. Empirical studies that support these findings include the findings of Suci (2009), which shows that management ability has a significant positive effect on business strategy. The better the SMEs can exploit their management capabilities, the better they will be able to make good strategic plans. Ngah (2018) states that management ability has a positive effect on competitive advantage. Acquaaah & Agyapong (2015), the findings show that managerial ability strengthens the effect of low-cost strategies on performance. This study supports the results of Nuthall (2001), which states that managerial ability determines the business strategy used to achieve classified objectives. Meanwhile, Ansoff (1990) argues that entrepreneurs' ability includes making plans, determining strategies, and correct strategies. According to Peters & Lindsay (1998), a manager needs management skills to develop a business during the growth phase. Furthermore, it was said by Edward (1994), that the level of a person's business ability is related to their way of formulating corporate functional policies to determine strategic actions to be taken.

The effect of Management Capability on continuous innovation is significant; it means that the skills and competencies both administratively and operationally in carrying out management functions include: planning, organizing, directing, and monitoring. In making decisions as a form of management ability variables, it can be used directly to increase innovation in developing product motives, the development of marketing techniques, and the development of coloring techniques. The findings of this study support the research of Valmohammadi et al. (2019), and Ngah (2018), who state that management ability has a significant and positive effect on sustainable innovation. Suci's (2009) empirical study also supports this finding, among others, that management ability has a significant positive effect on business strategy. These findings enrich the opinion of Jones (2004), which states that innovation is a process within an organization to utilize skills and resources to develop new products or services to build a new production and operational systems to answer customer needs. Innovation in the Organization will be directly linked to organizational goals, business plans, and competitive market placement. According to Tidd & Pavitt (1998), management capability is very important because the process of product or service development in SMEs and large industries each requires management activities to coordinate the resources owned by the company. This study also enriches the opinion of Suhariyadi (2007), who warns that companies will become old, outdated, and fragile without innovation. Moreover, after the opening of globalization and the flow of information, every company is in a very tight competition. Hamilton's (2009) empirical study found that the ability to succeed in innovation depends on SMEs' size, resources, and managerial competence. The results of this study support the research of Nuthall (2001), which states that managerial ability determines the business strategy used to achieve classified objectives. Meanwhile, Ansoff (1990) argues that entrepreneurs' ability includes making plans, determining strategies, and correct strategies.

The effect of management ability on differentiation strategies. The positive relationship between the two variables shows that the higher the ability to plan, organize, direct, and control as indicators of variable management capability, the higher the ability to formulate a unique product motive differentiation strategy, product motive differentiation that is not easily imitated, differentiation. Quality of fabrics, differentiation of color quality, differentiation of sales services, differentiation of market segments as a form of differentiation strategy variables. The results of this study support the opinion of Zimmerman & Scarborough (2008), which states that strategy is a road map of actions prepared by entrepreneurs to achieve the company's mission, goals, and objectives, while strategy describes the process to achieve these goals. Furthermore, Nuthall (2001) states that managerial ability determines the business strategy used to achieve classified objectives. This management capability includes making plans, organizing, defining strategies, and correct strategies (Ansoff, 1990). Many ways can be taken to create a differentiation strategy, but the main concept is special and important to customers. However, in their empirical study, Acquaaah & Agyapong (2015) suggest that management ability weakens the effect of differentiation on performance. Meanwhile, Dani et al. (2013), argued that management ability indirectly affects business strategies, namely low-cost strategies and differentiation strategies. The supporting empirical study is the research conducted by Suci (2009), which states that management ability has a significant positive effect on business strategy.

The Effect of Management Capability on SME Performance. It means that the ability to plan, organize, direct, and control as indicators of variable management capability can be used directly to increase sales growth, workforce growth, profit growth, and production growth as forming performance variables. This study supports the theory of Ansoff (1990), which states that management capabilities as measured through integrated planning can lead an industry to allocate company resources optimally to create long-term success. In SMEs, the role of leaders or business owners to understand and be able to carry out management functions is the main thing for the success of a business (D.A. Latief, 2002). In line with the above statement, Peters (1976) states that making comprehensive planning accompanied by control over production management, human resources, finance, and marketing will be able to create long-term success. Furthermore, according to Robins & Coulter (2005), if a person wants to be successful in his business, then the manager must have and carry out management functions, regular management, and management skills. An empirical study that supports the results of this study is the research of Valmohammadi et al. (2019), Dani et al. (2013), Hsu (2012), Wai & Kuan (2011), Chi et al. (2011), Suci (2009), Man & Wafa (2008), Surachman (2007) suggest that management ability has a significant positive effect on the performance of SMEs. If an entrepreneur has good management skills, he will get high trust from his employees and customers. However, Ursic & Mulej (2005) stated that their empirical study shows that management ability does not significantly affect technological development and globalization and innovation to improve business performance.

The effect of continuous innovation on low-cost strategies. It means that sustainable innovation formed by indicators of product motive development, marketing technique development, development, and development of coloring techniques can be used directly to improve low-cost strategies formed by the availability of raw materials, relationships with suppliers, optimizing production facilities, and optimizing marketing facilities, as an indicator for forming low-cost strategy variables. An empirical study that supports the results of this study is the research of Anwar (2018), which suggests that innovation has a significant positive effect on competitive advantage (low-cost strategy and differentiation strategy), while Gloet & Terziovski (2004) argues that sustainable innovation supports sustainable competitive advantage and improves company performance. Furthermore, Varadarajan

(2017), in his empirical study, concluded that sustainable innovation is a source of competitive advantage.

The results of this study support the theory of Kim & Mauborne (2005), which states that in increasingly fierce competition, having a strategy is not enough, but it is necessary to implement innovation. Meanwhile, according to Lowrence (1994), environmental change can be a threat to the company, but environmental change is actually a profitable opportunity for innovative companies. Furthermore, Terziovski (2007) states that there is a relationship between business strategy and the implementation of innovation. Companies with a cost minimization business strategy will focus on developing process innovation. A low-cost position usually puts a company in an advantageous position to protect itself from price wars, but it can also use its power to attack competitors by providing the lowest prices in the industry. According to Zimmerer & Scarborough (2008), a low-cost strategy that is implemented correctly can be a very powerful strategic weapon to gain a competitive advantage.

The effect of continuous innovation on the performance of SMEs. In this regard, continuous innovation, which consists of developing product motives, developing marketing techniques, developing and developing direct coloring techniques, can be carried out to increase sales growth, workforce growth, profit growth, and production growth as forming performance variables. The theory that supports the results of this study is Suhariyadi (2007) which states that innovation in companies is an important issue to discuss because many companies fail to survive in the modern industrial world due to a lack of innovation. For innovation to be sustainable and to support company performance, an innovation strategy is needed (Terziovski, 2007). In line with this opinion, Hammel (1999) states that business success in the millennium is determined by innovation. Furthermore, Cooper & Kleinsemidt (1987) stated that continuous innovation is the advantage of a company creating new products or services that other companies do not easily imitate to compete and improve company performance. The results of this study also enrich previous empirical studies, as suggested by Valmohammadi et al. (2019), and Hilman and Kaliappen (2014), which concluded that sustainable innovation has a positive and significant effect on performance. Furthermore, Sitohang (2006) concluded that sustainable innovation has a significant effect on company performance. Furthermore, Hilmi et al., (2010), in their research, concluded that process innovation has a significant positive effect on SME performance, but on the other hand, product innovation has a non-significant negative relationship with performance. An empirical study conducted by Apaydin (2011) concluded that innovating companies had better performance than before innovating.

The effect of continuous innovation on differentiation strategies. A positive relationship can be interpreted that the better continuous innovation which consists of developing product motives, developing marketing techniques, developing and developing coloring techniques directly can be done to improve the differentiation strategy of unique product motives, differentiation of product motives that are not easily imitated, differentiation of quality. Fabrics, differentiation of color quality, differentiation of sales services, differentiation of market segments as a form of differentiation strategy variables. The findings of this study support the opinion of Gloet & Terziovski, (2004), which states that sustainable innovation supports sustainable competitive advantage and improves company performance, while Terziovski (2002) states that in order for innovation to be sustainable and to support emotional performance, an innovation strategy is needed. Jalaludin (2012) suggests that a differentiation strategy is one type of competitive strategy in which an organization seeks to make the product or service offered different from competitors. Furthermore, Ferdinand (2013) argues that companies must create and develop various points of differentiation because customers are always positioned as individuals who tend to look



for something different. Companies that are oriented towards continuous innovation can create unique products that are not easily imitated to improve company performance. Continuous innovation based on a reliable strategy is an important key to winning the competition.

The effect of a low-cost strategy on SME performance is significant and positive. The findings of this study enrich previous empirical studies, as suggested by Gorondutse & Hilman (2019), and Josiah & Nyagara (2015), which states that low-cost strategies have a significant effect on company performance. Furthermore, Indarwanto & Manurung (2019) stated that competitive strategies affect organizational performance that prioritizes low-cost strategies. However, it is different from the findings of Suci's (2009) research that the low-cost strategy cannot improve the performance of SMEs. The results of this study also support the research of Jalaludin (2012), which states that the basic idea of a low-cost strategy is to sell below competitors' prices to gain market share and sales and shift some competitors out of the market. The low-cost strategy position usually puts the company in an advantageous position in dealing with substitute products, even to protect itself from price wars and to use this power to attack competitors. Low production costs can contribute to competitive selling prices, so that income streams increase and performance will also increase (Drucker, 1996). Empirical studies that support the results of this study include Ireland and Hitt (1997), which show that low-cost strategies have a significant positive effect on company performance.

The influence of differentiation strategy on SME performance. The relationship between the two variables is positive; this means that the higher the use of a differentiation strategy, the higher the company's performance. Unique product motive differentiation strategy, product motive differentiation that is not easily imitated, fabric quality differentiation, color quality differentiation, sales service differentiation, market segment differentiation as a variable differentiation strategy variable, can be used to increase sales growth and workforce, and growth. Profit, production growth as forming performance variables. The findings of this study enrich the opinion of Ferdinand (2005), which states that a differentiation strategy can produce a differentiation position in customer perceptions of the value offered and produce specific advantages. The competitive advantage obtained from the differentiation strategy can deliver the company to produce good marketing performance. Furthermore, Zimmerer & Scarborough (2008) states that companies that succeed in implementing a differentiation strategy can set a premium price for their products or services, increase their market share and reap profits from loyal customers, thereby increasing company performance.

## **CONCLUSION:**

Based on the results of an empirical study conducted on the Madura Batik UKM in East Java, the following conclusions can be obtained. The development of science enriches strategic management theory in a resource-based, market-based, and knowledge-based perspective. Management capability is a set of expertise and competencies both administratively and operationally in carrying out management functions to achieve certain goals. Management capability is very important because the product development process at UKM Batik requires management activities to coordinate the resources owned by UKM. The higher the management capabilities of the SME owners, the easier it will be in formulating a business strategy (low-cost strategy and differentiation strategy) to improve the performance of SMEs. SMEs that are oriented towards continuous innovation will be able to create new products, which is an advantage for SMEs to lead the market because they have something unique that other companies do not have, which ultimately improves the performance of SMEs.

Sustainable innovation will be carried out well if the owner of Batik UKM has management skills that are supported by the right business strategy. Batik SMEs, which are oriented towards continuous innovation, can create unique and not easily imitated products to improve the performance of SMEs. To improve performance, batik SMEs can apply a hybrid strategy, which is a combination of a differentiation strategy and a low-cost strategy.

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