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Competitive Advantage and Firm Performance : Debt Financing as a Moderating Variable

Maria Rio Rita[1]✉, Riskin Hidayat[2], Ari Budi Kristanto[3]
Satya Wacana Christian University, Salatiga, Indonesia[1,3]
Institute of Economic Science YPPI, Rembang, Indonesia[2]

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Abstract

This study aims to examine the moderating role of debt financing in the effect of competitive advantage on the performance of Lasem-Rembang batik MSMEs. Capital from debt is expected to optimize the role of competitive advantage to strengthen firm performance. The researchers used primary data through a survey of 68 batik MSME entrepreneurs who have been operating for at least 5 years. The data was processed using Partial Least Squares-Structural Equation Model (PLS)-SEM with the WarpPLS 7.0 application by including the control variable of entrepreneur education level. The findings show that competitive advantage is not proven to have a positive effect on the performance of MSMEs; on the contrary, it has a significant negative effect. Then debt financing is demonstrated to moderate the effect of competitive advantage on MSME performance. This implies that debt financing can strengthen the effect of competitive advantage on MSME performance because it produces a positive and significant effect.

Keunggulan Kompetitif dan Kinerja Usaha: Pendanaan Hutang sebagai Variabel Moderasi

Abstrak

Penelitian ini bertujuan untuk menguji peran moderasi debt financing dalam pengaruh keunggulan bersaing terhadap kinerja UMKM batik Lasem-Rembang. Modal dari utang diharapkan dapat mengoptimalkan peran keunggulan bersaing untuk memperkuat kinerja perusahaan. Peneliti menggunakan data primer melalui survei terhadap 68 pengusaha UMKM batik yang telah beroperasi minimal 5 tahun. Pengolahan data menggunakan Partial Least Squares-Structural Equation Model (PLS)-SEM dengan aplikasi WarpPLS 7.0 dengan memasukkan variabel kontrol tingkat pendidikan wirausaha. Temuan menunjukkan bahwa keunggulan bersaing tidak terbukti berpengaruh positif terhadap kinerja UMKM; sebaliknya, memiliki efek negatif yang signifikan. Kemudian pembiayaan utang ditunjukkan untuk memoderasi pengaruh keunggulan kompetitif terhadap kinerja UMKM. Hal ini menunjukkan bahwa pembiayaan utang dapat memperkuat pengaruh keunggulan bersaing terhadap kinerja UMKM karena menghasilkan pengaruh yang positif dan signifikan.

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✉Correspondence Address
Institutional address : Department of Management, Faculty of Economics and Business, Satya Wacana Christian University
Email: maria.rita@uksw.edu

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INTRODUCTION

Up until now, it is often assumed that Micro, Small, and Medium Enterprises (MSMEs) are not strong enough in terms of competitive advantage when compared to large companies. However, this is not entirely true if the products made are handicraft items, such as batik, especially Lasem handmade batik. Lasem batik craftspeople in Rembang only produce handmade batik and do not produce printed or stamped batik, so it is different from the batik production in Pekalongan, Solo, and Yogyakarta which has become an industry. Lasem handmade batik has existed since Bhre Lasem I ruled the Lasem region (1350-1375) and most likely even before then. The nobility in Lasem at that time used batik with a Laseman pattern which was dominated by dark brown and light blue colors and until now it is called Majapahit Sogan batik. The Lasem batik patterns developed with the arrival of the Chinese. The Chinese residents who relocated to Lasem and participated in making batik also contributed to the various batik motifs. In the beginning, Lasem batik was immersed with Mataraman motifs, which then developed into hong bird, dragon, and butterfly motifs. Likewise for the coloring, there has been a change from being dominated by Sogan, but due to the influence of Chinese culture until now the red color of chicken blood is also widely used by Lasem batik craftspeople (Maulany & Masruroh, 2017), and the most famous pattern until now is the batik from three different countries.

The characteristics of Lasem batik are a competitive advantage for Lasem batik SMEs. It is because they cannot be found in batik villages in other areas. As stated by Barney (1991) and Wernerfelt (1995), to achieve a competitive advantage, companies must use their resources and capabilities effectively and efficiently. The success of a company is largely determined by the resources owned and the company's capabilities that can transform the resources owned into something that has an economic benefit (Ferreira et al., 2011; Ismail et al., 2012). The main point is that when a company has unique resources that are difficult to imitate by its competitors or has superior resources (Powers & Hahn, 2004) that are processed through adequate company capabilities, the company will be able to have a competitive advantage which in turn can improve the company's performance. However, Lasem batik SMEs are still weak in obtaining business capital, so that this limitation can potentially hamper their business growth. Therefore, when there is an injection of funds to assist business operations, investments, and innovation activities for batik SMEs, it is expected to provide a stimulus for entrepreneurs in developing a competitive advantage so that they can perform better.

Sources of funds in the form of debt have been widely studied at the level of Micro, Small, and Medium Enterprises (MSMEs) in both developed and developing countries. Meanwhile, the ability to borrow funds from formal institutions such as banks is also weak due to information asymmetry problems (Huang & Liu, 2014), a lack of guarantees, and uncertainty of business cash flows to repay loans (Wu et al., 2016). This condition makes the bargaining position of MSMEs become lower. Therefore, it is not uncommon for MSMEs owners to feel reluctant and not confident to access bank loans even though these funds are needed for business operations (Fraser et al., 2015). There are further consequences for entrepreneurs who have good credibility, as they are also affected. When they can get funding from debt, they will incur a high cost of capital (Kon & Storey, 2003).

The government has made efforts to strengthen access to financing for MSMEs by easing the requirements for access to funds. However, until now there are still many MSME entrepreneurs who have difficulty accessing conventional funding sources, including people's business credit (KUR) (Kristianus, 2021). One of the causes is a conflict of interest, where banks must keep their non-performing loans under control, but business actors generally do not have the proper access to funding (Herman, 2021). In the spirit of the current implementation of the Job Creation Law, facilitating access to MSME funding is carried out by establishing that MSME

entrepreneurs can access funding without using collateral in the form of fixed assets which has often been the main obstacle. Government Regulation No. 7 of 2021 concerning the Ease, Protection, and Empowerment of Cooperatives and Micro, Small, and Medium Enterprises states that MSMEs can access funding using guarantees in the form of work orders, transaction documents, and even intangible assets such as intellectual property rights. In this context, the competitive advantage of SMEs can be capital that plays a vital role in easing access to funding and improving firm performance.

Entrepreneurial finance studies have reviewed formal and informal sources of funding in the form of debt and equity for MSMEs. Wang (2016) linked venture capital (VC) funding with social network ties in Chinese startups. Eldridge et al., (2019) highlighted the role of crowdfunding in the innovation and growth of SMEs in the UK. Meanwhile, studies on informal funding used by MSMEs include the bootstrapping method (Rita, 2019; Alvarado & Mora-Esquivel, 2020), angel investors (Ramadani, 2012), and self-finance (Cardone & Casasola, 2003; Dawa & Namatovu, 2014) which have also been widely examined before. During the past decade, several studies tested formal debt financing on the performance of MSMEs (Lawless, O'Connell, & O'Toole, 2015; Ndemi & Mungai, 2018), the effect of debt financing on the level of SME investment (Akingunola, 2011), and its effect on the growth of SMEs (Serrasqueiro et al., 2018). Most of the studies that have been carried out place debt financing as an antecedent of business achievement. There are not many studies that place debt financing (formal or informal) as a moderating variable for firm performance.

Adequacy in terms of the amount and source of funds can determine the sustainability of a business (Fraser et al., 2015). Minimal and less varied capital will hinder the development of small businesses, while if SME owners have a variety of alternative sources of funding, they have the opportunity to access a larger amount of capital to develop their businesses. The entrepreneurial finance theory states that informal sources of debt (including family, friends, associations, money lenders, angels, etc.) are considered more important for the MSME sector than formal sources of debt because of ease of access (Basu & Parker, 2001; Leach & Melicher, 2011; Chemmanur & Fulghieri, 2014). This proportion of informal debt even reaches more than 60% of the total working capital (Ojo, 1995).

In addition to being determined by debt funding, the performance of MSMEs is also thought to be influenced by internal aspects of the firm, such as the uniqueness of the business entity itself. The specific pattern of the business entity should be difficult for competitors to imitate even though they are in the same industry. On the other hand, if MSMEs do not have certain advantages, it will be difficult for them to face a crisis or shock situation in the market. Previous studies have placed access to funding as a factor that can affect firm performance. The ability to pay and the availability of collateral are the main aspects that affect access to funding. Non-fixed asset resources that are closely related to competitive advantage have not been examined in research on access to funding and firm performance of MSMEs. This is a relevant research gap in the context of the development of the current implementation of the Job Creation Law, where non-asset resources remain relevant in access to credit funding. As far as the researcher's knowledge is concerned, there are still few studies that utilize debt financing as a moderating variable which is thought to be able to optimize the role of competitive advantage on business performance, especially in the context of batik MSMEs in Indonesia.

Previous studies have found there is an effect of the entrepreneur education level on MSME performance. Yanuarta & Krismanola (2021) discovered that business actors who have higher education can manage their businesses so that they get greater income. Ratnawati (2016) and Wulandari et al., (2021) also confirmed that the higher the level of education, it will enable entrepreneurs to have superior management performance.

This study aims to examine the effect of competitive advantage on firm performance, as well as to validate the moderating role of debt financing (formal and informal) in the effect of competitive advantage on firm performance. The managerial contribution of this study for MSME owners can be as a strategic measure to improve firm performance by optimizing the unique potentials of business entities in collaboration with their capital aspects. The larger and more varied sources of venture capital are expected to strengthen the impact of competitive advantage on the performance of MSMEs. The findings of this study will also enrich the literature in the field of entrepreneurial finance, particularly in analyzing the role of debt financing, both formal and informal, on firm performance.

Hypothesis Development

Effect of Competitive Advantage towards Firm Performance

The uniqueness of a company should not be easily duplicated and transferred by its competitors, which will become the inherent characteristic of business owners and business entities. The uniqueness as a competitive advantage of Lasem batik SMEs is in the colors and patterns of the batik, especially the red color of chicken blood, which cannot be imitated by other batik areas because of the influence of the water sources in Lasem-Rembang (Maulany & Masruroh, 2017). In addition, the advantage of Lasem batik is that it only produces handmade batik and is located in one particular area which was formed into a cluster (Prabowo et al., 2006; Haryono & Fathoni, 2017).

The uniqueness is in the form of the ownership of tangible and intangible assets to support business activities. Financial resources, physical assets, the mastery and availability of technology, the ability of entrepreneurs to identify opportunities, and possessing a solid work team are examples of strong capital combinations to achieve a competitive advantage. Harrison & Watson (1998) emphasized the flexibility of SMEs to innovate compared to large-scale companies because of their simple organizational structure, lower level of business risk, and willingness to accept new things from their business actors. Despite this, the issue of firm performance is the biggest challenge that must be faced by small-scale businesses.

However, the combination of assets owned by the company along with the ability of business actors to collaborate with internal resources makes it impossible for SMEs to be able to survive amid competition. Firm performance can be measured from the financial dimension which is based on sales-based measurements, and non-financial aspects as a proxy from company-based measures (Eniola & Ektebang, 2014). Previous research has demonstrated a significant relationship between competitive advantage and company-based performance, such as customer satisfaction (Krajňákováet al., 2015), employee development, job satisfaction (Elrehail et al., 2019), and the efficiency of the firm's internal processes (Hung, 2006).

Other findings note that there is a significant effect between competitive advantage on sales-based performance, such as profit, assets (Rita et al., 2021), productivity, growth (Kraja & Osmani, 2013), an increase in sales and market share (Miller et al., 1989), and value-added products (Herath & De Silva, 2011). The research results of Maharani et al., (2020) as well as (Arbawa & Wardoyo, 2018) revealed that competitive advantage has a significant positive effect on the performance of MSMEs. Based on what stated above, this study hypothesized as follow:

H1: Competitive advantage has a positive influence on firm performance.

Moderation of Debt Funding on the Effect of Competitive Advantage on Firm Performance

The use of debt in business has both positive and negative risks. Positive risk is defined as when the debt can be managed by the entrepreneur to support business operations and investment needs effectively so that sales acti-

vities increase. On the other hand, a negative risk occurs when sales and operating profit targets are not achieved due to inefficiency in the use of debt by MSME entrepreneurs. When debt is considered a motivation for entrepreneurs to work extra to be able to cover their existing financial obligations while developing their businesses, then the firm performance will be superior to their competitors (Suci et al., 2019). On the other hand, if a debt is considered as a burden so that it affects the psychology and behavior of entrepreneurs, it will hinder the achievement of firm performance. In addition, the high debt borne by the company will have the potential to cause financial difficulties, make investment constraints, and harm the firm performance (Lawless et al., 2015). Consequently, good or bad debt funding is determined by the ability of entrepreneurs to utilize and convert debt into inputs to support firm performance. In this case, debt financing acts as a moderator of competitive advantage on MSME performance. This means that debt on one side can improve the performance of the Lasem batik MSMEs if the debt can be managed properly by MSMEs with a competitive advantage. On the other hand, if the debt cannot be managed properly by Lasem batik MSMEs even though they have a competitive advantage, then it will have an impact on the decline of the MSME performance. Based on what stated above, this study hypothesized as follow:

H2: Debt financing moderates the influence of competitive advantage towards firm performance.

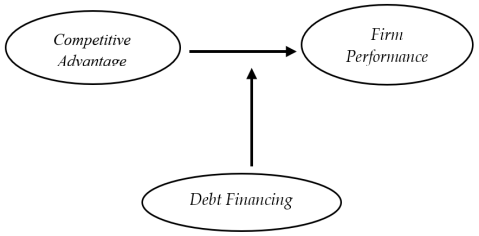

Figure 1. Research Framework
Source: Developed in Research (2021)

METHOD

Currently, there are an estimated 120 Lasem Batik SMEs (Setyawan, 2021). The sample in this study was obtained using a convenience sampling technique. It is because there was no fixed list containing the business actors of Lasem Batik. This is also related to the impact of the current pandemic, which could have an impact on the business continuity of some entrepreneurs. The number of research samples was determined based on the Slovin formula (error tolerance of 1%) and obtained a target of 68 business units as respondents. The respondents in this study were focused on MSMEs that had been operating for more than 5 years. Discussions on competitive advantage in MSMEs will be more relevant if they focus on businesses that have begun to be established, where competitive advantage has begun to be formed or directed (Roliza, 2017). This study used primary data acquired through direct interviews with business actors.

The variables in this study included: firm performance (dependent variable), competitive advantage (independent variable), debt financing (moderation variable), and education level (control variable), which are summarized in Table 1 below.

Table 1. Variables and Their Measurements

Variable	Dimension	Indicator	Reference
Firm performance	Financial	Profit	Adapted from Rita & Thren (2019)
	Non-financial	Business turnover	
	Entrepreneurial	Customer growth	
		Market access growth	
		Product quality	
		Satisfaction of profit achieved	
		Employee welfare	
		Employee performance	

Competitive advantage	Rare Difficult to replicate Durable Cannot be transferred Transparent Mobile	Has its specialty Needs special expertise Has a high artistic need Has a mixture of Chinese and indigenous cultural heritage Has different batik colors from other areas Has special patterns that are difficult to copy Needs treatment for durability Has colors that do not easily fade Uses good quality cloth Has a batik specialty that cannot be transferred to another area Has a cultural value that cannot be transferred to another area Has a production process that can be seen by others Has a clear price that matches to its pattern and quality The entrepreneur responds to customer complaints The entrepreneur responds to constructive input The product marketing can be done conventionally or digitally Joins various exhibitions Has joined an international exhibition Has active mouth-to-mouth marketing Has marketing done inside and outside the city	Grant (1991); Alvarez & Barney (2002)
Debt financing	Formal debt Informal debt	Receives credit from the bank for the business Receives credit from a corporation for the business Receives enough credit from the bank for business capital Receives enough credit from a corporation for business capital Receives a loan from a relative Receives a loan from a family member Receives a loan from an MSME association Receives a loan from a customer	Wu et al., (2016)

Education level	Elementary school
	Middle school
	High school
	Diploma/ Bachelor's Degree
	Graduate Degree

This research used a Partial Least Squares-Structural Equation Model (PLS)-SEM analysis with a WarpPLS 7.0 application. It is because this research was predictive and exploratory. There are five stages of a PLS-SEM analysis, including conceptualizing the research model, determining the algorithm analysis method, establishing the appropriate resampling stable method, and evaluating the model which consists of two types, namely the evaluation of the measurement model and the structural model.

Meanwhile, the evaluation of the structural model aimed to predict the relationships between the latent variables by looking at how much variance can be explained as well as its significance value. The analysis of this structural model comprised: evaluating the magnitude of the variance (adjusted R2), utilizing a Stone-Geiser test (testing the predictive relevance), measuring the overall model fit (goodness of fit), testing its significance (examining the influence of the hypotheses between the variables), and testing the moderating effects.

RESULT AND DISCUSSION

To get an overview of the respondents and business profiles in this study, a descriptive statistical analysis is displayed consisting of the age of the business, age of the entrepreneur, gender, and level of education (Table 2)

Of the total respondents, there were 68 MSME entrepreneurs from Lasem with an average business age of 15 years old. The age of the entrepreneurs ranges from 27 to 77 years old, with an average age of 48 years. Next, 53% of the business owners are men, meaning that the batik firms are not only dominated by women entrepreneurs. Meanwhile, from the educational background of the entrepreneurs, they are diverse from elementary to postgraduate levels, with the majority (41%) of them having a diploma/ Bachelor's Degree education.

To measure the respondents' perceptions of the variables studied, a range criterion of was used as follows: 1.00 – 2.33 = Low; 2.34 – 3.66 = Moderate; and 3.67 – 5.00 = High. Based on the research results obtained, each of the variables can be described as follows:

Firm performance was measured by eight indicators. Table 3 shows the overall average score of the respondents' answers for the firm performance variable is 2.56 or is in the moderate category. The indicator that has the highest average is NF 3, which is 4.05. The firm performance indicator that has the lowest value is NF2 with 2.05.

Table 2. Descriptive Statistics

	N	Min	Max	Average
Business age		5	40	15
Entrepreneur age		27	77	48
Male	36			
Female	32			
Education				
Elementary school		3		
Middle school/ equivalent		10		
High school/ vocational high school/ equivalent		17		
Diploma/ Bachelor's Degree		28		
Graduate degree		10		

Source: Processed primary data (2021)

Table 3. Descriptive Statistics of the Firm Performance Variable

No	Indicator	Code	Average	Criteria
1.	Increase in operating profit for the last 2 years	F1	1.86	Low
2.	Increase in sales turnover for the last 2 years	F2	1.91	Low
3.	Increase in the number of customers in the last 2 years	NF1	2.13	Low
4.	Increase in the product marketing area in the last 2 years	NF2	2.05	Low
5.	Quality of the product produced	NF3	4.05	High
6.	Satisfaction towards the current firm operating profit	E1	2.43	Moderate
7.	Increase in employee welfare compared with before	E2	2.57	Moderate
8.	Sense of pride in the firm's success	E3	3.46	Moderate
	Overall Average		2.56	Moderate

Source: Processed primary data (2021)
Note:
F1-F2: Financial 1 & 2
NF1-NF3:Non-Financial 1-3
E1-E3: Entrepreneurial Performance 1-3

Competitive advantage was measured by 20 indicators. Table 4 shows that the overall average of the respondents' answers towards the competitive advantage variable is 4.20. In detail, for the respondents' answers related to the indicators of competitive advantage, the highest is IM1, which is 4.61. Meanwhile, the competitive advantage indicator that has the lowest value is MO3, which is 3.25. The results of the interpretation of the values of all the indicators show that the competitive advantage of the respondents has high criteria.

Table 4. Descriptive Statistics of the Competitive Advantage Variable

No	Indicator	Code	Average	Criteria
1.	Lasem Batik Tulis (uses a small dipper for applying wax) has its special characteristics.	RA1	4.53	High
2.	Making batik has its expertise.	RA2	4.19	High
3.	Making batik motifs needs high artistic ability.	RA3	4.23	High
4.	Lasem Batik Tulis is a cultural heritage, a mixture of Chinese and indigenous cultures.	RA4	4.58	High
5.	The red color of Lasem Batik Tulis is different from other areas.	IM1	4.61	High
6.	The pattern of Lasem Batik Tulis has its special characteristics so that it is difficult to imitate.	IM2	4.37	High
7.	Batik Tulis needs special treatment so that it is sustainable.	DU1	4.37	High
8.	The colors of Lasem Batik Tulis do not easily fade.	DU2	4.23	High

9.	The cloth that is used for Lasem Batik Tulis has good quality.	DU3	4.38	High
10.	The special characteristics of Lasem Batik Tulis are difficult to be transferred to another area.	TR1	4.24	High
11.	The cultural values of Lasem Batik Tulis cannot be transferred to another area.	TR2	4.04	High
12.	The Batik Tulis production process can be seen by outsiders.	TRA1	4.00	High
13.	Lasem Batik Tulis has clear prices according to its patterns and quality.	TRA2	4.30	High
14.	They respond well to customer complaints.	TRA3	4.35	High
15.	They respond well to constructive input for future business development.	TRA4	4.30	High
16.	The marketing activity uses conventional (exhibitions, brochures, banners, and name cards) and online (blogs and social media) promotions.	MO1	4.03	High
17.	They participate in exhibitions on local, regional, or national scales.	MO2	3.92	High
18.	They participate in exhibitions on an international scale.	MO3	3.25	Moderate
19.	They are active in doing mouth-to-mouth marketing activities.	MO4	4.05	High
20.	Marketing is done in the city and outside the city, especially in big cities in Java and outside of Java.	MO5	4.08	High
	Overall Average		4.20	High

Source: Processed primary data (2021)
Note:
RA1–RA4: Rare 1-4
IM1-IM2: Immitable 1 & 2
DU1-DU3: Durable 1-3
TR1-TR2: Difficult to transfer 1 & 2
TRA1-TRA4: Transparant 1-4
MO1-MO5: Mobility 1-5

Debt financing was measured by eight indicators. Table 5 displays the overall average of the respondents' answers towards the debt financing variable, which is 2.64 (moderate category). The highest debt financing indicator is FD1 at 2.91, and the lowest is ID4 at 2.23.

Table 5. Descriptive Statistics of the Debt Financing Variable

No	Indicator	Code	Average	Criteria
1.	In the last 2 years, the firm has received credit from the bank.	FD1	2.91	Moderate
2.	In the last 2 years, the firm has received credit from a corporation.	FD2	2.41	Moderate
3.	The amount of credit from the bank is sufficient for the firm needs.	FD3	2.92	Moderate

4.	The amount of credit from the corporation is sufficient for the firm needs.	FD4	2.78	Moderate
5.	The entrepreneur has received a loan from a relative to help with the startup capital.	ID1	2.75	Moderate
6.	The entrepreneur has received a loan from a family member to help with the startup capital.	ID2	2.84	Moderate
7.	The entrepreneur has received a loan from an MSME association to help with the startup capital.	ID3	2.29	Low
8.	The entrepreneur has received a loan from a customer to help with the startup capital.	ID4	2.23	Low
	Overall Average		2.64	Moderate

Source: Processed primary data (2021)
Note:
FD1–FD4: Formal Debt 1-4
ID1-ID4: Informal Debt 1-4

Education level is a variable with a formative construct so that it only has or is measured by one indicator which is a measurement of the education level category with a score of 1 – 5. The score is the level of education starting from the lowest, namely elementary school, middle school, high school, diploma/ Bachelor's Degree, to a Graduate Degree. The results of the survey respondents collected reveal that the respondents have an education level primarily with a diploma/ Bachelor's Degree at 42%.

The evaluation of the measurement model aimed to assess the reliability and validity of the indicators forming the latent variables in this study. The evaluation of the measurement model in this study was not carried out on one of the variables, namely the education level variable because it is formative and only has 1 indicator.

Table 6. Loading Factor Indicator Values of the Research Variables

Variable	Indicator	Loading Factor
Competitive advantage (Comp_Adv)	LA1	0.600
	LA2	0.439
	LA3	0.374
	LA4	0.502
	SD1	0.591
	SD2	0.690
	DT1	0.175
	DT2	0.592
	DT3	0.627
	TR1	0.263
	TR2	0.431
	TRA1	0.244
	TRA2	0.414
	TRA3	0.722
	TRA4	0.770

	MO1	0.227
	MO2	0.011
	MO3	0.458
	MO4	0.356
	MO5	0.225
Debt financing	HF1	0.635
	HF2	0.768
	HF3	0.592
	HF4	0.781
	HI1	0.639
	HI2	0.583
	HI3	0.702
	HI4	0.591
Firm performance	F1	0.908
	F2	0.923
	NF1	0.821
	NF2	0.804
	NF3	0.050
	K1	0.779
	K2	0.532
	K3	0.371

Source: Processed primary data (2021)

Based on Table 6, the 9 indicators have a loading factor values below 0.4 (LA3, DT1, TR1, TRA1, MOI1, MOI2, MO4, MO5, and K3). Based on the rule of thumb measurement of reliability and validity, these indicators were removed from the measurements of the research variables. Furthermore, the analysis of the reliability and validity is presented in detail in table 7.

Table 7. Loading Factor, Composite Reliability, and Average Variance Extracted Variables

Variable	Indicator	Loading Factor	Composite Reliability	AVE
Competitive Advantage	LA1	0.600	0.851	0.501
	LA2	0.439		
	LA4	0.502		
	SD1	0.591		
	SD2	0.690		
	DT2	0.592		
	DT3	0.627		
	TR2	0.431		
	TRA2	0.414		
	TRA3	0.722		
	TRA4	0.770		
	MO3	0.458		

Debt Financing (Fin_Debt)	HF1	0.635	0.863	0.500
	HF2	0.768		
	HF3	0.592		
	HF4	0.781		
	HI1	0.639		
	HI2	0.583		
	HI3	0.702		
	HI4	0.591		
Firm Performance (Firm_Perf)	F1	0.908	0.899	0.578
	F2	0.923		
	NF1	0.821		
	NF2	0.804		
	NF3	0.050		
	K1	0.779		
	K2	0.532		

Source: Processed primary data (2021)

Based on Table 7, all the indicators can be considered to have good indicator reliability. From the output above, it can be seen that the AVE value for each variable is very good, namely > 0.5, so that it meets the criteria of convergent validity. Likewise, the composite reliability value produced by each variable is also very good, namely > 0.7, so that it meets the internal consistency reliability. Furthermore, the results of the AVE square root analysis compared with the correlation between constructs can be seen in Table 8 which exhibits good discriminant validity.

Before evaluating the relationships between variables, first, the goodness of fit of this research model was examined. Based on Table 9, the research model has a good fit, where the P-value for APC, ARS, and AAR <0.05 with an APC value = 0.185, ARS value = 0.157, and AARS value = 0.123. Likewise, the resulting AVIF and AFVIF values are < 3.3, which means that there is no multicollinearity problem between the indicators and between the exogenous variables. The resulting GoF is 0.326 which means that the model fit score is acceptable. Next, SPR, RSCR, and SSR produce a value equal to 1 and NLBCDR produces a value of 0.833, which means that there is no causality problem in the model.

Furthermore, the results of the estimated relationships between the variables and the magnitude of the variance can be seen in Table 10 and Figure 2:

Based on Table 9 and Figure 2 above, the R-squared (R^2) value for the variations that affect firm performance is 0.16. That is, the effect of the variations in competitive advantage, debt financing, and education level is 16%, and the remaining 84% is influenced by other variables outside this research model. The value of

Table 8. AVE Square Root Values and Correlation between Variables

Construct	AVE Square Root	Competitive Advantage	Debt Financing	Firm Performance
Competitive advantage	0.616	-	- 0.235	- 0.356
Debt financing	0.666	- 0.235	-	0.015
Firm performance	0.760	- 0.356	0.015	-

Source: Processed primary data (2021)

the variation of R-squared (R^2) that affects the firm performance is included in the weak category ($R^2 < 0.25$). Furthermore, the resulting Q-squared value for the firm performance variable is 0.196 (> 0), which means that the model has predictive relevance.

Table 9. Goodness of Fit of the Structural Model

Criteria	Parameter	Rule of Thumb
Average path coefficient (APC)	0.185, P=0.007	Acceptable if P < 0.05
Average R-squared (ARS)	0.157, P=0.016	Acceptable if P < 0.05
Average adjusted R-squared (AARS)	0.123, P=0.035	Acceptable if P < 0.05
Average block VIF (AVIF)	1.054	Acceptable if <= 5, ideally <= 3.3
Average full collinearity VIF (AFVIF)	1.232	Acceptable if <= 5, ideally <= 3.3
Tenenhaus GoF (GoF)	0.326	Small >= 0.1, medium >= 0.25, large >= 0.36
Sympson's paradox ratio (SPR)	1	Acceptable if >= 0.7, ideally = 1
R-squared contribution ratio (RSCR)	1	Acceptable if >= 0.9, ideally = 1
Statistical suppression ratio (SSR)	1	Acceptable if >= 0.7
Nonlinear bivariate causality direction ratio (NLBCDR)	0.833	Acceptable if >= 0.7

Source: Processed primary data (2021)

Table 10. Estimation Results of the Relationships between Variables

Path	Coefficient	P-value	R^2	Q^2
Competitive advantage → Firm performance	-0.314	0.001***	0.157	0.196
Debt financing * Competitive advantage → Firm performance	0.113	0.088*		
Education level → Firm performance	-0.129	0.061*		

Explanation: ***, **, * significant at α 1%, 5%, or 10%
Source: Processed primary data (2021)

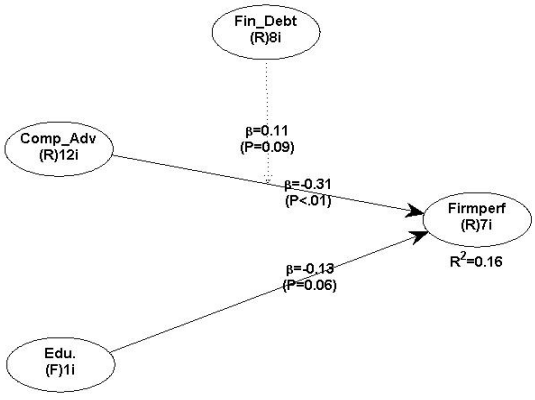

Figure 2. Estimation Results of the Relationships between Variables
Source: Processed primary data (2021)

Influence of Competitive Advantage towards Firm Performance

From the results of the estimated relationships between the variables, it can be viewed that the competitive advantage variable has a significant negative effect on firm performance. Hypothesis 1 postulated that the stronger the competitive advantage of a firm is, it will be followed by high performance, but this is not supported by the results of the study. Lasem batik SMEs do have an advantage in terms of the Laseman distinctive colors and patterns that are not found in other regions, but it turns out that this uniqueness during the current

pandemic has reduced the performance. This is because the Lasem batik SMEs have not been able to take full advantage of and explore the cultural advantages that exist in Lasem batik itself (Haryono & Fathoni, 2017). Also, during the pandemic, batik sales fell significantly, and even some batik craftspeople stopped producing altogether. This is because the Lasem batik MSMEs before the COVID-19 pandemic only relied on direct sales at exhibition events and hard-selling, but they did not do much extensive selling online. Therefore, when restrictions were enacted on large-scale activities by the government during the pandemic, it resulted in a decrease in sales turnover.

Small firms have a competitive advantage especially in terms of flexibility. This advantage is generally not found in large firms. This flexibility includes technology, manpower, networking, entry/exit, and flexibility in regulating the production volume (Fiegenbaum & Karnani, 1991; Sak & Taymaz, 2021). This theoretically can support small firms to adapt to changes in the business environment, so that they can generate profits. However, it should also be understood that this flexibility is actually inefficient and only useful in certain contexts (Carayannopoulos, 2017).

This flexibility in regulating production output sometimes causes small firms to behave inefficiently to earn profits. On the other hand, small firms do not have a competitive advantage that is more crucial in boosting performance, namely economies of scale, experience curve, bargaining position against suppliers and customers, reputation, and market power (Fiegenbaum & Karnani, 1991). This advantage is generally only possessed by large firms. In the current pandemic condition, many entrepreneurs are experiencing shocks because they face business obstacles that they have not encountered before. Many entrepreneurs are unable to run their businesses as before. One of the main competitive advantages, namely flexibility, has become a disincentive for entrepreneurs to try to find loopholes amid the pandemic. In contrast to large firms, which have an advantage in terms of the experience curve combined with low flexibility, small firms are more motivated to find solutions to difficulties that arise due to the pandemic.

In addition, Argote & Ingram (2000) also stated that knowledge is an important basis for a competitive advantage through effective knowledge transfer. Small firms generally do not have as strong knowledge resources as large companies. In small firms, the dominant position of entrepreneurs also makes the transfer of knowledge not run as smoothly as in large companies that already have an established knowledge management system. An established knowledge management infrastructure has been proven to play a role in supporting firm performance (Lee, Kim, & Kim, 2012). These weaknesses can also contribute to the failure of small firms to effectively manage their existing competitive advantages. This is what makes a competitive advantage in small firms counterproductive to performance, especially during this pandemic.

Role of Debt Financing Moderation in the Influence of Competitive Advantage towards Firm Performance

The interaction of debt funding on competitive advantage produces a significant positive effect on firm performance. Thus, it can be affirmed that debt financing can moderate the effect of competitive advantage on firm performance. Debt financing can be a catalyst for the role of competitive advantage to produce good firm performance. Previously, this study found that the competitive advantage of SMEs has a negative effect on firm performance, whereas in this context small businesses take advantage of the flexibility of output settings that cause inefficiency. However, it was found that with debt financing, MSMEs can take advantage of competitive advantages more wisely so that they can maintain their firm performance.

During the current pandemic, the existence of government policies that provide debt relief for MSMEs greatly affects the existence of MSMEs in making Lasem batik. Lasem batik SMEs can take advantage of the government's

debt concession policy wisely to improve their performance. The use of debt by entrepreneurs turns out to bring positive risks, where entrepreneurs can manage debt to support business operations and investment needs effectively. This is what supports the use of competitive advantage so that firm performance increases. Entrepreneurs consider debt as a motivation to try to cover financial obligations and develop a business, resulting in a strengthening of performance (Suci et al., 2019). During the pandemic, entrepreneurs can take advantage of their flexibility to modify their business models and innovate to survive. Innovation in business and management is one of the key aspects of business recovery both during and after the pandemic (Caballero-Morales, 2021). Błach et al., (2020) found a strong link between innovation and debt financing. However, it is not uncommon for innovation to be hampered by limited funding sources (Goujard & Guérin, 2018). Thus, debt financing plays a role for MSMEs to be able to manage their competitive advantages to strengthen their firm performance.

Testing the Influence of Education Level (Control Variable) towards Firm Performance

Based on the analysis that has been done, the education level variable has a significant negative effect on firm performance. This finding indicates that education level can be a control variable in the research model.

It is suspected that a high level of formal education is not directly proportional to the ability to run a business well (Acar, 2016). Eniola (2018) revealed that organizational capability is more crucial in business management, compared to the characteristics and education level of business managers. The Lasem batik SME management tends to be passed down from their parents, especially from Chinese batik entrepreneurs. When the parents pass away, the business is continued by the son. However, at this time, the number of Lasem batik SMEs run by the indigenous population and those of Chinese descent is almost the same. The children of batik entrepreneurs mostly study abroad, especially in big cities, and return to expand their parents' businesses, so that most of the next generation have a 3-year diploma or undergraduate degree education. In this case, the next generation cannot be called "real managers" because they automatically become the heirs to the business due to their status as "children". This study used formal education level as an indicator, so it is less able to measure the types of non-formal education such as training and entrepreneurship seminars that can shape the capabilities of entrepreneurs (Ndlovu et al., 2018).

CONCLUSION AND RECOMMENDATION

The findings of this study indicate that the competitive advantage of the Lasem Batik MSMEs has a negative impact on firm performance due to the problem of a lack of flexibility in regulating production output so that it triggers cost inefficiency, as well as the low transfer of knowledge from small business actors. However, when moderated by debt financing, competitive advantage is proven to be able to optimize or strengthen firm performance.

This result is a guideline for business actors, especially in a labor-intensive creative industry sector such as batik MSMEs, namely that it takes a qualified ability from entrepreneurs to utilize capital resources from debt can make business operations smoother, especially during the pandemic. The existence of debt stimulates entrepreneurs to be more effective, creative, and innovative in running their firms because they have obligations arising from the debt used.

A limitation of this research is that it does not include indicators of non-formal education of MSME entrepreneurs in the measurement of control variables. There is a finding that higher formal education is not effective in improving firm performance. It is suspected that formal education experience related to business management and entrepreneurship plays an important role in supporting firm performance. In addition, the negative influence of competitive advantage on firm performance triggers further questions. There may be a moderating variable

that causes a contradictory effect with the one previously hypothesized. Therefore, future research can include the firm age variable as a moderating variable to see the variability of the effect of competitive advantage on the performance of MSMEs.

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