

THE ROLE OF COMPETITIVE ADVANTAGE IN MEDIATING THE EFFECT OF PRODUCT INNOVATION ON THE MARKETING PERFORMANCE OF BALINESE TRADITIONAL ATTIRE MSMEs

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Abstract

This study aims to analyze the effect of product innovation on marketing performance with competitive advantage as a mediating variable among traditional Balinese clothing MSMEs in Gianyar Regency. This research employs a quantitative approach with an associative design based on the Resource-Based View (RBV) perspective. The sample consists of 50 respondents selected using purposive sampling technique. Data were collected through Likert-scale questionnaires and analyzed using Structural Equation Modeling based on Partial Least Squares (SEM-PLS). The results indicate that product innovation has a positive and significant effect on marketing performance. Product innovation also has a positive and significant effect on competitive advantage. Furthermore, competitive advantage has a positive and significant effect on marketing performance and is proven to partially mediate the relationship between product innovation and marketing performance. These findings suggest that the ability of MSMEs to develop product innovation and transform it into competitive advantage is a key factor in enhancing marketing performance more effectively. Theoretical implications of this study reinforce the role of product innovation in creating competitive advantage that enhances marketing performance, while practically, MSMEs should focus on developing unique designs and motifs, improving product quality, and leveraging local cultural values to avoid price-based competition and increase market attractiveness.

Keywords: Product Innovation, Competitive Advantage, Marketing Performance, Micro Small Medium Enterprises.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in the global economy, accounting for more than 90 percent of business units and approximately 50 percent of employment worldwide (OECD, 2022). In developing countries, MSMEs are regarded as an important foundation of economic stability due to their flexibility and adaptability in responding to economic crises and changing market conditions (World Bank, 2021). Nevertheless, the challenges faced by MSMEs are no longer limited to production capacity. Increasing competition has also required MSMEs to improve their

ability to formulate effective marketing strategies and create added value through their products (Suryana, 2020).

In Indonesia, MSMEs constitute a substantial part of the national economy. There are more than 64 million MSME units, which absorb approximately 97 percent of the national workforce and contribute around 61 percent to the country's Gross Domestic Product (GDP) (Kemenkop UKM, 2023). Despite this significant contribution, MSMEs continue to face structural challenges, particularly in terms of competitiveness and marketing performance. Marketing performance is an important indicator of business success because it reflects a firm's ability to increase sales, expand market share, and retain customers (Yasa et al., 2020). However, many MSMEs remain focused on short-term production activities without systematic and well-planned marketing strategies, potentially limiting their ability to respond to market changes and sustain business growth (Suryana, 2020).

This phenomenon can also be observed in Bali, particularly in Gianyar Regency. Based on data from the Bali Provincial Office of Cooperatives and SMEs (2025), Gianyar had the highest number of MSMEs among regencies in Bali, with 75,666 units in 2023. However, this number decreased significantly to 52,813 units in 2024 and only slightly increased to 52,833 units in 2025. This decline indicates the existence of business pressures and suggests that the marketing performance of MSMEs in Gianyar has not yet been optimized. At the same time, Gianyar has been designated as a World Craft City (WCC) by the World Crafts Council and is the only regency in Indonesia to hold this designation. This status reflects the strength of Gianyar's creative economy ecosystem, including traditional textile-based fashion and other cultural industries (Pemerintah Kabupaten Gianyar, 2019).

One MSME subsector with considerable market potential is Balinese traditional attire. Traditional attire is not merely a form of clothing but is an integral part of Balinese religious and cultural practices (Raka et al., 2020). Its use is also supported by government regulations, including Bali Governor Regulation No. 79 of 2018 and Circular Letter of the Governor of Bali No. 04 of 2021. These regulations reinforce the relevance of Balinese traditional attire within the daily social and religious activities of Balinese society. Nevertheless, preliminary survey results indicate that marketing performance within this subsector remains fluctuating and uneven. Some business owners have experienced stagnant or declining sales, while others have experienced sales growth despite operating in a relatively homogeneous market. This condition indicates that the existing market opportunities have not been utilized optimally.

One of the underlying challenges is the limited differentiation among products. Relatively homogeneous products may encourage competition based primarily on price, which can reduce profit margins without necessarily improving marketing performance (De Toni et al., 2017). Under such conditions, product innovation becomes an important strategy for creating differentiation and additional value. In the context

of Balinese traditional attire MSMEs, product innovation can be manifested through the development of designs, motifs, product variations, and adaptations to contemporary market trends while maintaining cultural identity (Harini et al., 2022). Empirical studies have generally demonstrated a positive relationship between product innovation and marketing performance. Product innovation can increase consumer purchase interest, expand market share, and strengthen customer loyalty (Suryaningsih et al., 2018; Wiryawan & Seminari, 2022; Damayanti et al., 2023). However, the findings of previous studies are not entirely consistent. Several studies have reported that product innovation does not always have a direct and significant effect on marketing performance (Amin et al., 2019; Albert William et al., 2023; Chalirafi et al., 2024).

These differences suggest that product innovation alone may not automatically translate into improved marketing performance. Instead, its effectiveness may depend on the firm's ability to manage and transform innovation into a strategic source of competitive advantage. The Resource-Based View (RBV) provides a theoretical foundation for understanding this relationship. According to Barney (1991), sustainable competitive advantage is determined by a firm's ability to manage resources that are valuable, rare, imperfectly imitable, and non-substitutable. Barney and Hesterly (2020) subsequently developed this framework into VRIO by adding the Organization dimension, emphasizing that resources can generate actual competitive advantage only when supported by an organizational structure capable of utilizing them effectively.

In this study, product innovation is viewed as an intangible resource that can be valuable and relatively rare, encompassing design creativity, local cultural knowledge, and the ability to adapt products to changing consumer preferences (Widagdo et al., 2019). When effectively managed, these resources can create competitive advantage and ultimately contribute to improved marketing performance among Balinese traditional attire MSMEs. This argument is consistent with Rigan and Parahiyanti (2022), who found that resource-based strategies have a positive and significant influence on innovation and directly enhance competitive advantage among craft MSMEs. Accordingly, the conceptual framework of this study positions product innovation as the exogenous variable (X), competitive advantage as the mediating variable (M), and marketing performance as the endogenous variable (Y).

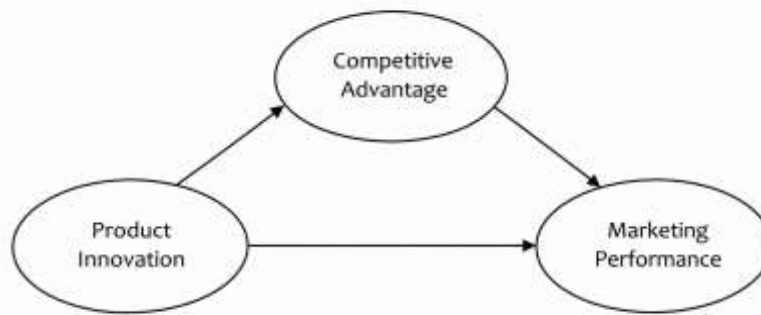


Figure 1. Conceptual Framework

Marketing performance refers to the extent to which a firm achieves its marketing objectives through improvements in sales, market share, and sustainable profit growth (Yasa et al., 2020). Marketing success is not solely determined by sales activities but also by a firm's ability to create customer satisfaction and loyalty (Sukaatmadja et al., 2021). Bakhri and Futiah (2020) further explain that marketing performance is frequently used as an indicator of the success of a firm's strategy. Consequently, firms need to formulate effective marketing strategies to stimulate sales growth, increase market share, and improve profitability.

Product innovation refers to a firm's ability to create new products or improve existing products in order to overcome the limitations of previous products and provide greater value to consumers (Suryaningsih et al., 2018). From an RBV perspective, product innovation represents the utilization of valuable and relatively rare organizational resources that can strengthen marketing capabilities and subsequently improve marketing performance. Through innovation, firms do not merely modify product characteristics but also create additional value that is relevant to market needs. Tejawulan (2021) found that higher levels of product innovation are associated with higher marketing performance. Similarly, Harini et al. (2022) found that product innovation has a positive and significant effect on MSME marketing performance. These findings are also supported by Devara and Sulistyawati (2019) and Saraswati and Santika (2019). Further evidence from Nina et al. (2022), Rompis et al. (2022), Ramadhani et al. (2022), and Sidik and Anik (2021) indicates that product innovation is an important factor in improving SME business performance, particularly within the clothing industry. Sulton et al. (2022) likewise found that product innovation significantly improves firms' marketing performance. Based on these arguments, the first hypothesis is formulated as follows:

H1: Product innovation has a positive and significant effect on marketing performance.

Competitive advantage refers to a firm's superior position relative to its competitors, achieved by providing greater value to consumers through lower prices or unique additional benefits (Kotler & Armstrong, 2018). David and David (2017) define competitive advantage as a situation in which a firm is capable of performing activities that competitors cannot perform or possesses assets and capabilities that competitors do not have. Within the RBV framework, product innovation can become a foundation for sustainable competitive advantage when it is strategically managed and difficult for competitors to imitate (Barney, 1991). Product innovation enables firms to offer products that are more relevant to market needs and therefore represents an important mechanism for maintaining competitive positioning.

Wijaya and Purnomo (2024) emphasize that the primary objective of product innovation is to provide greater value while creating sustainable competitive advantage. Empirically, Noviani (2020), Lestari et al. (2020), and Nisa and Anisah (2023) found that product innovation significantly enhances competitive advantage. These findings are supported by Nurussakinah et al. (2018) and Hendrayanti and Nurauliya (2021). Darma et al. (2022) also found that better product innovation is associated with stronger competitive advantage. Kuncoro and Suriani (2018) as well as Wijaya and Defrizal (2024) further demonstrated a positive and significant relationship between product innovation and competitive advantage. Therefore, the second hypothesis is formulated as follows:

H2: Product innovation has a positive and significant effect on competitive advantage.

Competitive advantage represents a firm's ability to maintain its position relative to competitors by creating greater value for consumers (Sastrodiharjo & Suraji, 2022). From the RBV perspective, when firms successfully utilize unique resources to create competitive advantage, they can establish a stronger position for achieving optimal marketing performance. Competitive advantage may be reflected in healthy financial conditions and superior product innovation, which can contribute to improved marketing performance, particularly through increased sales (Rompis et al., 2022). Firms capable of developing competitive advantage can strengthen their market position because their products remain attractive to customers (Dahana et al., 2021). Marketing performance is therefore expected to improve as competitive advantage becomes stronger (Fatikha et al., 2021).

Previous research by Ginting et al. (2020), Amin et al. (2019), Sawlani et al. (2022), Rompis et al. (2022), and Fadhillah et al. (2021) demonstrates that competitive advantage has a positive and significant effect on marketing performance. Suherman (2021) similarly found that competitive advantage has a positive and significant partial effect on marketing performance. These findings indicate that the ability of MSMEs to establish a distinctive position and deliver greater value to consumers can contribute to stronger marketing outcomes. Thus, the third hypothesis is formulated as follows:

H3: Competitive advantage has a positive and significant effect on marketing performance.

Based on the RBV, competitive advantage can serve as a mechanism through which organizational resources, such as product innovation, are transformed into improved marketing outcomes. Innovation that is successfully converted into competitive advantage provides greater opportunities for MSMEs to maintain consumer interest, strengthen customer loyalty, and reinforce their market position (Chalirafi et al., 2024). Therefore, the relationship between product innovation and marketing performance may not only occur directly but also through the competitive advantage created by the innovation.

Nopriyanto et al. (2023) found that product innovation influences marketing performance through competitive advantage, demonstrating the importance of competitive advantage in determining the effectiveness of product innovation. This finding is consistent with Suryaningsih et al. (2018), who identified competitive advantage as a mediator in the relationship between product innovation and marketing performance. The mediating role is further supported by Saputra et al. (2025), Fadhilah et al. (2021), and Numat et al. (2022). Dahana (2019) specifically found that competitive advantage acts as a partial mediator between product innovation and marketing performance, consistent with Dahana et al. (2021). Safri et al. (2023), in their study of Rabbani Store, also demonstrated that product innovation contributes to the development of competitive advantage, which subsequently affects marketing performance.

The existing literature also reveals a research gap. Studies specifically examining the marketing performance of Balinese traditional attire MSMEs remain limited. Previous research on textile-based MSMEs in Bali has predominantly focused on products such as songket and endek. Furthermore, the application of the RBV framework by positioning competitive advantage as a mediating variable in culturally based fashion MSMEs in Indonesia remains limited in the available literature. Therefore, based on the empirical phenomenon and identified research gap, this study aims to examine the role of competitive advantage in mediating the effect of product innovation on the marketing performance of Balinese traditional attire MSMEs in Gianyar Regency. Based on the theoretical arguments and empirical findings discussed above, the fourth hypothesis is formulated as follows:

H4: Competitive advantage mediates the effect of product innovation on marketing performance.

RESEARCH METHOD

This study employs a causal associative research design with a quantitative approach to examine the relationships among product innovation, competitive advantage, and marketing performance of Balinese traditional attire MSMEs in Gianyar

Regency. Gianyar Regency was selected as the research setting because it is the only regency in Indonesia to hold the World Craft City (WCC) designation (Pemerintah Kabupaten Gianyar, 2019), while also experiencing a significant decline in the number of MSMEs, from 75,666 units in 2023 to 52,833 units in 2025 (Dinas Koperasi, Usaha Kecil dan Menengah Provinsi Bali, 2025), indicating that the marketing performance of MSMEs in the region has not yet been optimal. The study population consists of all actively operating Balinese traditional attire MSMEs in Gianyar Regency. Purposive sampling was employed based on the criterion that the business had been operating for at least one year. The sample size was determined at 50 respondents, referring to Roscoe (1975) as cited in Asrulla et al. (2023).

RESULT AND DISCUSSION

Findings

Gianyar Regency, as a center of art and culture, has the highest number of MSMEs in Bali, including the traditional attire subsector, which is supported by stable demand and government policies. However, the marketing performance of MSMEs remains uneven due to weak product differentiation, resulting in price-based competition and fluctuations in sales. Based on the research findings, the characteristics of respondents from Balinese traditional attire MSMEs in Gianyar Regency include gender, age, and educational attainment, as presented in Table 3.

Table 1. Characteristics of Research Respondents

Variable	Classification	Number (People)	Percentage (%)
Gender	Male	13	26
	Female	37	74
	Total	50	100
Age	<22	3	6
	22-28	15	30
	29-35	8	16
	36-42	8	16
	43-49	8	16
	>49	8	16
	Total	50	100
Highest Educational Attainment	Junior High School	7	14
	Senior High School/Equivalent	20	40
	Diploma	3	6
	Bachelor's Degree	19	38
	Master's Degree	1	2
	Total	50	100

Source: Primary Data, Processed in 2026

Table 1 illustrates the characteristics of respondents who operate Balinese traditional attire MSMEs in Gianyar Regency based on gender, age, and highest educational attainment. The majority of respondents were female, accounting for 74 percent, while male respondents accounted for 26 percent. In terms of age, the largest

proportion of respondents was in the 22–28 age group, representing 30 percent, while the other age groups were relatively evenly distributed. Regarding educational attainment, the majority of respondents had completed senior high school or an equivalent level, accounting for 40 percent, followed by respondents with a bachelor's degree at 38 percent. The remaining respondents had lower or higher levels of education, each representing smaller proportions.

Data collection was conducted through offline questionnaires administered to 50 respondents, covering the variables of marketing performance, competitive advantage, and product innovation. The data were then converted by determining a class interval of 0.80 based on a 1–5 scale as the basis for categorizing respondents' responses, as presented in Table 2.

Table 2. Criteria for Measuring the Description of Research Variables

Average Score	Categories		
	Marketing Performance	Competitive Advantage	Product Innovation
1,00 – 1,79	Very Low	Very Low	Very Poor
1,80 – 2,59	Low	Low	Poor
2,60 – 3,39	Moderate	Moderate	Moderate
3,40 – 4,19	High	High	Good
4,20 – 5,00	Very High	Very High	Very Good

Source: Sugiyono (2022)

Table 3. Description of Respondents' Responses to Marketing Performance

No	Statement	Frequency of Responses					Average	Description
		1	2	3	4	5		
1	Sales volume has increased over the past year	1	5	15	21	8	3,60	High
2	The number of customers has increased over the past year	0	6	16	18	10	3,64	High
3	The profit received has increased over the past year.	2	5	14	20	9	3,58	High
Overall average of responses to Marketing Performance							3,61	High

Source: Processed Data, 2026

Based on Table 3, the marketing performance variable of Balinese traditional attire MSMEs was rated as high, with an average score of 3.61. The highest score was recorded for the increase in the number of customers, with an average of 3.64, while the lowest was recorded for the increase in profit, with an average of 3.58. This finding indicates that although business owners have been able to attract more customers, this increase has not been fully accompanied by optimal profit growth.

Based on Table 4, the product innovation variable was rated as good, with an average score of 3.51. The highest score was recorded for the addition of product variety, with an average of 3.56, while the lowest was recorded for the ability to create new designs, with an average of 3.44. This indicates that MSME owners tend to innovate

more through expanding product variety than through creating genuinely original designs.

Table 4. Description of Respondents' Responses to Product Innovation

No	Statement	Frequency of Responses					Average	Description
		1	2	3	4	5		
1	There are always new ideas, designs, and motifs created for the products being sold	2	5	18	19	6	3,44	Good
2	The variety of products sold is regularly expanded.	0	8	15	18	9	3,56	Good
3	The quality of the products sold continues to improve	1	7	15	19	8	3,52	Good
Overall average of responses to Product Innovation							3,51	Good

Source: Processed Data, 2026

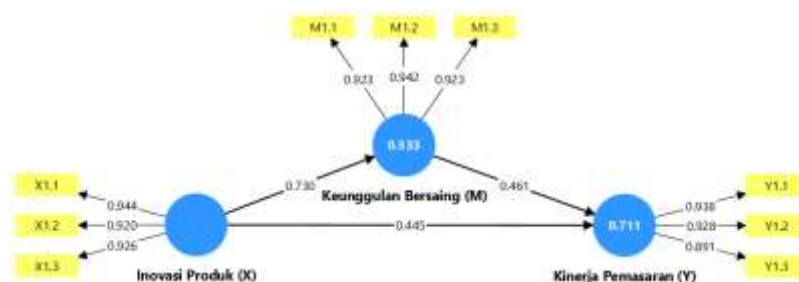
Table 5. Description of Respondents' Responses to Competitive Advantage

No	Statement	Frequency of Responses					Average	Description
		1	2	3	4	5		
1	The products generally have better quality than those of competitors	1	7	17	13	12	3,56	High
2	The products offered have distinctive designs or characteristics that differentiate them from competitors	1	7	16	19	7	3,48	High
3	Product prices are more affordable than similar products in the market	1	5	15	17	12	3,68	High
Overall average of responses to Competitive Advantage							3,57	High

Source: Processed Data, 2026

Based on Table 5, the competitive advantage variable was rated as high, with an average score of 3.57. The highest score was recorded for the aspect of more affordable pricing, with an average of 3.68, while the lowest score was recorded for product design uniqueness, with an average of 3.48. This indicates that the competitive advantage of Balinese traditional attire MSMEs is more strongly characterized by pricing strategies than by product differentiation.

Analysis/Discussion



Source: Processed Data, 2026

Figure 2. Measurement Equation Model

The evaluation of the outer model was conducted through tests of *convergent validity*, *discriminant validity*, and *composite reliability*. The results of the *convergent validity* test presented in Table 6 show that all indicator *outer loading* values are greater than 0.70; therefore, all indicators are considered valid.

Table 6. Results of the Convergent Validity Test

Variabel	Indikator	Outer Loading	Description
Marketing Performance (Y)	Sales Growth (Y1)	0,938	Valid
	Customer growth (Y2)	0,928	Valid
	Profit Growth	0,891	Valid
Product Innovation (X)	The company always creates new ideas (X1)	0,944	Valid
	Addition of product variety (X2)	0,920	Valid
	Quality development (X3)	0,926	Valid
Competitive Advantage (M)	Product quality advantage (M1)	0,923	Valid
	Product uniqueness advantage (M2)	0,942	Valid
	Competitive price advantage (M3)	0,923	Valid

Source: Processed Data, 2026

Table 7. Results of the Cross Loading Test

Indicator	Product Inovation (X)	Competitive Advantage (M)	Marketing Performance (Y)
M1.1	0,631	0,923	0,701
M1.2	0,690	0,942	0,763
M1.3	0,713	0,923	0,727
X1.1	0,944	0,744	0,806
X1.2	0,920	0,635	0,685
X1.3	0,926	0,649	0,680
Y1.1	0,720	0,750	0,938
Y1.2	0,764	0,778	0,928
Y1.3	0,667	0,631	0,891

Source: Processed Data, 2026

Table 8. Results of the Average Variance Extracted (AVE) Test

Variabel	Average Variance Extracted (AVE)	Description
Marketing Performance (Y)	0,845	Valid
Product Innovation (X)	0,865	Valid
Competitive Advantage (M)	0,864	Valid

Source: Processed Data, 2026

Based on Table 7, all indicators meet the criteria for *discriminant validity* because the correlation values of each latent variable are greater than 0.70 and higher than those of the other variables. In addition, the results of the *Average Variance Extracted* (AVE) test in Table 8 show that all variables have AVE values above 0.50. Therefore, it can be concluded that all constructs in this study are considered valid.

Table 9. Results of the Composite Reliability Test

Variabel	Cronbach's Alpha	Composite Reability
Marketing Performance(Y)	0,909	0,943
Product Innovation (X)	0,922	0,951
Competitive Advantage (M)	0,921	0,950

Source: Processed Data, 2026

Based on Table 9, the results of the *composite reliability* and *Cronbach's alpha* tests for all indicators and each variable—marketing performance, product innovation, and competitive advantage—are greater than 0.70. This indicates that all variables in this study have met the reliability requirements.

Table 10. Results of the R-Square Test

Variabel	R-Square	R-Square Adjusted
Keunggulan Bersaing (M)	0,533	0,523
Kinerja Pemasaran (Y)	0,711	0,699

Source: Processed Data, 2026

Based on Table 12, the *R-square* value for competitive advantage of 0.533 indicates that the model is categorized as moderate, in which 53.3 percent of its variance is influenced by product innovation, while 46.7 percent is influenced by other factors outside the model. Meanwhile, the *R-square* value for marketing performance of 0.711 is also categorized as moderate, meaning that 71.1 percent of its variance is influenced by product innovation and competitive advantage, while 28.9 percent is influenced by other factors not examined in this study. The calculation of the *Q-square* value is presented below:

$$Q^2 = 1 - [(1 - R_1^2)(1 - R_2^2)]$$

$$Q^2 = 1 - [(1 - 0,533)(1 - 0,711)]$$

$$Q^2 = 1 - (0,467)(0,289)$$

$$Q^2 = 1 - 0,135$$

$$Q^2 = 0,865$$

The Q^2 value of 0.865 indicates that the model has good *predictive relevance* because it is close to 1. This means that 86.5 percent of the variance in marketing performance is influenced by product innovation and competitive advantage, while the remaining 13.5 percent is influenced by other factors outside the model.

Table 11. Results of the Path Coefficient Test

Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
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Product Innovation (X) → Marketing Performance (Y)	0,445	0,444	0,114	3,915	0,000
Product Innovation (X) → Competitive Advantage (M)	0,730	0,728	0,068	10,683	0,000
Competitive Advantage (M) → Marketing Performance (Y)	0,461	0,463	0,105	4,388	0,000

Source: Processed Data, 2026

Table 14. Results of the Specific Indirect Effect Test

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Product Innovation (X) → Competitive Advantage (M) → Marketing Performance (Y)	0,337	0,337	0,086	3,915	0,000

Source: Processed Data, 2026

Hypothesis testing was conducted using the *bootstrapping* procedure, with an acceptance threshold of $t\text{-statistic} > 1.96$ and $p\text{-value} < 0.05$. Based on Table 11, product innovation has a positive and significant effect on marketing performance, with an original sample value of 0.445, a $t\text{-statistic}$ of 3.915, and a $p\text{-value}$ of 0.000; therefore, H1 is accepted. Product innovation also has a positive and significant effect on competitive advantage, with an original sample value of 0.730, a $t\text{-statistic}$ of 10.683, and a $p\text{-value}$ of 0.000; therefore, H2 is accepted. Furthermore, competitive advantage is shown to have a positive and significant effect on marketing performance, with an original sample value of 0.461, a $t\text{-statistic}$ of 4.388, and a $p\text{-value}$ of 0.000; therefore, H3 is accepted. This indicates that better product innovation and stronger competitive advantage are associated with higher marketing performance.

Table 12 shows that the results of the indirect effect test indicate that product innovation has a positive and significant effect on marketing performance through competitive advantage, with an original sample value of 0.337, a $t\text{-statistic}$ of 3.915, and a $p\text{-value}$ of 0.000; therefore, H4 is accepted. This means that the better product innovation is in creating competitive advantage, the higher the marketing performance achieved. The mediation type test based on the approach of Hair et al. (2022) shows that all direct effects between the variables are significant, namely product innovation on competitive advantage (0.730; $p = 0.000$), competitive advantage on marketing performance (0.461; $p = 0.000$), and product innovation on marketing performance (0.445; $p = 0.000$). Since all three paths are significant, competitive advantage acts as a partial mediator (*partial mediation*). This means that product innovation continues to have a direct effect on marketing performance, while its effect is also strengthened through increased competitive advantage. Thus, better product innovation among

Balinese traditional attire MSMEs is associated with higher competitive advantage and marketing performance.

Product innovation has a positive and significant effect on the marketing performance of Balinese traditional attire MSMEs in Gianyar Regency. The dominant indicator is the addition of product variety, indicating that expanding the range of products contributes more to marketing performance than creating new designs. This finding is consistent with the *Resource-Based View* (RBV), which emphasizes the importance of managing internal resources as a source of competitive performance (Barney, 1991). The finding is also consistent with the studies of Tejawulan (2021), Harini et al. (2022), Devara and Sulistyawati (2019), Saraswati and Santika (2019), Nina et al. (2022), Rompis et al. (2022), and Ramadhani et al. (2022).

Product innovation also has a positive and significant effect on competitive advantage, with the addition of product variety serving as the dominant indicator. This finding demonstrates that product diversity is a key factor in creating competitive advantage. In accordance with the RBV theory, innovation represents a strategic resource that can provide value and is difficult for competitors to imitate (Barney, 1991). This finding is supported by Noviani (2020), Lestari et al. (2020), Nisa and Anisah (2023), Nurussakinah et al. (2018), Hendrayanti and Nurauliya (2021), Darma et al. (2022), Kuncoro and Suriani (2018), and Wijaya and Defrizal (2024).

Competitive advantage has a positive and significant effect on marketing performance, with competitive pricing as the dominant indicator. This finding indicates that the ability to offer competitive prices is a key factor in improving marketing performance. The result is consistent with the RBV perspective (Barney, 1991), as well as the views of Kotler and Armstrong (2018) and David and David (2017) regarding the creation of added value. This finding is also supported by Ginting et al. (2020), Amin et al. (2019), Sawlani et al. (2022), Rompis et al. (2022), Fadhillah et al. (2021), and Suherman (2021).

Competitive advantage partially mediates the effect of product innovation on marketing performance. This means that product innovation improves marketing performance both directly and indirectly through the strengthening of competitive advantage. The addition of product variety contributes to the creation of competitive pricing and an increase in the number of customers. In accordance with the RBV perspective (Barney, 1991), innovation as an internal resource can generate greater benefits when transformed into competitive advantage. This finding is supported by Nopriyantoro et al. (2023), Suryaningsih et al. (2018), Saputra et al. (2025), Fadhillah et al. (2021), Numat et al. (2022), Dahana (2019), Dahana et al. (2021), and Brahmanthara and Yasa (2017).

From a theoretical perspective, this study strengthens the *Resource-Based View* by demonstrating that the management of internal resources, such as creativity and knowledge of local culture, can contribute to product innovation, competitive

advantage, and marketing performance. The findings confirm that product innovation has a positive effect on both competitive advantage and marketing performance, with competitive advantage partially mediating the relationship between product innovation and marketing performance. In addition, the valid and reliable research instrument may serve as a reference for future studies, particularly those focusing on the creative economy and tourism sectors.

From a practical perspective, this study suggests that Balinese traditional attire MSMEs should strengthen product innovation and competitive advantage to improve marketing performance. In addition to focusing on product variety and competitive pricing, business owners should develop original designs and strengthen product differentiation to establish distinctive characteristics. These strategies can strengthen market positioning, increase the number of customers, and encourage business profit growth.

CONCLUSION

This study shows that product innovation has a positive and significant effect on marketing performance, particularly through the addition of product variety, which can increase consumer interest. Product innovation also has a positive and significant effect on competitive advantage because it creates differentiation and added value. Furthermore, competitive advantage has a positive and significant effect on marketing performance, particularly through the ability to offer competitive prices. In addition, competitive advantage partially mediates the effect of product innovation on marketing performance, indicating that product innovation affects marketing performance not only directly but also indirectly through competitive advantage.

Based on these findings, MSME owners are advised to increase profitability through more efficient cost management, appropriate pricing adjustments, bundling strategies, and the development of premium products. In addition, business owners should improve their ability to create new designs by seeking and adapting sources of inspiration while maintaining distinctive local characteristics. Finally, MSME owners are encouraged to strengthen product differentiation by establishing consistent distinguishing characteristics, such as the use of specific colors, motifs, and brand identity, in order to create greater uniqueness and strengthen their competitiveness in the market.

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