

Enhancing SME Competitiveness Through the Implementation of Strategic Management Based on Local Business Innovation

*SME Competitiveness,
Strategic Management,
Local Business*

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ABSTRACT

The background of this research is based on the importance of enhancing SME competitiveness amidst global competition and digital disruption, which requires effective managerial strategies and innovative approaches rooted in local potential. The purpose of this study is to investigate the impact of local business innovation and strategic management on SMEs' competitiveness, with innovation performance serving as a mediating variable. This research employs a quantitative explanatory approach with the Partial Least Squares-Structural Equation Modeling (PLS-SEM) analysis technique. The respondents consisted of 100 SME actors selected using purposive sampling. The data collection instrument used was a questionnaire. The results indicate that strategic management has no direct effect on SME competitiveness but does significantly affect innovation performance. Conversely, local business innovation has a direct and significant impact on both SME competitiveness and innovation performance. Innovation performance is found to have the most decisive influence on SME competitiveness and mediates the relationship between strategic management and local business innovation in terms of competitiveness. These findings emphasize that enhancing SME competitiveness heavily depends on the success of innovations developed through strategic planning and leveraging local strengths. This study contributes to the literature on SME strategies and serves as a practical reference for business actors in formulating innovation policy directions.

Keywords: *Competitiveness, Innovation Performance, Local Business Innovation, SMES, Strategic Management.*

ABSTRAK

Latar belakang penelitian ini didasarkan pada pentingnya meningkatkan daya saing UKM di tengah persaingan global dan disrupsi digital, yang membutuhkan strategi manajerial yang efektif dan pendekatan inovatif yang berakar pada potensi lokal. Tujuan dari penelitian ini adalah untuk mengkaji bagaimana inovasi bisnis lokal dan manajemen strategis mempengaruhi daya saing UKM, dengan kinerja inovasi sebagai variabel mediasi. Penelitian ini menggunakan pendekatan eksplanasi kuantitatif dengan teknik analisis Partial Least Squares-Structural Equation Modeling (PLS-SEM). Responden terdiri dari 100 pelaku UKM yang dipilih menggunakan purposive sampling. Instrumen pengumpulan data yang digunakan adalah kuesioner. Hasil penelitian menunjukkan bahwa manajemen strategis tidak berpengaruh langsung pada daya saing UKM tetapi secara signifikan mempengaruhi kinerja inovasi. Sebaliknya, inovasi bisnis lokal memiliki dampak langsung dan signifikan terhadap daya saing UKM dan kinerja inovasi. Kinerja inovasi ditemukan memiliki pengaruh paling kuat terhadap daya saing UKM dan memediasi hubungan antara manajemen strategis dan inovasi bisnis lokal terhadap daya saing. Temuan ini menekankan bahwa peningkatan daya saing UKM sangat bergantung pada keberhasilan inovasi yang dikembangkan melalui strategi dan kekuatan lokal. Penelitian ini berkontribusi pada literatur

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INTRODUCTION

Indonesia's economy depends heavily on small and medium-sized businesses, or SMEs. The Ministry of Cooperatives and SMEs reports that SMEs employ around 97% of the country's workers and account for more than 60% of Indonesia's GDP (Kemenkop UKM, 2023). Nevertheless, many SMEs still face challenges in maintaining their existence amid global competition, particularly in terms of managerial capacity and product innovation. Therefore, improving SME competitiveness has become a strategic and urgent issue, especially in the digital economy era that demands quick and efficient market adaptation.

One relevant approach to strengthening SME competitiveness is through the structured implementation of strategic management. Strategic management not only focuses on long-term planning but also includes an execution process that directs SMEs in decision-making based on internal and external environmental analysis (Maříková, 2012). Studies have shown that effective strategic management can enhance business resilience and facilitate adaptive decision-making in the face of market uncertainty (Iriani et al., 2024; Ridhovan & Anggarani, 2024; Nikmah et al., 2024). This is crucial in the SME context, given their limited resources, which require efficiency and precision in determining business direction.

However, business strategies alone are not sufficient without contextual local business innovation. Innovations rooted in local wisdom, culture, and unique regional resources offer distinctive added value that is hard to replicate (Irjayanti & Lord, 2024; Mangginte et al., 2025; de Bem Jaeger et al., 2025). Local innovations not only strengthen product identity but also foster higher customer loyalty due to alignment with local values and preferences (Xu et al., 2014; Aristin et al., 2025; Nazara, 2025). Therefore, integrating managerial strategy and local innovation becomes a key pillar in forming sustainable SME competitiveness.

Innovation performance also serves as a bridge connecting strategic management and local innovation to competitive outcomes. Innovation performance reflects SMEs' ability to create new products, improve production processes, and expand markets through creative approaches (Exposito & Sanchis-Llopis, 2018; Rumanti et al., 2023). In many cases, SMEs that demonstrate high innovation performance are more resilient to market fluctuations and more responsive to customer demands (Nengsih et al., 2025; Alhidayatullah, 2025). Therefore, innovation performance should be viewed not only as an outcome but also as a mediating variable that strengthens the relationship between strategy and innovation in achieving competitiveness. This study is significant because it combines four main variables —strategic management, local business innovation, innovation performance, and SME competitiveness— into a comprehensive conceptual model (Cao et al., 2015; Suprayitno, 2024; Maflahah et al., 2025).

This study aims to analyze the influence of strategic management and local business innovation on SME competitiveness, with innovation performance serving as a mediating variable. The novelty lies in focusing on the implementation of strategic management at the SME scale, an area that has often been dominated by large enterprises in prior studies. Additionally, the focus on synergy between managerial strategy and local potential-based innovation provides a more contextual and relevant perspective for grassroots business dynamics. The findings of this study are expected to provide practical insights for SME actors in formulating more innovative and competitive business strategies, as well as contribute academically to the literature on locally based SME strategy and innovation.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

The Determinants of SME Competitiveness

Strategic management is crucial for providing clear direction and structure in running a business. For MSMEs, having a well-defined strategy enables businesses to more easily adapt to market changes, including competition, consumer preferences, and technological advancements (David & David, 2017). The strategic management process, which encompasses planning, implementation, and continuous evaluation, can significantly improve MSME competitiveness (Wheelen et al., 2020). Putri and Yustisia (2025) added that MSMEs with a clear strategy are better prepared to face crises and excel in cost efficiency and product development. Therefore, effective strategic management is a key factor in strengthening MSME competitiveness.

Meanwhile, locally based business innovation is the process of creating or developing products, services, and business models rooted in the potential, culture, and resources of the local area (Evans et al., 2017; Yusuf & Rahmat, 2020). Such innovation is crucial for differentiating MSME products from competitors and increasing market appeal. Some indicators include product innovations using local materials or symbols, production process innovations adapting traditional technologies, and community-based marketing innovations aligned with local culture. Local innovation not only creates uniqueness but also builds emotional bonds with consumers (Tanjung et al., 2024). Rosmadi (2021) emphasized that innovation rooted in local wisdom, resources, and culture creates unique value that is relevant in both local and national markets. By adopting local innovations in products, processes, or marketing, MSMEs can differentiate themselves and build stronger relationships with consumers. Yuliana and Gunawan (2020) stated that local innovation also enhances brand identity and quality perceptions, ultimately strengthening MSME competitiveness.

H1: Strategic management has a positive and significant effect on SME competitiveness.

H2: Local business innovation has a positive and significant effect on SME competitiveness.

Factor Influencing Innovation Performance

Strategic management not only serves as a guide for business direction but also serves as a key driver of innovation in MSMEs. When implemented, business strategies encourage the exploration of new ideas and technologies, while adapting to consumer needs, MSME innovation performance will significantly improve (Hair et al., 2021). For example, a growth-oriented strategy will motivate MSMEs to launch new products, improve business processes, and expand their market reach. Rosmadi (2021) also emphasized that business innovation will be more effective if supported by dynamic and well-structured strategic planning. This confirms that strategic management is a crucial driver in improving innovation performance in MSMEs.

On the other hand, innovations originating from local businesses are often easier to implement, more readily accepted by the market, and more cost-effective. Socially and culturally relevant innovations tend to be more adaptive and able to drive continuous product renewal (Krisna, 2024). Gunday et al. (2011) also highlighted that an innovation approach rooted in local conditions can create new competitive value while strengthening the market position of MSMEs. In this context, innovation performance serves as a crucial bridge connecting MSMEs' ability to develop local innovations with their ability to compete in the market.

When local innovations are successfully developed into truly innovative products and processes, they provide advantages that are difficult for competitors to imitate. According to the OECD (2020), practical and sustainable innovation stems from business strategies that are truly adapted to local conditions and address specific market needs.

H3: Strategic management has a positive and significant effect on innovation performance.

H4: Local business innovation has a positive and significant effect on innovation performance.

Innovation Performance as Mediator

SME competitiveness refers to the ability of small and medium enterprises to maintain and expand market share through efficiency, product quality, and sustainable advantages (Saputra et al., 2023; Lopez-Torres, 2023). In increasingly competitive business environments, SMEs must build competitiveness not only through pricing but also through value-added innovation and product differentiation. Indicators used include product and service quality, operational efficiency and production cost, market expansion capability, and speed of response to market needs (Lafuente et al., 2020). Strong competitiveness enables SMEs to survive and grow sustainably in both local and global markets (Naradda Gamage et al., 2020).

Innovation performance describes how effectively an organization, particularly MSMEs, develops and implements new ideas to add value to products, processes, and market strategies. Indicators include new product launches, product quality improvements, process efficiency, technology adoption, and innovation success in the market (OECD, 2020). Research shows that strong innovation supports sales growth, market expansion, and customer satisfaction. Gunday et al. (2011) emphasize that innovation brings added value and customer loyalty, while Ferreira et al. (2022) highlight the role of innovation in maintaining MSME competitiveness and resilience during crises.

Strategic management plays a crucial role in enhancing the competitiveness of MSMEs, both directly and through innovation. MSMEs that implement strategic management practices tend to be more capable of innovating, such as launching new products, improving business processes, and better responding to consumer needs. These innovations then strengthen MSMEs' position in a dynamic and competitive market (Hair et al., 2021; Rosmadi, 2021). In other words, innovation performance serves as a crucial link where sound strategic management fosters innovation, ultimately enhancing MSME competitiveness.

Innovation performance demonstrates how successfully MSMEs transform local ideas into valuable products and processes, which can enhance their competitiveness. When these local innovations are implemented effectively, MSMEs benefit from increased market acceptance, customer loyalty, and sustainable competitive advantage (Yuliana & Gunawan, 2020; Krisna, 2024). Thus, innovation is not merely a product of creativity but also a strategic bridge connecting local innovation with MSMEs' ability to survive and thrive in both local and broader markets.

H5: Innovation performance has a positive and significant effect on SME competitiveness.

H6: Innovation performance mediates the effect of strategic management on SME competitiveness.

H7: Innovation performance mediates the effect of local business innovation on SME competitiveness.

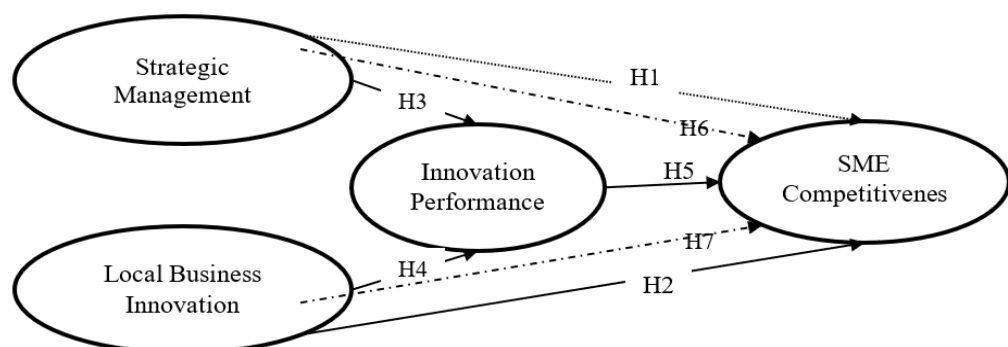


Figure 1. Research Framework

Figure 1 illustrates a conceptual model that explains how strategic management and local business innovation contribute to enhancing SME competitiveness. In this model, strategic management and local innovation not only have a direct influence on competitiveness (as indicated by hypotheses H1 and H2), but also jointly enhance a firm's innovative performance (as stated in hypotheses H3 and H4). Furthermore, this innovative performance contributes to increased SME competitiveness (H5). The model also includes additional hypotheses (H6 and H7) suggesting that the relationship between strategic management and local innovation on competitiveness may also be mediated by innovative performance, namely that part of the impact stems from the innovation capability itself.

RESEARCH METHOD

This study employs a quantitative explanatory approach to objectively test the relationships among variables, using numerical data. This approach is selected because it allows for systematic and measurable hypothesis testing, enabling the generalization of results based on data collected from the sample (Creswell, 2014). Moreover, a quantitative approach using Structural Equation Modeling–Partial Least Squares (SEM-PLS) allows for in-depth testing of both direct and indirect relationships among these variables. SEM-PLS is suitable for complex models and small-to-medium-sized samples, such as SMEs, as it effectively handles multicollinearity and non-normal data distributions. The method aligns with the research objective of analyzing the influence of strategic management and local business innovation on SME competitiveness, with innovation performance as a mediating variable.

The study used both primary and secondary data. Primary data were obtained through questionnaires distributed to SME actors as research respondents. The research instrument employed a 7-point Likert scale, ranging from “Strongly Disagree” to “Strongly Agree,” designed to measure respondents’ perceptions of each variable’s indicators. Meanwhile, secondary data were collected from previous literature, scientific articles, and relevant official reports to support the theoretical foundation and analysis.

The population of this study consists of SMEs operating in various sectors within the research area. Since the exact number of SME actors is unknown, the sample size was determined using the Lemeshow formula, which is recommended for populations with unknown sizes:

$$n = \frac{Z^2 \cdot p \cdot (1 - p)}{d^2}$$

With assumptions:

$Z = 1,96$ (Z-value at 95% confidence level)

$p = 0,5$ (assumed proportion with relevant characteristics)

$d = 0,1$ (margin of error 10%)

Thus obtained:

$$n = \frac{(1,96)^2 \cdot 0,5 \cdot (1 - 0,5)}{(0,1)^2} = 96,04 \approx 100 \text{ respondents}$$

The minimum required sample was 96 respondents. To improve reliability, the researchers selected a total sample of 100 SME actors using purposive sampling, based on specific criteria such as being an MSME actor or owner with a minimum business age of one year, being in active operation, and being willing to complete the questionnaire.

Data collection was conducted using Google Forms. Respondents were asked to answer a series of statements designed under the study’s variables. After the data were collected, analysis was performed using Structural Equation Modeling with Partial Least Squares (SEM-PLS) and SMART PLS 4.0 software. The analysis consists of two main stages: the outer model and the inner model. The outer model tests the validity and

reliability of indicators against latent constructs, while the inner model analyzes the relationships among the latent variables in the research model.

RESULTS

In Partial Least Squares–Structural Equation Modeling (PLS-SEM), the evaluation of the outer model aims to assess the validity and reliability of the indicators that form latent constructs. The outer model encompasses several key aspects, including Composite Reliability (CR), Cronbach’s Alpha, Average Variance Extracted (AVE), and Discriminant Validity (Hair et al., 2021). CR and Cronbach’s Alpha measure the internal consistency of a construct, where values above 0.7 indicate good reliability (Fornell & Larcker, 1981). AVE evaluates the extent to which a latent variable explains the variance of its indicators, with values above 0.5 indicating adequate convergent validity. Discriminant validity is measured using the Heterotrait-Monotrait Ratio (HTMT), where values below 0.85 suggest good discrimination between constructs (Henseler et al., 2015).

Table 1. Composite Reliability and Cronbach’s Alpha

Variable	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
SME Competitiveness	0.944	0.945	0.857
Local Business Innovation	0.784	0.897	0.603
Innovation Performance	0.814	0.95	0.691
Strategic Management	0.782	0.784	0.614

Based on Table 1, all constructs in the model meet the criteria for good reliability and validity. Cronbach’s Alpha values for all four constructs are above the threshold of 0.7, indicating that each construct has adequate internal consistency. Similarly, the Composite Reliability (CR) values for all indicators exceed 0.7, indicating that the indicators within each construct are overall reliable in measuring their respective latent variables. Regarding convergent validity, as indicated by the Average Variance Extracted (AVE), all constructs have AVE values above 0.5, indicating that most of the indicator variance is successfully explained by their respective latent constructs. Notably, the SME Competitiveness construct has the highest AVE value (0.857), indicating a significant contribution from its indicators. Therefore, the outer model in this study can be concluded to have outstanding reliability and convergent validity. On the other hand, discriminant validity testing is used to determine whether an indicator of a variable has a higher outer loading on its construct than on other constructs.

Table 2. Discriminant Validity – HTMT Matrix

Variable	SME Competitiveness	Local Business Innovation	Innovation Performance	Strategic Management
SME Competitiveness	-	-	-	-
Local Business Innovation	0.598	-	-	-
Innovation Performance	0.853	0.533	-	-
Strategic Management	0.594	0.715	0.606	-

The results of the HTMT in Table 2 show that the correlation values between the variables and their indicators are < 0.9. This indicates that all variables have good discriminant validity. Based on these results, it can be concluded that the measurement model in this study possesses adequate quality in terms of both reliability and validity, including convergent and discriminant validity. Therefore, this model is suitable for

further analysis in evaluating the relationships between latent variables in the study. In this study, the Partial Least Squares Structural Equation Modeling (PLS-SEM) method was employed to investigate the impact of leadership style and work environment on employee performance, with job satisfaction serving as a mediating variable. The model was evaluated using R-squared, adjusted R-squared, and Q² values as indicators of predictive model quality (Hair et al., 2021). The R-squared value indicates the extent to which independent variables can explain the dependent variable. The adjusted R-squared is a version adjusted to account for the number of variables in the model. Meanwhile, Q² reflects the predictive relevance of the model. If the Q² value is greater than zero, the model has good predictive capability. A coefficient of determination value close to 1 indicates a higher accuracy of the independent variables in explaining the dependent variable. Furthermore, there are three classifications of prediction accuracy based on R² values: 0.25 indicates weak predictive accuracy, 0.5 indicates moderate accuracy, and 0.75 indicates substantial predictive accuracy (Hair et al., 2021).

Table 3. Model Evaluation

Variable	R ²	Adjusted R ²	Q ²
SME Competitiveness	0.792	0.785	0.666
Innovation Performance	0.298	0.284	0.195

Table 4. Hypothesis Testing

Hypothesis	Path	Coefficient	T-Statistic	P -Values	Result
H1	Strategic Management → SME Competitiveness	0.046	0.771	0.441	Rejected
H2	Local Innovation → SME Competitiveness	0.187	2.635	0.008	Accepted
H3	Strategic Management → Innovation Performance	0.316	2.458	0.014	Accepted
H4	Local Innovation → Innovation Performance	0.307	2.052	0.04	Accepted
H5	Innovation Performance → SME Competitiveness	0.759	11.664	0	Accepted
H6	Strategic Management → Innovation Performance → SME Competitiveness	0.239	2.434	0.015	Accepted
H7	Local Innovation → Innovation Performance → SME Competitiveness	0.233	2.048	0.041	Accepted

Based on Table 3, the R-square value for the SME Competitiveness variable is 0.792, indicating that Strategic Management, Local Business Innovation, and Innovation Performance can explain 79.2% of the variability in SME Competitiveness. According to Hair et al. (2019), this value falls into the substantial or high category, which means the model has an outstanding predictive accuracy for the SME Competitiveness variable. The adjusted R-square value of 0.785 further supports the model's stability, even when accounting for the number of constructions used. Additionally, the Q² value of 0.666 indicates that the model has strong predictive relevance, as Q² values greater than 0 signify adequate predictive capability.

For the Innovation Performance variable, the R-square value of 0.298 suggests that approximately 29.8% of its variability can be explained by Strategic Management and Local Business Innovation. This falls into the weak to moderate category but remains acceptable within the context of complex social research. The adjusted R-squared value

of 0.284 indicates a stable model fit with respect to the number of predictors. Meanwhile, the Q^2 value of 0.195 implies that the model has reasonably relevant predictive power for the Innovation Performance variable. The model demonstrates good predictive quality, especially in explaining SME Competitiveness.

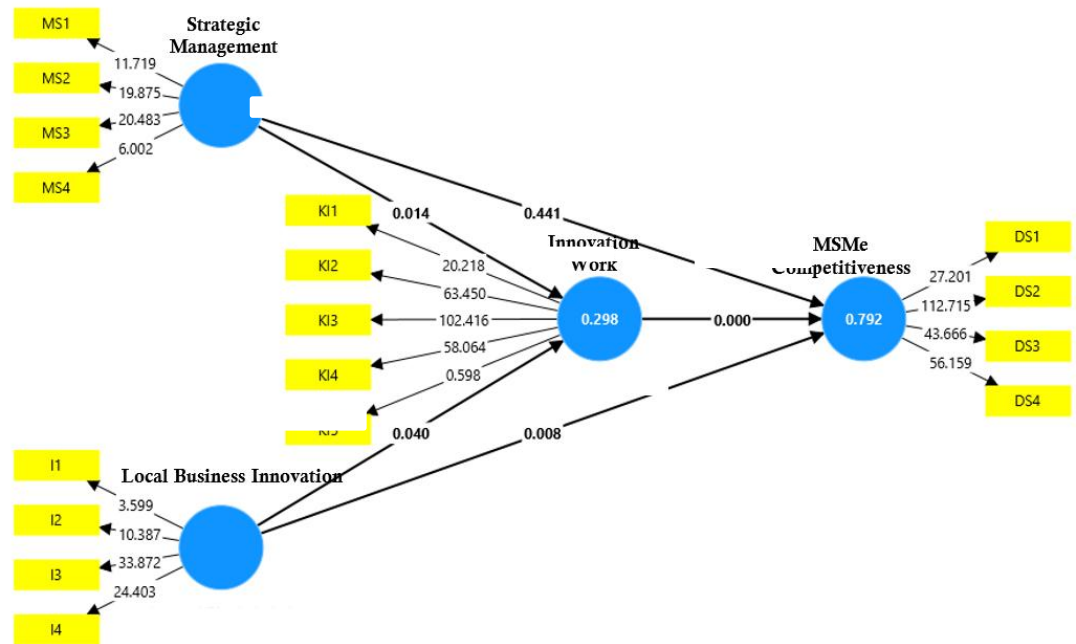


Figure 2. SEM-PLS Framework Model

Table 4 and Figure 2 present the results of hypothesis testing using the bootstrapping method in SEM-PLS. The test result for H1 shows that Strategic Management does not have a significant effect on SME Competitiveness, with a coefficient value of 0.046, a t-statistic of 0.771, and a p-value of 0.441 (> 0.05). This implies that, directly, managerial strategy is not strong enough to enhance competitiveness without an intermediary factor. Conversely, hypothesis H2 is accepted, as Local Business Innovation is proven to have a positive and significant effect on SME Competitiveness ($t = 2.635$; $p = 0.008$), indicating that a locality-based approach can strengthen the competitive advantage of SMEs.

Furthermore, H3 and H4 are accepted, indicating that both Strategic Management (coefficient = 0.316; $p = 0.014$) and Local Business Innovation (coefficient = 0.307; $p = 0.040$) significantly influence Innovation Performance. This demonstrates that both factors can drive innovative activities within SMEs. Hypothesis H5 is also accepted, indicating that Innovation Performance has the most significant influence on SME Competitiveness (coefficient = 0.759; $t = 11.664$; $p = 0.000$), reaffirming that innovation is a key driver in building competitiveness.

Meanwhile, H6 and H7, which are mediation hypotheses, are also accepted. Innovation Performance is shown to mediate the effect of Strategic Management on SME Competitiveness ($p = 0.015$), as well as mediate the impact of Local Business Innovation on SME Competitiveness ($p = 0.041$). These findings confirm that the influence of strategy and local innovation on competitiveness does not occur directly but rather through the crucial role of innovation performance as the main driver in enhancing competitiveness.

DISCUSSION

The study findings indicate that strategic management does not directly impact SME competitiveness, as evidenced by a p-value of 0.441 (> 0.05), a t-statistic of 0.771, and a coefficient of 0.046. This suggests that SME strategy alone cannot enhance competitiveness without innovative implementation or local adaptation. Wheelen et al. (2020) argue that strategic management necessitates a dynamic approach, emphasizing

the importance of both execution and innovation. Similarly, David and David (2017) emphasize that a strategy remains ineffective if it is not connected to actionable steps and value creation. Therefore, SMEs must integrate their strategic plans with innovative practices to thrive in a competitive market (Putri & Yustisia, 2025).

The second hypothesis is validated by empirical data showing that local business innovation has a positive and significant effect on SME competitiveness, with a coefficient of 0.187, a t-statistic of 2.635, and a p-value of 0.008 (<0.05). These findings indicate that innovations that utilize local resources, cultural wisdom, and community-based methods directly improve SMEs' market position. Rosmadi (2021) noted that local innovation creates differentiation that is difficult for competitors to imitate, thereby increasing product attractiveness. Furthermore, Yuliana and Gunawan (2020) stated that SMEs that utilize local characteristics often have higher customer loyalty. Thus, locally based innovation provides added value and strengthens emotional bonds with consumers, thereby increasing competitiveness.

The results for H3 indicate that strategic management has a significant and positive impact on innovative performance, with a coefficient of 0.316, a t-statistic of 2.458, and a p-value of 0.014. This suggests that a well-designed strategy can encourage the generation of new ideas, product development, and business process improvement in SMEs. This is in line with Gunday et al. (2011), who stated that a growth-oriented strategy motivates organizations to innovate in response to market demands. Hair et al. (2021) further explain that strategic management builds a framework that supports innovation, making adaptation, efficiency, and market exploration the main drivers of increased innovative activity in SMEs.

The fourth hypothesis was accepted, indicating that innovation success is significantly influenced by local business innovation, with a coefficient of 0.307, a t-statistic of 2.052, and a p-value of 0.040. This indicates that localized innovation drives more relevant processes. Krisna (2024) noted that local methods enable original research, while Gunday et al. (2011) stated that integrating local contexts yields practical benefits in production and design. In this model, innovation performance has a significant impact on SME competitiveness, with a p-value of 0.000, a t-statistic of 11.664, and a coefficient of 0.759. This indicates that successful innovation, including new products and process efficiencies, enhances competitiveness. The OECD (2020) notes that high innovation performance reflects an organization's responsiveness to the market.

Hypothesis H6 indicates that innovation performance significantly mediates the relationship between strategic management and SME competitiveness, with a t-statistic of 2.434 and a p-value of 0.015. This indicates that strategic management only influences competitiveness if it results in high innovation performance. Hair et al. (2021) emphasize that strategic success depends on intermediary variables such as innovation, as Gunday et al. (2011) asserted that strategy alone cannot generate competitive advantage without innovative activities.

The results for H7 confirm that innovation performance significantly mediates the relationship between local business innovation and SME competitiveness, with a t-statistic of 2.048 and a p-value of 0.041. This suggests that local innovation is more effective in enhancing competitiveness when it is developed into concrete innovations. Rosmadi (2021) notes that many local innovations remain ideas without proper execution. Therefore, the success of local innovation depends on how SMEs manage them to achieve product and process excellence. The OECD (2020) emphasizes that integrating local context with innovative practices drives sustainable competitive advantage.

CONCLUSION

The research findings indicate that innovation performance is the most dominant factor influencing SME competitiveness. Strategic management does not directly impact competitiveness but contributes significantly through its influence on innovation performance. Meanwhile, local business innovation has both direct and indirect impacts,

making it a strategic driver for SMEs to achieve competitive advantage. The implication of this research is that SMEs must enhance their innovation activities as a bridge between strategy and market success. Strategy formulation alone is insufficient if it is not accompanied by adaptive and locally based innovation implementation. Local governments and SME support institutions are encouraged to promote innovation incubation programs that support local product development, creative training, and innovation-based financing. However, this study has limitations, including its focus on a specific geographic region, which may not fully represent the diversity of SME experiences. Furthermore, reliance on quantitative data may overlook qualitative aspects of the innovation process. Future research should consider external factors such as digital technology support, business networks, and government policies that influence SME competitiveness. A mixed-methods approach can provide deeper insights into the implementation of innovation at the business level. Further exploration of specific SME sectors (e.g., culinary, handicrafts, tourism) is also recommended to generate more contextual findings.

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