

The mediating effect of innovation on the relationship between managerial ability and competitive advantage of Bandar Lampung MSMEs

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Abstract

Purpose: This study aims to analyze the effect of managerial ability on competitive advantage through innovation among MSMEs in the craft sub-sector of Bandar Lampung City.

Methodology/approach: The study employed a quantitative approach using the survey method. The population of this research consisted of all 62 MSMEs in the craft sub-sector in Bandar Lampung City, while a sample of 60 MSMEs was selected through random sampling. Data were collected from the owners and managers of these MSMEs. The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS version 3.2.9 to examine the relationships between variables, both directly and through the mediating effect of innovation.

Results/findings: The study shows that managerial skills have a direct positive and significant influence on competitive advantage. Furthermore, managerial skills also have a positive influence on innovation, and innovation acts as a partial mediator that strengthens the influence of managerial skills on competitive advantage. These findings emphasize the importance of effective and innovative managerial development in enhancing the competitiveness of MSMEs.

Conclusion: Managerial capability is a strategic resource that plays a direct and indirect role through innovation in creating competitive advantage. Integrating managerial management and innovation is a key strategy for MSMEs to maintain and enhance competitiveness in the market.

Limitations: This study focused exclusively on MSMEs in the craft sub-sector of Bandar Lampung City; therefore, the findings may not be generalizable to other MSME sectors or regions. Furthermore, the variables examined were limited to managerial ability, innovation, and competitive advantages.

Contribution: This study reinforces the Resource-Based View and Dynamic Capabilities theories in linking managerial ability, innovation, and competitive advantage, providing practical insights for MSME managers to strengthen managerial competence and foster innovation for enhanced organizational competitiveness.

Keywords: *Competitive Advantage, Craft Sub-Sector, Innovation, Managerial Ability, MSMEs*

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1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) are a vital component of the local economic structure in Indonesia, including Bandar Lampung City. MSMEs not only absorb a large portion of the workforce but also make a significant contribution to the Gross Regional Domestic Product (GRDP) and income distribution (Gayatri et al., 2025). However, despite their strategic role, many MSMEs face challenges in maintaining competitiveness, particularly craft-based MSMEs that depend on creativity, design, product uniqueness, and adaptability to market changes (Warsiyah, 2023). Managerial ability is a crucial factor in improving MSME performance and sustainability (Oktaria & Hairudin, 2023). This ability encompasses planning, organizing, leading, controlling, decision-making, and managing various resources, including human, financial, and material resources (Pandak & Nugroho, 2023). Previous research has demonstrated that managerial ability positively influences the performance and long-term sustainability (Martadinata & Pasek, 2024).

However, possessing strong managerial skills alone is not always sufficient to create competitive advantage. To achieve competitiveness, MSMEs must differentiate themselves from competitors through product quality, innovation, pricing strategies, customer service, or marketing approaches (Ratna, Mahyuni, & Putra, 2023). Without a distinct competitive edge, MSMEs can easily be displaced by imported goods, mass-produced products, or price-based competition (Nazarudin et al., 2024). In this context, innovation is a critical factor. Numerous studies indicate that innovation in products, processes, organizational practices, and marketing capabilities is a key driver of MSME competitiveness and performance (Ardani, 2024; Kiswanto & Pratama, 2024; Mutmainah, Armawati, & Tovan, 2024). Innovation enables MSMEs to adapt to changing consumer preferences, leverage emerging technologies and discover new operational strategies (Jasman, 2021).

However, innovation does not always play a direct role; it can also function as a bridge. This means that innovation serves as an intermediary that connects the influence of managerial capabilities to competitive advantage (Hidayat, Setiawan, Alwi, & Nurdiana, 2018). Therefore, even if MSMEs possess strong managerial abilities, these capabilities may not fully translate into competitive advantages without innovation. Several studies have demonstrated that innovation mediation strengthens the positive effects of factors such as entrepreneurial orientation and strategic management on performance through competitive advantages (Sandityo & Muafi, 2024).

Currently, MSMEs in Bandar Lampung City's craft subsector face significant challenges related to their competitive strength. According to the 2024 report from the Cooperatives and SMEs Office of Lampung Province, the main problems include low-quality human resources, limited access to capital, a lack of business networks, and ineffective product marketing. These constraints hinder the ability of craft MSMEs to compete in local and national markets (Dinas Koperasi, 2024). Nevertheless, various efforts have been made to enhance the competitiveness of craft MSMEs through training and mentoring programs. For instance, in August 2025, the Department of Tourism and Creative Economy of Lampung Province organized the 2025 Merdeka Fest under the theme "Digital Training for MSMEs to Upgrade & Bazaar for Mentored MSMEs." This event aimed to improve MSME quality through digital capacity building and expand market reach through local product exhibitions (Disparekraf, 2024).

However, despite these initiatives, structural challenges, such as the low quality of human resources and limited market access, remain the primary obstacles to improving the competitiveness of craft MSMEs in Bandar Lampung City. Therefore, a more comprehensive and sustainable strategy is needed to address these issues and enable MSMEs to compete effectively. In particular, the craft subsector in Bandar Lampung City possesses unique potential because of its rich local resources, cultural heritage, craftsmanship, and aesthetic value. Regional governments and various supporting institutions have been implementing training, empowerment, certification, and marketing programs to elevate MSMEs, including those in the craft sector, so they can compete in both domestic and international markets (Betiklampung.com, 2023).

However, although various programs have been implemented, many MSME craft actors in Bandar Lampung still report that their competitive power has not improved. Several problems have emerged,

including limited capital, lack of market access, insufficient innovation implementation, limited managerial capabilities, and inadequate supporting infrastructure and regulations. These issues demonstrate a clear gap between the potential and actual competitive advantages. Some MSMEs have successfully “moved up a class,” but this progress has required a long period and strong commitment from both stakeholders and external parties (Betiklampung.com, 2023).

Furthermore, although research on managerial capability and innovation exists, studies focusing on the mediating role of innovation in the context of competitive advantage within the craft subsector in Bandar Lampung remain relatively limited. Most studies focus on the direct relationship between these variables or the mediating role of competitive advantage between innovation and performance. However, few studies have specifically examined how innovation mediates the impact of managerial capability on competitive advantage in craft MSMEs in Bandar Lampung (Sandityo & Muafi, 2024).

By clarifying the mediating role of innovation, this study enhances understanding of the extent to which innovation strengthens or bridges the influence of managerial capability on competitive advantage. This is important from both theoretical and practical perspectives of this study. Theoretically, this study contributes to the literature on innovation mediation in Indonesian craft MSMEs. Practically, it provides valuable recommendations for MSME actors, local governments, and supporting institutions in designing more effective interventions, such as training, mentoring, innovation enhancement, and regulatory improvements, to promote competitive advantage.

Therefore, this study aims to empirically test the mediating role of innovation in the relationship between managerial capability and competitive advantage among craft MSMEs in Bandar Lampung. By understanding the extent to which innovation serves as an effective linkage, it is expected that craft MSMEs in Bandar Lampung will be able to formulate clearer development strategies, while the government and supporting institutions can design more focused policies and programs to strengthen managerial capability and innovation to achieve sustainable competitive advantage.

2. Literature review

2.1. Resource-Based View (RBV)

The Resource-Based View (RBV) theory emphasizes that a company's internal resources, such as managerial capabilities, innovation, and unique assets, are key drivers of sustainable competitive advantage (Ferreira, Serra, Costa, & Almeida, 2016). In MSMEs, managerial capabilities determine business management and strategy; however, without innovation, realizing this potential is difficult. Innovation mediates the relationship between managerial capabilities and competitive advantage. According to Barney (1991), valuable, rare, inimitable, and non-substitutable (VRIN) resources are the main determinants of competitive superiority. In this context, managerial capabilities supported by innovation can fulfill these criteria, as each MSME actor possesses a unique leadership style and a creative approach. In line with this, previous studies have shown that innovation often plays a mediating role in linking internal capabilities with market performance. Teece (2019) further extends this through the Dynamic Capabilities perspective, which refers to a company's ability to adapt and innovate in a changing environment, thereby strengthening the RBV framework. This concept is particularly relevant for MSMEs facing intense competition in Bandar Lampung.

2.2. Advantages Compete

Competitive superiority can be understood as an organization's ability to achieve a superior position compared to its competitors through the creation of unique and difficult-to-imitate values, whether in terms of products, services, processes, or business strategies (Acquaah, 2011). Porter (1990) explains that competitive advantage is achieved when a company can offer added value to consumers, either through differentiation or cost efficiency, thereby generating customer loyalty and strong market appeal. In the context of MSMEs, competitive advantage often arises from a combination of internal factors, such as managerial capability, resource utilization, and continuous innovation. This is in line with the Resource-Based View (RBV), which posits that superiority can only be sustained if it is supported by resources that are valuable, rare, difficult to imitate, and irreplaceable (Barney, 1991). In MSMEs, competitive advantage is often determined by the managerial ability of business owners to creatively

utilize limited resources, for example, through local product innovation, personalized services, or strong community networks, allowing MSMEs to compete with larger companies despite limited capital and technology.

2.3. Ability Managerial

Managerial ability can be understood as the capacity of a manager or business owner to plan, organize, direct, and control resources to achieve organizational objectives effectively and efficiently (Martadinata & Pasek, 2024). According to Griffin and Moorhead (2017), managerial ability includes conceptual, interpersonal, technical, and decision-making skills that determine the success of an organization in facing the dynamics of a business environment. In the context of MSMEs, managerial ability is crucial because business owners often serve concurrently as the main managers. Therefore, the quality of their leadership, strategic planning, and decision-making abilities is highly influential in determining competitive strength (Pandak & Nugroho, 2023). MSMEs in Bandar Lampung City, for example, need managers or business owners who can drive innovation, manage limited resources, and build networks to create sustainable competitive advantages.

2.4. Innovation

Innovation is understood as a process of implementing new, creative, and valuable ideas in the form of a product, service, or capable method that creates added value and differentiates a business from its competitors (Nazarrudin & Imamah, 2024). Drucker (1986) emphasized that innovation is "a special tool of entrepreneurs to exploit change as an opportunity for new businesses or services." In the context of MSMEs, innovation is a crucial factor because limitations in capital, technology, and market access can often be overcome through creativity in products, marketing strategies, and services (Agustina, Sanjaya, & Hasbullah, 2022). In other words, the ability to innovate continuously will determine their adaptability to increasingly fierce competition.

2.5. Development Hypothesis

2.5.1. Influence Ability Managerial to Competitive Advantage

Managerial ability significantly influences the competitive advantage of MSMEs because it is a key factor in managing limited resources to remain productive and valuable. From the Resource-Based View (RBV) perspective, managerial ability is categorized as an intangible resource that is unique, rare, and difficult to imitate, making it the foundation for the creation of a sustainable competitive advantage (Barney, 1991). MSME managers or owners who can manage finance, human resources, marketing, and operations effectively will be more able to create adaptive strategies aligned with market dynamics (Abdillah, Primasari, & Widianingsih, 2019). This is important because MSMEs often face limited capital and access to technology services, making managerial skills an internal strength that can compensate for such limitations.

Previous studies have supported this view. For example, Monalisa, Sidabutar, Ardana, and Situmorang (2025) show that managerial ability positively influences competitive advantage through effective business strategy management in the creative MSME sector. Similarly, Martadinata and Pasek (2024) revealed that MSME owners with high managerial capability tend to identify market opportunities more quickly, implement simple innovations, and build strong customer relationships, thereby increasing competitiveness. Thus, managerial ability not only plays a role as technical capacity but also serves as a strategic asset in accordance with the RBV framework, functioning as the main driving force of competitive advantage for MSMEs across various sectors.

H1: Managerial ability is hypothesized to have an influence on competitive advantage

2.5.2. Influence Innovation to Gain a Competitive Advantage

Innovation plays an important role in creating competitive advantages for MSMEs because it enables them to produce products, processes, and services that are more unique and valuable than their competitors (Farida et al., 2022). From the Resource-Based View (RBV) perspective, innovation is considered a unique intangible resource that is difficult to imitate and serves as a key differentiating factor in the market (Barney, 1991). For MSMEs, limitations in capital and resources can be compensated for by their ability to generate new ideas that align with consumer needs. For example,

product innovation based on local wisdom or the use of simple digital technologies can enhance market attractiveness and strengthen the competitive position. Thus, innovation is not merely a creative activity but a core strategic approach to optimizing internal resources to achieve a sustainable competitive advantage.

Previous studies have shown that innovation significantly influences the competitive advantage of MSMEs. Ahmad and Wahyuni (2023) found that product and process innovation enhance the competitive advantage and marketing performance of snack-based MSMEs. Juminawati, Syamsulbahri, and Harsono (2024) emphasized the role of product innovation, along with market orientation and marketing strategy, in strengthening the competitiveness of creative industry MSMEs in Bandung. Saputra, Syahyono, Siwi, and Rosidin (2025) demonstrated that innovation contributes to the business performance of chicken noodle MSMEs, with competitive advantage serving as a mediating factor. Verbyani and Handoyo (2021) highlighted that innovation, when combined with entrepreneurial and market orientation, directly improves the competitive advantage of culinary MSMEs. Overall, these findings confirm that innovation is a crucial factor driving MSMEs to achieve a competitive advantage.

H2: Innovation is hypothesized to have a significant influence on competitive advantage

2.5.3. Influence ability managerial to innovation

The influence of managerial ability on innovation in MSMEs can be explained through the Resource-Based View (RBV) and Dynamic Capabilities Theory. RBV emphasizes that an organization's competitive advantage originates from internal resources that are unique, valuable, difficult to imitate, and irreplaceable (Barney, 1991). In the context of MSMEs, managerial ability represents a strategic internal resource because it determines how organizations manage, coordinate, and utilize their available resources to achieve their business objectives.

Previous studies have shown that managerial ability significantly influences innovation in MSME. Guzman and Solarte (2024) found that dynamic capabilities for innovation mediate the relationship between managerial skills and organizational performance among MSMEs in Caquetá, Colombia, indicating that strong managerial capabilities drive innovation that enhances performance. Similarly, Hudnurkar, Ambekar, Bhattacharya, and Sheorey (2023) emphasized the role of innovation capability as a mediator between management quality and company sustainability in the MSME sector, demonstrating that effective management does not directly produce sustainability without the presence of appropriate innovation. Kalathingall and Ambrammal (2025) reviewed various empirical studies and concluded that innovation capability serves as an important mechanism linking MSMEs' internal capacities with sustainability achievements and competitive advantage, thereby affirming the importance of innovation as a connector between managerial ability and organizational outcomes MSMEs'

H3: Managerial ability is hypothesized to influence innovation

H4: Managerial ability is hypothesized to influence competitive advantage through innovation

3. Methodology

3.1. Research Design

The research method used was quantitative associative, looking for connections between variables. Data collection was carried out using a survey technique with questionnaires distributed to respondents.

3.2. Types of Research

The type of research used in this study is causal research, which aims to identify and explain the cause-and-effect relationships between several concepts, variables, or strategies developed in management (Sugiyono, 2015). This study was designed to describe the existence of causal relationships among various situations represented by the variables, and based on these relationships, general conclusions can be drawn (Ferdinand, 2014).

3.3. Place and Time of Research

This study was conducted on MSMEs in the craft subsector in Bandar Lampung City, Lampung Province, Indonesia. The study was conducted over a one-month period from August to September 2025.

3.4. Population and Sample

A population is a combination of all elements, events, objects, or people that share similar characteristics and become the focus of a researcher, as they are considered the universe of the research (Ferdinand, 2014). The population in this study consisted of 62 MSMEs in the craft subsector in Bandar Lampung City registered with the Bandar Lampung City Tourism Office. A sample is a subset of the population consisting of a number of members drawn from it (Moleong, 1989). This subset was selected because, in many cases, it is not possible to study the entire population; therefore, a representative portion of the population, called a sample, was selected (Ferdinand, 2014).

The technique for determining the sample size refers to Ferdinand (2014), who suggested that the sample size should be at least five times the number of indicators. As there are 12 indicators derived from three variables, the sample size in this study is 60 respondents. The sampling technique used in this study was random sampling, which means that the members of the population were selected randomly, considering the existing conditions of the population being studied. Each member of the population had an equal opportunity to be chosen as a sample member (Ferdinand, 2014).

3.5. Instrument Data collection

Table 1. Research Instruments

No	Variable	Indicator	Item No.
1	Competitive advantage can be understood as an organization's ability to achieve a superior position compared to its competitors through the creation of unique and hard-to-imitate values, whether in terms of products, services, processes, or business strategies.	Value-added product or services (valuable)	CA1
		Uniqueness or scarcity resources (rare)	CA2
		Difficulty inimitable	CA3
		Not easy, non-substitutable	CA4
2	Managerial ability can be understood as the capacity of a manager or business owner to plan, organize, direct, and control resources in order to achieve organizational objectives effectively and efficiently.	Planning	MA1
		Organizing	MA2
		Direction	MA3
		Control	MA4
3	Innovation is understood as the process of implementing new, creative, and valuable ideas in the form of products, services, or methods that create added value and differentiate a business from its competitors.	New products or improved products	INN1
		New production process or method	INN2
		New market or segmentation new customers	INN3
		Business model or approach new business	INN4

3.6. Method of Collecting Data

The data used in this study consisted of both secondary and primary data. Secondary data were obtained from MSME data registered with the Bandar Lampung City Tourism Office, Lampung Province, and other reliable sources. Theoretical references were gathered from previous studies, electronic data sources, and academic literature. Primary data were collected through questionnaires. Data collection was performed using an accidental sampling technique (Ghozali & Latan, 2015).

3.7. Data Analysis Methods

The data analysis used in this study was quantitative in nature. Quantitative analysis was applied to address the research problems using Partial Least Squares (PLS) analysis (J. Hair & Alamer, 2022).

PLS, as an alternative to covariance-based structural equation modeling, is suitable for theory development when the underlying theory is weak and can also be used for theory verification (Ghozali & Latan, 2015). PLS is a method that employs the Structural Equation Modeling (SEM) approach to handle complex relationships among variables, even when the sample size is relatively small.

4. Results and discussion

4.1. Results

4.1.1. Outer Model Testing

PLS analysis was conducted starting with the Outer Model, which measures validity using the loading factor. Indicators from each variable with a loading factor value below 0.6 were removed from the model (J. F. Hair, Ringle, & Sarstedt, 2013). The results of the convergent validity test, after the invalid indicators were removed from the complete model, are presented in the following table.

Table 2. Outer Model

Item	Competitive Advantage	Innovation	Managerial Ability
CA1	0.768		
CA2	0.824		
CA3	0.880		
CA4	0.764		
INN1		0.774	
INN2		0.802	
INN3		0.876	
INN4		0.867	
MA1			0.769
MA2			0.748
MA3			0.818
MA4			0.850

Source: Processed data, 2025

Based on the data presented in Table 2, it can be observed that most of the research variable indicators have outer loading values of at least 0.7. According to Ghozali (2018), an outer loading value between 0.5 and 0.6 is considered sufficient to meet the criteria for convergent validity.

Table 3. Validity and Reliability Construct

Variable	Cronbach's Alpha	Reliability Composite	Mean Variance Extracted
Competitive Advantage	0.736	0.832	0.564
Innovation	0.857	0.899	0.690
Managerial Ability	0.809	0.874	0.636

Source: Processed data, 2025

The table shows that the Cronbach's alpha values for all constructs are greater than 0.6, where the acceptable threshold for Cronbach's alpha is above 0.6 (J. F. Hair et al., 2013). Therefore, all constructs met the criteria for construct reliability. Furthermore, the data presented above indicate that the composite reliability values for all the research variables exceeded 0.7. In addition, the results of the data analysis show that the AVE value for each variable is greater than 0.5, indicating that there is sufficient variance extracted by the latent variables, enabling them to adequately represent the manifest variables in relation to the latent constructs (J. Hair & Alamer, 2022).

4.1.2. Testing Inner Model

The inner model describes the relationships between latent variables based on substantive theories. In assessing the model using PLS, the evaluation began by examining the R-squared values for each dependent latent variable. The test results of the inner model indicate the relationships between

constructs and the overall model, assess the significance of the path coefficients, and present the R-squared values of the research model (Ghozali & Latan, 2015).

Table 4. R-Squared Values

	R Square	Adjusted R-Square
Competitive Advantage	0.555	0.539
Innovation	0.566	0.559

Source: Processed data, 2025

The R-square value of the Competitive Advantage variable, which is 0.555 as shown in Table 4, indicates that 55.5 percent of the variation in Competitive Advantage is explained by the Managerial Ability and Innovation variables, while the remaining 44.5 percent is explained by variables outside the model. Similarly, the Innovation variable has an R-squared value of 0.566, meaning that 56.6 percent of its variability is explained by the Managerial Ability variable, whereas 43.4 percent is attributed to factors outside the model. The R-squared values of 0.555 and 0.566, as presented in Table 4, indicate moderate to high explanatory power. The Q² value for testing the structural model was determined by assessing its predictive relevance. To calculate Q², the following formula was applied:

$$Q^2 = 1 - (1 - R^2_1)(1 - R^2_2)$$

$$Q^2 = 1 - (1 - 0.555)(1 - 0.566)$$

$$Q^2 = 0.807$$

The Q² calculation showed a value of 0.807. According to J. F. Hair et al. (2013), the Q² value can be used to assess how well the observed values are generated by the model and its parameter estimates. A Q² value greater than zero (>0) indicates that the model has good predictive relevance, whereas a Q² value less than zero (<0) indicates that the model lacks predictive relevance. In this research model, the endogenous latent construct (or variable) has a Q² value greater than zero (>0), indicating that the model's predictions are relevant (Ghozali, 2018).

4.1.3. Direct Effect Testing

Hypothesis testing of the influence of competitive advantage, innovation, and managerial ability is presented in Figure 1.

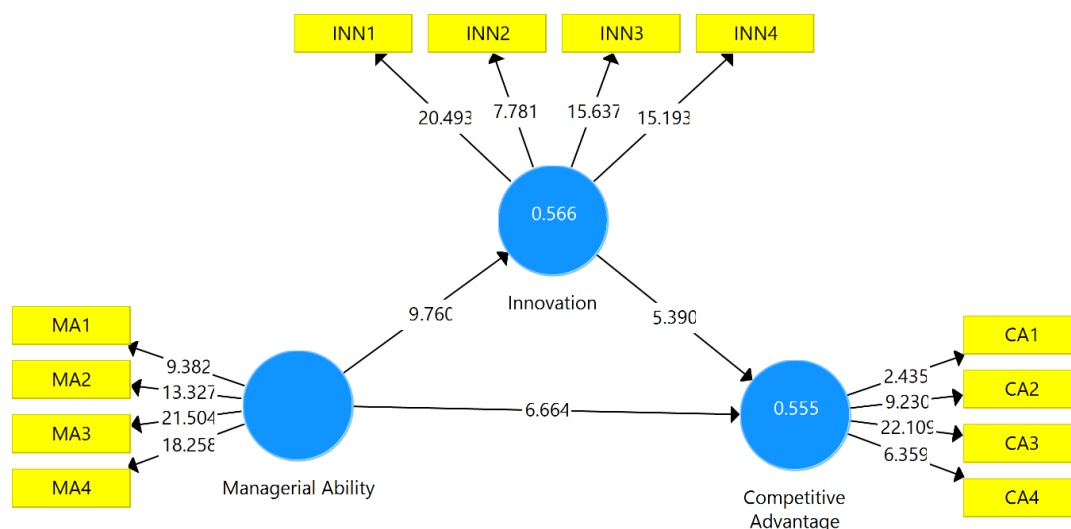


Figure 1. t-Statistic Value of Path Analysis Model

Source: Processed data, 2025

Hypothesis testing in the PLS method is carried out using a simulation of each hypothesized relationship, which is performed through the bootstrap method on the sample data. The bootstrap method also minimizes problems related to the non-normality of the research data. In this study, the T-

table value was determined in advance at a 5% significance level, which was 1.672. All path coefficients had t-statistic values greater than 1.672.

Table 5. Direct Influence

Connection between Variables	T Statistics	P-Values	Information
Innovation -> Competitive Advantage	5,390	0,000	Positive and Significant
Managerial Ability -> Competitive Advantage	6,664	0,000	Positive and Significant
Managerial Ability -> Innovation	9,760	0,000	Positive and Significant

Source: Processed data, 2025

The results of the path coefficient for the first hypothesis, which examines the relationship between managerial ability and competitive advantage, show a t-statistic value of $6.664 \geq 1.672$ with a p-value of $0.000 \leq 0.05$, indicating significance. It can be concluded that managerial ability has a significantly positive effect on competitive advantage. The positive value of the path coefficient suggests that the higher the managerial ability, the greater the competitive advantage. The results of the path coefficient for the second hypothesis, which examines the relationship between innovation and competitive advantage, show a T-statistic value of $5.390 \geq 1.672$ with a P-value of $0.000 \leq 0.05$, indicating that it is significant. It can be concluded that innovation has a significant positive effect on the competitive advantage. The positive value of the path coefficient suggests that the higher the level of innovation, the greater the competitive advantage it provides.

The results of the path coefficient for the third hypothesis, which examines the relationship between managerial ability and innovation, show a T-statistic value of $9.760 \geq 1.672$, with a P-value of $0.000 \leq 0.05$, indicating significance. It can be concluded that managerial ability has a significant positive effect on innovation. The positive path coefficient suggests that the higher the managerial ability, the greater the level of innovation.

Table 6. Direct Influence

Connection between Variables	T Statistics	P-Values	Information
Managerial Ability -> Innovation -> Competitive Advantage	7,372	0,000	Positive and Significant

Source: Processed data, 2025

The results of the Specific Indirect Effects analysis of the fourth hypothesis using SmartPLS v.3.2.9, as shown in Table 6, found that the relationship between managerial ability and competitive advantage, mediated by innovation, yielded a T-statistic value of $7.372 \geq 1.672$ and a P-value of $0.000 \leq 0.05$, indicating a positive effect. A positive path coefficient indicates that the higher the managerial ability, the greater the competitive advantage through innovation. Therefore, it can be concluded that the mediation is classified as partial, meaning that the independent variable can directly influence the dependent variable without fully relying on the mediator variable.

4.2. Discussion

4.2.1. The Influence of Managerial Ability on Competitive Advantage

The path coefficient results obtained in the first hypothesis indicate a significant influence of managerial ability on competitive advantage in MSMEs in the craft subsector in Bandar Lampung City. A positive path coefficient implies that the better the managerial ability, the stronger the competitive advantage. Managerial skills are a key factor in managing limited resources to maintain productivity and value. From the Resource-Based View (RBV) perspective, managerial skills are categorized as unique, rare, and difficult-to-imitate intangible resources, serving as the foundation for creating sustainable competitive advantage (Barney, 1991). MSME managers or owners who can effectively manage finances, human resources, marketing, and operations are better positioned to develop adaptive strategies in line with market dynamics (Abdillah et al., 2019). This is particularly crucial considering that MSMEs often face constraints in capital and access to technology, making managerial skills an internal advantage that can compensate for these limitations.

Previous research supports this hypothesis. Monalisa et al. (2025) showed that managerial skills positively influence competitive advantage through effective business strategy management in the creative MSME sector. Similarly, Martadinata and Pasek (2024) found that MSME owners with high managerial skills tend to identify market opportunities more quickly, implement simple innovations, and build strong customer relationships, thereby enhancing their competitiveness. Thus, managerial skills function not only as technical capacities but also as strategic assets for the firm. According to the RBV framework, they are a key driver of competitive advantage in MSMEs.

Theoretically, these findings reinforce the RBV framework, which emphasizes that managerial capabilities are unique and strategic intangible resources capable of generating sustainable competitive advantages in MSMEs. Practically, the results highlight the importance of developing managerial capabilities among MSME owners and managers, particularly in managing limited resources, responding to market dynamics and implementing adaptive business strategies. By enhancing their managerial capacity, MSMEs can maximize their internal potential to maintain and strengthen their competitive position in the market.

4.2.2. The Influence of Innovation on Competitive Advantage

The path coefficient results obtained for the second hypothesis indicate a significant influence of innovation on competitive advantage in MSMEs in the craft subsector in Bandar Lampung City. A positive value in the path coefficient suggests that better innovation leads to a stronger competitive advantage. Innovation plays a crucial role in creating competitive advantages for MSMEs because it enables them to produce differentiated and more valuable products, processes, and services than their competitors (Farida et al., 2022).

From a Resource-Based View (RBV) perspective, innovation is considered a unique intangible resource that is difficult to imitate and can serve as a key differentiating factor in the market (Barney, 1991). For MSMEs, limited capital and resources can be balanced by their ability to generate new and relevant ideas that meet consumer needs. For example, product innovations based on local wisdom or the utilization of simple digital technologies can increase market appeal and enhance competitive advantages. Thus, innovation is not only a creative activity but also a core strategy for optimizing internal resources to maintain sustainable competitive advantage.

Previous studies have supported these findings. Ahmad and Wahyuni (2023) found that innovation in product and process improvements provides a competitive advantage and enhances the marketing performance of snack MSMEs. Juminawati et al. (2024) emphasized the role of product innovation, along with market orientation and marketing strategy, in strengthening the competitiveness of creative industrial MSMEs in Bandung. Saputra et al. (2025) showed that innovation contributes to the performance of UMKM chicken noodle businesses, with competitive advantage acting as a mediating factor. Meanwhile, Verbyani and Handoyo (2021) highlighted that innovation, combined with entrepreneurial orientation and market strategies, directly enhances the competitive advantage of culinary MSMEs. Overall, these findings confirm that innovation is a crucial factor in enabling MSMEs in the craft subsector in Bandar Lampung to achieve a competitive advantage.

From a theoretical perspective, these findings strengthen the RBV, which emphasizes that innovation is a unique intangible resource that is difficult to imitate and can serve as a key differentiating factor in creating competitive superiority for MSMEs. Innovation is a strategic mechanism that links the internal capabilities of MSMEs to superior performance relative to competitors. From a practical perspective, these results confirm that MSME managers in the craft sub-sector in Bandar Lampung need to prioritize innovation development in products, processes, and services as a core strategy to increase their competitive advantage and ensure business sustainability in a competitive market environment.

4.2.3. Influence Ability Managerial to Competitive Advantage

The path coefficient results obtained in the third hypothesis indicate a significant influence of managerial ability on innovation in MSMEs within the craft sub-sector in Bandar Lampung. A positive value in the path coefficient suggests that the better the managerial ability, the higher the innovation

level. In line with Dynamic Capabilities theory, which extends the Resource-Based View (RBV) by emphasizing an organization's ability to adapt, shape, and reconfigure internal and external resources to remain relevant in a dynamic environment (TeeceTeece (2019), managerial ability acts as an enabler that allows MSMEs to identify innovation opportunities, develop new ideas, and implement them effectively in products, processes, or business strategies.

Thus, managerial capability is not merely operational capacity but a strategic foundation that facilitates innovation. Innovation, as an outcome of effective management, is a source of sustainable competitive advantage. This is supported by previous studies showing that MSMEs with managers who possess strong planning, organizing, and controlling skills tend to be more innovative, respond better to market changes, and improve their organizational performance (Guzman & Solarte, 2024; Hudnurkar et al., 2023; Kalathingal & Ambrammal, 2025).

These findings are consistent with prior research that emphasizes the importance of managerial capabilities in driving innovation. Guzman and Solarte (2024) found that the dynamic capacity to innovate mediates the relationship between managerial skills and organizational performance in MSMEs in Caquetá, Colombia, suggesting that strong managerial capabilities drive innovation, which in turn improves performance. Similarly, Hudnurkar et al. (2023) highlighted that innovation mediates the relationship between quality management and corporate sustainability in the MSME sector, indicating that effective management alone does not ensure sustainability without innovation support. Furthermore Kalathingal and Ambrammal (2025), in their review of empirical studies, concluded that innovation capability is a critical mechanism linking MSMEs' internal capacity to sustainability and competitiveness, emphasizing its role as a strategic bridge between managerial capabilities and organizational outcomes.

Based on the above, these findings theoretically strengthen the Dynamic Capabilities and RBV frameworks, which highlight managerial capabilities as strategic resources and key enablers of innovation that drive competitive advantage. Practically, the results suggest that MSMEs in the craft subsector in Bandar Lampung City should not only focus on improving operational managerial skills but also integrate these capabilities with innovative development. In doing so, MSMEs can respond more effectively to market changes, create more innovative products or services, and enhance their competitiveness and business sustainability.

4.2.4. The Influence of Managerial Capabilities on Competitive Advantage Through Innovation

Based on the results of the Specific Indirect Effects analysis for the fourth hypothesis using SmartPLS version 3.2.9, as shown in Table 6, it was found that the relationship between managerial ability and competitive advantage through innovation mediation has a T-statistic value of $7.372 \geq 1.672$ and a p-value of $0.000 \leq 0.05$, with a positive path coefficient. The positive coefficient indicates that the higher the managerial ability of MSMEs, the greater its influence on improving competitive advantage through innovation.

These results demonstrate that innovation plays a significant mediating role in strengthening the influence of managerial ability on a competitive advantage. In other words, managerial ability not only has a direct impact on competitive advantage but also an indirect effect through the enhancement of MSMEs' innovation capacity. Based on the mediation criteria, this condition is classified as partial mediation, meaning that the independent variable (managerial ability) influences the dependent variable (competitive advantage) both directly and indirectly through the mediating variable (innovation).

This finding has practical implications for MSME managers, suggesting that improving managerial abilities should be accompanied by continuous innovation to achieve optimal competitive excellence. Innovation serves as a channel that enhances the impact of managerial ability, enabling MSMEs to attain higher competitive superiority. Consequently, MSMEs should rely not only on managerial practices but also on their capacity to create new and distinctive products, processes or strategies that differentiate them from competitors.

Based on several previous studies, increasing the competitive advantage of micro, small, and medium enterprises (MSMEs) is strongly influenced by various managerial factors and entrepreneurial orientations that can encourage innovation and adaptation to market dynamics. Hadiwijaya and Yustini (2023) showed that consumer preference for digital marketing plays a crucial role in strengthening MSME competitiveness through innovative promotional strategies. Furthermore, Agit, Nursini, Sabir, and Suhab (2024) emphasized that the quality and competitiveness of human resources are the foundation for building sustainable organizational excellence. Similarly, Indriyani, Utami, and Afrianty (2024) found that entrepreneurial orientation encourages employee ambidexterity, which has implications for increasing competitive advantages.

Meanwhile, Sismiati, Sulaiman, Usmar, Lanori, and Susanto (2025) highlighted the importance of human resource competency as a mediator in strengthening workforce competitiveness. Maulana, Novalia, Sari, Rosa, and Yuliansyah (2024) emphasized that entrepreneurial and market orientations simultaneously influence MSME performance. In general, the results of the study show that effective managerial capabilities, if mediated by innovation and human resource competency, can significantly increase the competitive advantage of MSMEs, including MSMEs in Bandar Lampung. In addition, the results of this study support previous findings that show that innovation can be an important mediator in the relationship between managerial ability and competitive advantage (Guzman & Solarte, 2024). Therefore, strategies to enhance the competitiveness of MSMEs should integrate the development of managerial competence with adaptive innovation capacity in response to market change.

The results indicate that managerial ability has a positive and significant influence on competitive advantage, both directly and through the mediation of innovation. In other words, innovation acts as a mediator that strengthens the relationship between managerial ability and competitive advantage, although managerial ability can still directly influence competitive advantage. This condition falls into the category of partial mediation, emphasizing the importance of innovation development as a strategic channel for enhancing MSME competitiveness. In practical terms, MSMEs should optimize their managerial capabilities while simultaneously fostering innovation to achieve competitive advantage more effectively.

5. Conclusions

5.1. Conclusion

Based on the results of the data analysis and discussion, this study concludes that (1) managerial ability has a positive and significant effect on the competitive advantage of MSMEs in the craft sub-sector in Bandar Lampung City. Managers or MSME owners who can manage resources effectively can create adaptive strategies that enhance competitiveness, in accordance with the Resource-Based View (RBV) perspective. (2) Innovation has a positive and significant effect on competitive advantage, as the ability to create new products, processes, or services serves as a strategic mechanism that differentiates MSMEs from their competitors and increases their competitive value. (3) Managerial ability positively influences innovation, indicating that sound management acts as the main enabler of innovations that are adaptive to market changes, in line with the dynamic capabilities framework. (4) Innovation partially mediates the relationship between managerial ability and competitive advantage.

This means that managerial ability influences competitive advantage both directly and indirectly through innovation, suggesting that strategies to enhance MSME competitiveness should simultaneously integrate managerial development and innovation. Theoretically, these findings strengthen the RBV and Dynamic Capabilities frameworks, confirming that managerial capabilities are strategic resources that facilitate innovation, which in turn drives competitive advantage. Practically, MSME managers should develop their managerial skills while fostering innovation to sustain and improve their competitiveness in the market.

5.2. Limitations

This study focuses only on MSMEs in the craft subsector in Bandar Lampung City; therefore, the findings may not be generalizable to other MSME sectors or different regions. The variables examined were limited to managerial ability, innovation, and competitive advantages. Other external factors, such

as regulations, government support, and broader market conditions, were not included in the research model.

5.3. Suggestions

Based on the findings of this study, several suggestions can be proposed: (1) for SMEs in the craft subsector, it is recommended to continuously enhance managerial abilities through training in management, human resource administration, finance, and marketing strategies, as well as by integrating innovation development into business operations to improve competitive advantage; (2) for future researchers, it is suggested to include additional variables such as entrepreneurial orientation, digital technology adoption, or government support to gain a more comprehensive understanding of the factors influencing MSME competitiveness; (3) for future studies, it is advisable to use a longitudinal research design to examine the long-term effects of managerial ability on innovation and competitive advantage, as well as to test the model across different MSME subsectors or geographic regions to increase the generalizability of the findings.

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