

# Systematic Literature Review: The Role of Innovation and Competitive Advantage of Micro, Small, and Medium Enterprises as Mediation Variables

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## Abstract

Systematic Literature Review (SLR), which focuses on the role of innovation and competitive advantage as mediators of various factors on the performance of Micro, Small, and Medium Enterprises (MSMEs), is still relatively rare. Therefore, this study aimed to determine the factors that affect competitive advantage and the role of innovation mediation and competitive advantage in influencing MSMEs performance. This study utilized Google Scholar as a database. Of 500 studies, 400 were excluded according to the title and abstract, and 100 were screened for eligibility, resulting in 41 studies included for review. This study showed that there were 45 factors that affected competitive advantage and 15 factors that affected sustainable competitive advantage. This study also found that innovation variables, including marketing innovation, innovation, green innovation, and corporate open innovation, mediated various factors influencing competitive and sustainable competitive advantages. Also, competitive advantage was able to mediate the relationship between several factors that affected the performance of MSMEs. These findings provided a reference for future research to analyze innovation as a mediating variable for the relationship of various factors to competitive advantage. This finding also provides information that for MSMEs to survive in globalization, they should have a competitive advantage to be competitive. Thus, the factors in this study can be used to strengthen the competitive advantage of MSMEs and improve their performance.

*Keywords:* Competitive Advantage; Innovation; Micro Small and Medium Enterprises; Mediating; SLR.

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## 1. Introduction

Industry competition reduces the return rate of an organization in a perfectly competitive industry. Therefore, the industry needs to plan strategies to maintain a competitive position (Lewis, 1981). Globalization requires companies to allocate their internal resources as a source of competitive advantage. The ability of organization to achieve a sustainable competitive advantage can utilize and manage optimally the resources in the organization (Barney, 1991). According to Wang & Wang (2014), competitive advantage is obtained when an organization is able to develop activities that outperform its competitors.

Competitive advantage in a company needs to formulate strategies that are in accordance with the internal and external environment of the company to be applied in competition and sustainably create advantages. Companies that do not have a competitive advantage might be left behind (Ketut Ribek, 2021). Thus, internal capabilities as a source of competitive strategy advantage can create uniqueness for Micro, Small, and Medium Enterprises (MSMEs) compared to competitors and can directly guarantee the sustainability of the organization. Various factors affect competitive advantage, including innovation. Multiple factors can be mediated by innovation in influencing competitive advantage in MSMEs. According to Tidd & Bessant (2014), innovation does not come naturally but must be driven by searching for opportunities or responding to threats. The key idea associated with transformation is entrepreneurship. The individual or group sees excellence, while others notice what they are doing and begin to imitate. Entrepreneurs are part of any large organization that tries to propose and introduce changes to update its products, services, or operating

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processes. Entrepreneurs may not be as well known, but they work hard to update what the organization offers and how they create and deliver those offerings.

Schumpeter's theory of economic growth is an essential theory of innovation, whereas the main idea of the theory relates to the importance of entrepreneurship. Schumpeter emphasizes innovation carried out by business actors and the role of entrepreneurs as innovators who implement changes in the economy by introducing innovation. Also, seizing opportunities and taking risks are considered pivotal (Schumpeter, 1934).

Innovation is critical to competitive advantage in a highly volatile environment. The ability to innovate directly affects the ability to compete at the individual, company, regional, and national levels. The value created by innovation is often manifested in new ways of doing things or processes, resulting in new products. When we think of an organization or company as a collection of resources, skills, and competencies, then the impact of innovation is to transform the company's internal capabilities and make it more adaptive, able to learn, and produce new ideas. This enhanced flexibility is essential in facing the changed market conditions (Setyawati et al., 2017). Innovation is a crucial factor in a rapidly changing business environment. Organizations that effectively manage innovation can better adapt to market dynamics, seize new opportunities, and stay ahead of the competition. Innovation management enables organizations to respond to emerging trends, customer demands, and technological advances, ensuring sustainability and long-term growth (Melendez & Dávila, 2022).

There is a positive influence between competitive advantage on business performance as measured by sales volume, market share, and return on investment (Li et al., 2006). Other studies have also proven that competitive advantage can mediate various factors on MSME performance. Njoroge (2020) research found that competitive advantage mediates the relationship between organizational resources and performance. Competitive advantage partially mediates the relationship between organizational resources and performance. That is, competitive advantage plays a role by increasing organizational resources to influence the performance of the company. Also, the findings suggested that a company's reputation and organizational culture result in a competitive advantage. Another study by Leon & Sudibyo (2021) stated that competitive advantage positively affects company performance, especially in operational efficiency. This indicates that the increase in competitive advantage, especially in the operational efficiency dimension, has improved the company's performance.

An SLR study, which focuses on the role of innovation and competitive advantage in MSMEs, is still scarce today. In order to fill this gap, this study identifies the factors that affect competitive advantage and explores the role of innovation and competitive advantage in the performance of MSMEs. This study aims to provide information on the role of innovation and competitive advantage so that MSMEs business actors can be competitive and sustainable.

## **2. Methods**

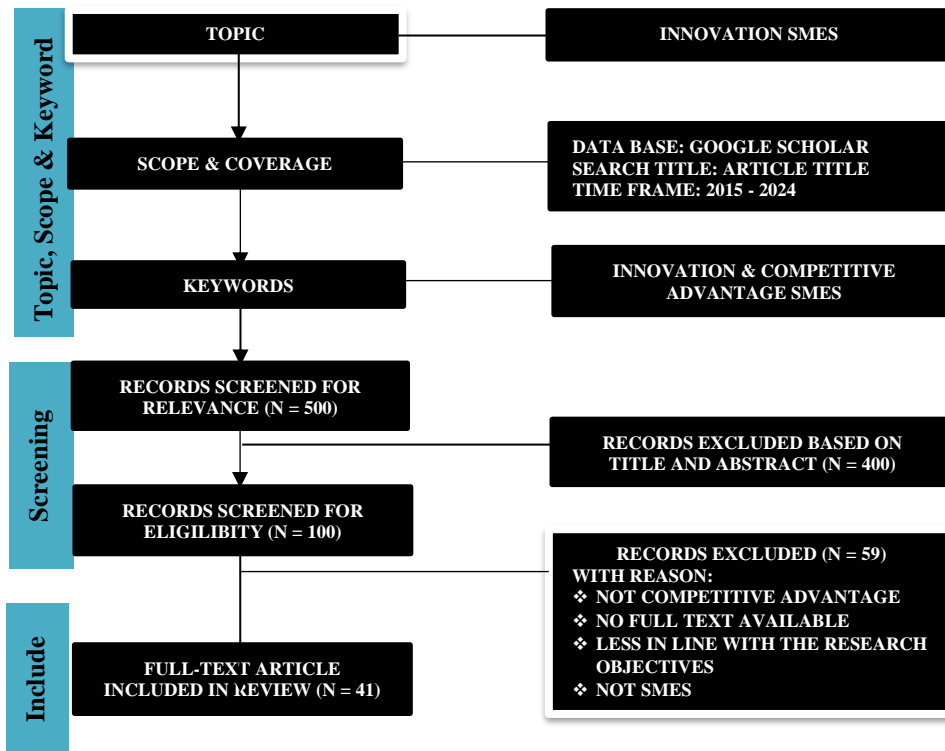
This study used the systematic literature review (SLR) method to review selected studies. The stages in SLR started with planning, literature identification, selection and screening, quality evaluation, data extraction, analysis and synthesis, and interpretation of research results. The authors used Publish or Perish software to search for relevant studies in Google Scholar. The search keywords included innovation, competitive advantage, and MSMEs. The inclusion criteria of this study included: (1) articles discussing innovation and competitive advantage; (2) Articles discussing the role of innovation as a mediator of various factors to competitive advantage; (3) Articles discussing the role of competitive advantage as a mediator of various factors on MSMEs performance; and (4) Articles published between 2015–2024. The research question of this study was as follows:

1. What factors can affect competitive advantage in MSMEs?
2. What factors can be mediated by innovation in influencing competitive advantage in MSMEs?
3. What factors can be mediated by competitive advantage on the performance of MSMEs?

## **3. Result and Discussions**

### *3.1. Result*

The search identified 500 articles. Of these, 400 were excluded based on title and abstract, and 100 were screened for eligibility. Articles that did not meet the inclusion criteria were excluded, resulting in 41 articles for review. Figure 1 shows the Prisma flow diagram of this study.



**Figure 1.** Prisma Flow Diagram

Table 1 shows articles that discuss factors affecting the competitive advantage of MSMEs. Table 1 explains that (1) factors that affect competitive advantage are Strategic leadership, innovation performance, Financial Aspect, Human Capital, innovation capabilities, entrepreneurial orientation, business financing, personal branding, open innovation competitive advantage, eco-process innovation, eco-organizational innovation, low cost strategy, value creation, knowledge management, marketing innovation, creativity, manager performance, green innovation, green packaging, green advertising, strategy, business strategy, digital capability, sustainable innovation, organizational agility, corporate open innovation, green product innovation, green marketing, digital transformation, creativity, use of information technology, innovative behavior, market orientation, market product innovation, social capital, strategic orientation, supply chain capability, product innovation, intangible resources, government regulation, learning orientation, entrepreneurial competency, and TQM practices; and (2) Factors that affect sustainable competitive advantage are innovation, product design innovation, promotion innovation, retail innovation, pricing innovation, marketing innovation, eco-innovation, cleaner production, green performance, green product innovation, green process innovation, explicit knowledge sharing, tacit knowledge sharing, and creativity. Thus, the first research question, factors affecting competitive advantage in MSMEs, has been answered.

**Table 1.** Factors Affecting the Competitive Advantage of MSMEs

<b>Authors</b>	<b>Name of the Journal</b>	<b>Factors Affecting Competitive Advantage</b>
Maziti et al., (2018)	Journal of Contemporary Management DHET	Strategic leadership and innovation performance have a positive effect on competitive advantage.
Yertas et al., (2024)	Devotion: Journal of Research and Community Service	Financial aspect, human capital, and innovation capabilities positively affect competitive advantage.
Sadalia et al., (2020)	International Journal of Supply Chain Management	Entrepreneurial orientation and business financing have a positive effect on competitive advantage.

<b>Authors</b>	<b>Name of the Journal</b>	<b>Factors Affecting Competitive Advantage</b>
Wibowo et al., (2024)	Journal of Eastern European and Central Asian Research	Personal branding and open innovation positively affect competitive advantage.
Mady et al., (2022)	International Journal of Innovation Science	Eco-process innovation and eco-organizational innovation positively affect competitive advantage.
Simamora & Sulistianingsih, (2021)	Budapest International Research and Critics Institute (BIRCI-Journal): Humanities and Social Sciences	Low-cost strategy and value creation have a positive effect on competitive advantage.
Cadden et al., (2023)	Journal of Business Research	Innovation has a positive effect on sustainable competitive advantage
Nasirmahalleh & Homayounfar (2020)	Journal of Executive Management	Knowledge of management and marketing innovation positively affect competitive advantage.
Bashor & Purnama (2017)	Mediterranean Journal of Social Sciences	Entrepreneurial orientation, creativity, and manager performance positively affect competitive advantage.
Riaz et al., (2023)	Journal of Competitiveness	Green innovation has a positive effect on competitive advantage.
Yaseen et al., (2022)	Journal of Positive School Psychology	Green packaging, green advertising, and green innovation have a positive effect on competitive advantage.
Muhammad & Chelliah (2023)	International Journal of Innovative Computing	Innovation has a positive effect on competitive advantage.
Farida & Setiawan (2022)	Journal of Open Innovation: Technology, Market, and Complexity	Strategy has a positive effect on competitive advantage.
Lestari et al., (2020)	Finance, Economic, and Business	Business strategy has a positive effect on competitive advantage.
Setyawati et al, (2018)	Academy of Strategic Management Journal	Innovation has a positive effect on competitive advantage.
Quaye & Mensah (2019)	Management Decision	<b>Product</b> design <b>innovation</b> , promotional innovation, retail innovation, price innovation, and marketing innovation have a positive effect on sustainable competitive advantage.
Permana et al., (2019)	International Journal of Managerial Studies and Research	Digital capability has a positive effect on competitive advantage.
Hassani et al., (2020)	International Journal of Business Innovation and Research.	Eco-innovation, cleaner production, and green performance positively affect sustainable competitive advantage.
Maziriri (2022)	Academy of Entrepreneurship Journal	Green product innovation and green process innovation have a positive effect on sustainable competitive advantage.

<b>Authors</b>	<b>Name of the Journal</b>	<b>Factors Affecting Competitive Advantage</b>
Ketut Ribek (2021)	Lekesan: Interdisciplinary Journal of Asia Pacific Arts	Sustainable innovation has a positive effect on competitive advantage.
Mulyono & Syamsuri (2023)	International Journal of Social Science and Business	Organizational agility and corporate open innovation have a positive effect on competitive advantage.
Setiawan et al., (2021)	Palarch's Journal of Archaeology of Egypt	Green product innovation and green marketing have a positive effect on competitive advantage.
Adisaksana (2022)	Indonesian Interdisciplinary Journal of Sharia Economics (IIJSE)	Digital transformation and creativity have a positive effect on competitive advantage.
Widyanti & Mahfudz (2020)	Diponegoro International Journal of Business	Entrepreneurial orientation, use of information technology, and innovation ability have a positive effect on competitive advantage.
Jaaffar et al., (2024)	Journal of Innovation and Entrepreneurship	Innovative behavior has a positive effect on competitive advantage.
Tirtayasa et al., (2022)	International Journal of Applied Finance and Business Studies	Market orientation and market product innovation have a positive effect on competitive advantage.
Zainul et al., (2016)	International Journal of Applied Finance and Business Studies	Innovation has a positive effect on competitive advantage.
Yaskun et al., (2023)	International Journal of Profesional	Market orientation and entrepreneurial orientation have a positive effect on competitive advantage.
Handoyo (2015)	Journal of Economics, Business & Accountancy Ventura	Marketing innovation, market orientation, and social capital have a positive effect on competitive advantage.
Zafar (2019)	Pakistan Journal of Social Sciences (PJSS)	Innovation and market orientation positively affect competitive advantage.
Puspita et al., (2020)	International Journal of Scientific and Technology Research	Strategic orientation, supply chain capabilities, and innovation capabilities positively affect competitive advantage.
Herman et al., (2018)	International Journal of Science and Engineering Invention	Market orientation and product innovation have a positive effect on competitive advantage.
Wening et al., (2023)	ABAC Journal	Explicit knowledge sharing, tacit knowledge sharing, and creativity have a positive effect on sustainable competitive advantage
Rua et al., (2018)	Journal of Knowledge Management	Entrepreneurial orientation and intangible resources positively affect competitive advantage.
Afsharghasemi et al., (2013)	Journal of Business Administration Research	Market orientation and government regulation have a positive effect on competitive advantage.
Putri & Setiawan (2022)	Journal of Business and Management Review	Market orientation, learning orientation, and innovation positively affect competitive advantage.

Authors	Name of the Journal	Factors Affecting Competitive Advantage
Hanif et al., (2022)	Journal of Business Innovation and Research	Market orientation and innovation have a positive effect on competitive advantage.
Wirda et al., (2019)	Academy of Entrepreneurship Journal	Entrepreneurial competency has a positive effect on competitive advantage.
Ukab (2021)	Psychology and Education Journal.	TQM practices positively affect competitive advantage.

This study suggested that innovation can mediate the relationship of several factors that affect competitive advantage (see Table 2). The results of the article analysis are as follows (1) Product design innovation, promotion innovation, retail innovation, and pricing innovation have an indirect effect on sustainable competitive advantage through marketing innovation; (2) Entrepreneurial orientation, strategy, and learning orientation have an indirect effect on competitive advantage through innovation; (3) Marketing innovation mediates the relationship between knowledge management and competitive advantage; (4) CSR and green intellectual capital affect competitive advantage through green innovation; and (5) Corporate open innovation mediates the relationship between organizational agility and competitive advantage. It can be concluded that innovation variables that act as mediation variables, including marketing innovation, innovation, green innovation, and corporate open innovation, can mediate various factors that affect competitive advantage. Thus, the second research question, which was factors that can be mediated by innovation in influencing competitive advantage in MSMEs, has been answered.

**Table 2.** Factors Mediated by Innovation in Influencing Competitive Advantage

Authors	Name of the Journal	Role of Innovation as a Mediator
Quaye & Mensah (2019)	Management Decision	Product design innovation, promotion innovation, retail innovation, and pricing innovation have an indirect effect on sustainable competitive advantage through marketing innovation.
Zafar (2019)	Pakistan Journal of Social Sciences (PJSS)	Entrepreneurial orientation has an indirect effect on competitive advantage through innovation.
Farida & Setiawan (2022)	Journal of Open Innovation: Technology, Market, and Complexity	Innovation mediates the relationship between strategy and competitive advantage.
Nasirmahalleh & Homayounfar (2020)	Journal of Executive Management	Marketing innovation mediates the relationship between knowledge management and competitive advantage.
Riaz et al., (2023)	Journal of Competitiveness	CSR and green intellectual capital affect competitive advantage through green innovation.
Mulyono & Syamsuri (2023)	International Journal of Social Science and Business	Corporate open innovation mediates the relationship between organizational agility and competitive advantage
Putri & Setiawan (2022)	Journal of Business and Management Review	Learning orientation towards competitive advantage is mediated by innovation.

Moreover, this study found that competitive advantage can mediate the relationship between several factors that affect the performance of MSMEs (see Table 3). Factors that can be mediated by competitive advantage on MSMEs performance include green packaging, green advertising, green innovation, TQM practices, business strategy, sustainable innovation, creativity, digital transformational, entrepreneurial competency, product innovation, market orientation, organizational culture, innovation, knowledge management, and entrepreneurial orientation. This study also found that market orientation and government regulation indirectly affect internationalization through competitive

advantage. Thus, the third research question, which was factors that can be mediated by competitive advantage on the performance of MSMEs, has been answered.

**Table 3.** Factors Mediated by Competitive Advantage on the Performance of MSMEs

<b>Authors</b>	<b>Name of the Journal</b>	<b>Role of Competitive Advantage as a Mediator</b>
Yaseen et al., (2022)	Journal of Positive School Psychology	Green packaging, green advertising, and green innovation have an indirect effect on business performance through competitive advantage.
Ukab (2021)	Psychology and Education Journal.	Competitive advantage mediates the relationship between TQM practices and organizational performance.
Lestari et al., (2020)	Finance, Economic, and Business	Competitive advantage mediates the relationship of business strategy to SME performance
Ketut Ribek (2021)	Lekesan: Interdisciplinary Journal of Asia Pacific Arts	Competitive advantage mediates the relationship of sustainable innovation on marketing performance.
Adisaksana (2022)	Indonesian Interdisciplinary Journal of Sharia Economics (IJSE)	Creativity affects performance mediated by competitive advantage. Digital transformational effects on performance was mediated by competitive advantage.
Wirda et al., (2019)	Academy of Entrepreneurship Journal	Competitive advantage mediates the relationship between entrepreneurial competency and business performance.
Nilasari et al., (2021)	Russian Journal of Agricultural and Socio-Economic Sciences	Product innovation, market orientation and organizational culture affect business performance through competitive advantage.
Afsharghasemi et al., (2013)	Journal of Business Administration Research	Market orientation and government regulation have an indirect effect on internationalization through competitive advantage.
Muhammad & Chelliah (2023)	International Journal of Innovative Computing	Innovation affects export performance through competitive advantage.
Fakhrunnisa et al., (2023)	Journal Research of Social Science, Economics, and Management.	Competitive advantage mediates the relationship between knowledge management and entrepreneurial orientation toward business performance.
Hanif et al., (2022)	Journal of Business Innovation and Research	Market orientation and innovation affect MSME performance mediated by competitive advantage.

### 3.2. Discussion

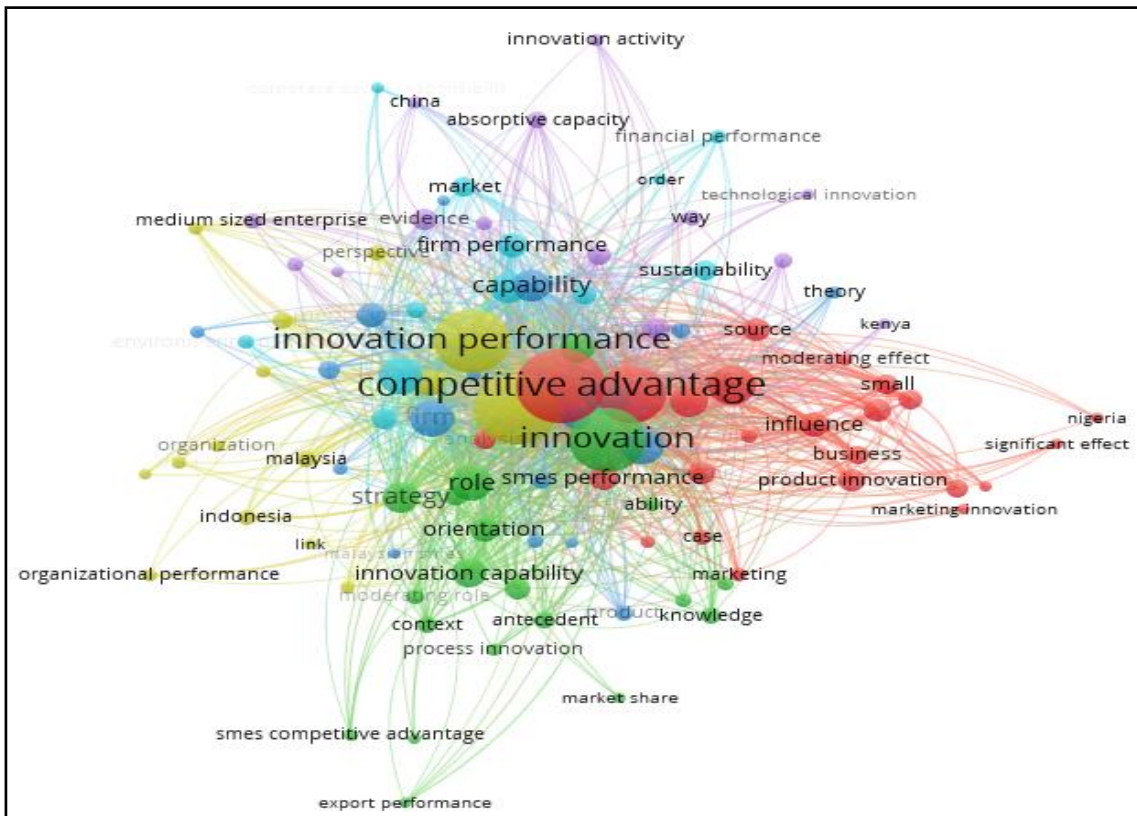
The review of 41 articles related to competitive advantage in this study shows that authors used competitive advantage and sustainable competitive advantage variables. This study depicted that 45 factors affected competitive advantage and 15 factors affected sustainable competitive advantage. The authors used knowledge management, innovation, marketing innovation, and creativity variables to predict the effects of competitive advantage and sustainable competitive advantage.

Research on sustainable competitive advantage and competitive advantage employed knowledge management variable. Researchers who tested knowledge management against sustainable competitive advantage employed the explicit knowledge sharing and tacit knowledge sharing variables. According to Kimiz Dalkir (2011), tacit knowledge is the ability to adapt, experience new situations from outside, coach and mentor to transfer knowledge based on experience

and document processes. While Explicit knowledge sharing is the ability to disseminate, reproduce, access organizations, transfer knowledge through products and transfer experiences.

Knowledge management is broader and includes the increased value of organizational knowledge and knowledge accumulated over time. This approach is much more holistic and user-centric. It does not begin with an audit of existing documents but with a needs analysis to understand how better knowledge sharing can benefit individuals and groups, as well as the organization as a whole. Successful knowledge sharing is collected and documented in the form of lessons learned and then forms the core of the organization. The ability to manage knowledge is becoming increasingly crucial in economics. The creation and dissemination of knowledge have become an increasingly important factor in the competitiveness of organizations. Increasingly, knowledge is considered a valuable commodity embedded in products (especially high-tech products) and employee tacit knowledge. Although knowledge is likely viewed as a commodity (intellectual asset), it has some paradoxical characteristics that are very different from other valuable commodities (Kimiz Dalkir, 2011).

Other findings of this study explain that innovation plays a role in mediating various factors in influencing competitive advantage and sustainable competitive advantage. These factors include product design innovation, promotion innovation, retail innovation, pricing innovation, entrepreneurial orientation, strategy, learning orientation, knowledge management, CSR, green intellectual capital, and organizational agility. The authors used various innovation variables, including marketing innovation, innovation, green innovation, and corporate open innovation. Thus, these innovation variables have an influence to connect factors that impact competitive advantage in MSMEs. According to Tidd & Bessant (2014), that innovation is a matter of survival and growth. If the organization does not change, then competition can threaten the future of the organization. Individuals and organizations need to take innovation seriously and make innovation more than just a slogan. This means that individuals or organizations have a clear idea of where and how to make changes that can bring progress, a strategy and ideas about implementing that strategy, and how to create innovation.



**Figure 2.** The result of VOSviewer (Network Visualization)

Referring to this, in order for MSMEs to survive, they should have a competitive advantage in order to be competitive. Therefore, marketing innovation, innovation, green innovation, and corporate open innovation can be used to strengthen

the competitive advantage of MSMEs. This study also explains that competitive advantage plays a role in mediating various factors in the performance of MSMEs. Therefore, green packaging, green advertising, green innovation, TQM practices, business strategy, sustainable innovation, creativity, digital transformational, entrepreneurial competency, product innovation, market orientation, organizational culture, innovation, knowledge management, and entrepreneurial orientation play an important role in directly or indirectly influencing the performance of MSMEs through competitive advantage. The MSMEs actors might take advantage of these various factors to increase competitive advantage, which impacts performance. Competitive advantage is one of the drivers for MSMEs so that performance can improve. The MSMEs actors can benefit from analysis of the internal and external environment to design business development strategies to increase competitive advantage.

The VOSviewer search results from Google Scholar in Figure 2 explain that the network consists of 6 clusters with 103 items and 2772 Links. The results of the Overlay Visualization display show that cluster 5, namely the mediating role, looks yellow, connected to firm performance, competitive advantage, innovation, and sustainability. This indicates that the study about the mediation model using innovation as a mediator of the relationship of various factors to competitive advantage is still limited. Network Visualization of VOSviewer search results is depicted in Figure 2:

#### 4. Conclusions

This review found that there were 45 factors that affected competitive advantage and 15 factors that affected sustainable competitive advantage. The innovation variables, including marketing innovation, innovation, green innovation, and corporate open innovation, play a role in mediating various factors in influencing competitive and sustainable competitive advantages. These factors include product design innovation, promotion innovation, retail innovation, pricing innovation, entrepreneurial orientation, strategy, learning orientation, knowledge management, CSR, green intellectual capital, and organizational agility. Another finding of this study is that competitive advantage is able to mediate the relationship between several factors that affect the performance of MSMEs. Factors that can be mediated by competitive advantage on MSMEs performance include green packaging, green advertising, green innovation, TQM practices, business strategy, sustainable innovation, creativity, digital transformational, entrepreneurial competency, product innovation, market orientation, organizational culture, innovation, knowledge management, and entrepreneurial orientation. Moreover, this study suggested that market orientation and government regulation indirectly affect internationalization through competitive advantage.

The study about the mediation model using innovation as a mediator of the relationship of various factors to competitive advantage is still limited. Thereby, these findings provided a reference for future research to analyze innovation as a mediating variable for the relationship of various factors to competitive advantage. This finding also provides information that for MSMEs to survive in globalization, they should have a competitive advantage to be competitive. Thus, the factors in this study can be used to strengthen the competitive advantage of MSMEs and improve their performance.

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