

## **The Effect of Corporate Governance, Innovation, and Supporting Factors towards Competitive Advantages of Batik SMEs in The Pandemic**

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### **Abstract**

The obstacle for Batik creative industries in the time of the Covid-19 pandemic is that it is not easy to reach the market. Because before the pandemic, the agencies, buyers, and consumers could come to the places where the products were made. In order to get out of this difficulty, business actors must adapt to do innovations, among them by using business digitalization technology, so that the market scope will be wider, and build up innovation that the quality of the product can be competitive. In order for SMEs to be quickly adapted in time of the covid-19 pandemic, they must join to form a community portal of batik industry activators. The aim of this research is to know the effect of Corporate Governance, Product Innovation, Business digitalization, and Effectiveness of Management Control towards Competitive Advantages of SMEs of Creative Industry of Batik Craftsman in Regency and City in Yogyakarta. The method of research used is a survey method to 55 managers of 127 SMEs of the Creative Industry of Batik Craftsman in all regencies and cities in Yogyakarta. The collection of primary data uses Questionnaires with the Likert Scale. In accordance with consideration data value and hypotheses, this research uses suitable statistical analysis that is the Partial Least Square (PLS) method. This method will reveal the amount of independent variable effect on dependent variables. The result of the research shows that corporate governance is not significantly influential on Competitive Advantages of SMEs, while Product Innovation, The Use of business digitalization-based information technology, and Effectiveness of Management Control bring positive effects toward Competitive Advantages. The Dominant Variable is the product innovation, while the effect of the lowest variable towards Competitive Advantages is the Effectiveness of Management Control.

**Keywords:** *governance, innovation, digitalization, management control, competitive advantage*



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### **INTRODUCTION**

The economic growth in Indonesia at the present time is getting worse. In the program held by Data Say on Thursday, 16th of July, 2020 with the theme Asian Insight Conference2020, Navigating a Brave New World, Piter Abdullah Redjalam, as the Director of CORE Research or Center of Reform on Economics, gave a statement that the Recession threshold had approached the economy in Indonesia during this time of Covid-19 pandemic, It should have been this recession became a new normal since nearly all over the countries got the impact of Covid-19 pandemic (Soleha, 2020).

Remembering that SME is an industry that its business process is mostly done traditionally, therefore it is very important to build up a system of SMEs corporate governance that can give accurate information. This is very important, remembering that enterprises which are in such industry are very brittle or easily bankrupt. The improvement of SMEs Business in time of Covid-19 pandemic needs various

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ways or strategies so that they can recover the spirit of SMEs business. The empowerment of Corporate Governance and Innovation is a factor that determines the Competitive Advantages. Product Innovation is one of the impacts of the rapid changing of technology, and the high product variation will determine the competitive advantages (Hurley & Hult, 1998). The rapid advancement such as business digitalization to market products and the high level of competition demands every enterprise to do product innovation continuously, that in the end, it will increase the competitive advantages of SMEs.

This research is the continuation of the previous year, conducted by Pasaribu et al. (2019) on SMEs Creative Industry in Sleman Regency with the result of the research finding that the competitive advantages of SMEs of the creative industry are influenced by SMEs corporate governance, Management accounting information system, and Effectiveness of Management Control. The previous research findings showed that the effectiveness of the management control system was still very low. The research of this stage will be conducted in all Regencies and Towns in Yogyakarta Special Territory. Besides SME's corporate governance that will be examined, the research will focus on product innovation variables and Business digitalization as well as management control to increase the competitive advantages in time of Covid-19 pandemic.

The competitive advantages become the fundamental key to be remain survive in the era of globalization. Innovation is one of the factors that determine competitive advantages. Product innovation is one of the impacts of the rapid technological changes, and the high product variety will determine the competitive advantages (Hurley & Hult, 1998:83)

Based on the background explained above, it becomes the foundation for the researchers to conduct the research entitled "The Role of SMEs corporate Governance, Product Innovation, Innovation of the use of information technology on the basis of digital business, Effectiveness of Management Control and its effect to the Competitive Advantages of MSME of Batik Creative Industry in Yogyakarta".

The aim of the research is to know the effect of SME's corporate governance and product innovation, innovation of the use of digital-based information technology, and effectiveness of management control towards the Competitive advantages of SMEs of Batik Creative Industry in Regency and Town in Yogyakarta Special Territory.

## **LITERATURE REVIEW**

### **SMEs Competitive Advantages**

Small and Middle Enterprises (SMEs) are productive economic businesses that stand by themselves that are run by one individual or corporations that are not subsidiaries or one company branch that are owned, controlled, or parts of either directly or indirectly small or big/large business with the number of net assets or annual sales result as stated in this Law (SMEs Law number 20, the year of 2008). The criteria of Middle Business is it has net assets more than Rp. 500.000.000,- (five hundred million rupiahs) up to most Rp. 10.000.000.000,- (ten billion rupiahs) not included land and building of the place of business; or having annual sales result more than Rp. 2.500.000.000,- (two billion five hundred million rupiahs) up to most Rp. 500.000.000,- (fifty billion rupiahs).

#### *Competitive Advantage Theory*

Porter (1985) describes competitive advantage as stated below:

"Competitive advantage is the heart of corporate performance in a competitive market... Competitive advantage is about how a Company really places generic strategies in practice."

Competitive advantage is a condition in which products and services produced by a company are felt better if seen from the price and quality of the product as well as easy to be found compared to the product produced by competitors (Supriyono 2009 and Dash 2013). Competition in the era of industry 4.0 compels business actors to be always innovative, creative, and communicative. Products that add benefits and give satisfaction will create loyalty for customers. Loyalty will trigger the customer to remain using products or services "whatever" the price of selling in markets.

### **Indicators of Competitive Advantage (Y)**

Sachitra (2016), in general, has the opinion that competitive advantage most generally focuses on indicators such as profitability, productivity, and market share. Competitive advantage is considered as part of the foundation for the high-performance level. The ability of a company to increase its product quality, reduce the cost of the product, or enlarge market share or profit is known as a competitive advantage. Further, Hayes and Schmenner (1978) identify that there are five indicators of priority to compete: (1) Price; (2) Quality; (3) Dependability; (4) Product Flexibility; (5) Volume Flexibility.

#### *Hypotheses Development: The Effect of Governance Role, Product Innovation,*

*The use of digitalization-based Information Technology and Effectiveness of Management Control towards Competitive Advantages.*

#### 1. The Role of SMEs Corporate Governance (X1) and its effect on Competitive Advantage (Y)

Corporate governance is a set of rules that regulates the relationship between stockholders, administrators, creditors, government, employees, and all other internal and external stakeholders that deal with their rights and obligations; or in other words, a system that directs and controls company (Forum Corporate Governance – FCGI 2006).

Shamsudin and Noor (2012) state that Corporate is a synonym for business environment and how corporate governance can have relevance to track. It means that these market opportunities must be able to be governed well. Therefore, as has been stated before, applying corporate governance itself is not enough, such as equality, transparency, accountability, Responsibility, and Independency, but it is important to make some efforts of the development strategy of creative SMEs corporate governance to reach market opportunities by (1) developing infrastructure; (2) forming business groups; (3) developing business network, marketing, and partnership; (4) developing human resources; and (5) promotion. Therefore, the development of SME's corporate governance certainly can not be done by business actors themselves. They must embrace various related sides, and it is quite recommended to jack up the success of the above strategy and then immediately do (Sadino, Bob. 2016). In that way, the five indicators of market opportunities and the aspect of corporate governance become the supporting process of the development of Corporate Governance on SMEs. The Aspect of Corporate Governance that will be examined is five aspects in the Indonesian Code of Good Corporate Governance 2006, namely transparency, accountability, responsibility, independence, and justice.

The result of Nurdin's research, 2015 concluded that there was a significant effect of corporate governance towards competitive advantages. Besides that, Josephin (2000) concluded in her research that corporate governance has influences towards corporate value through corporate performance measurement. The result of the research conducted by Palupijati and friends (2013) on small and middle scale companies revealed that getting more concentrated on business ownership and structure, the more decreasing the levels of transparency, accountability, independence, and justice in the company. But with

the level of concentration of business ownership and structure, which is more spread, the application of the four aspects of corporate governance on SMEs will be increasing. By that way:

H1: The Role of SME's corporate governance effects positively towards Competitive Advantages.

2. Product Innovation in time of Covid-19 pandemic (X2) and its effect towards Competitive Advantages.

Product innovation is to create new products that can fulfill the needs and wants of consumers so that it comes up the interest to buy those products, that is expected to be able to realize through buying (purchasing) decision (Setiadi; 2003). The success of innovation implemented must be continuous and not implemented incidentally (Anantan and Lena, 2009). In that way, product innovation is creating new products that have not been owned by competitive companies that aim to adapt to the consumer's taste and can increase selling/sales and profits.

According to Lai et al. (2014), the indicators of innovation performance measurement are measured by the parameters of product performance and market performance. It means that innovation plays a role as a mediator between market orientation and corporate performance (Hurley & Hult, 1998). In that way, the indicators of product innovation used in this research are 7 (seven) criteria (Rahayu et al. 2015), namely quality, price, production time, demand, customer satisfaction, market share, and profit rate.

Previous research had been conducted by Suhaeni (2018) on Craftsman Industry SMEs in Bandung. The result of the research showed the existing positive and strong relationships between variables of innovation strategy with competitive advantages. Seen from the great influence of innovation strategy towards competitive advantages on SMEs of handicrafts in Bandung, it is significant.

The same is true in the research of Alwi and Esti Handayani (2018). They found that product innovation variable influenced positively towards competitive advantages. Alwi and Esti state further that the increase of competitive advantages can be done through the focus on strategy oriented to the market and product innovation. Although all previous researches found that product innovation was always influential towards competitive advantages, the fact showed that there was much creative industry business not able to compete in the local market on in the global market (globally). Therefore the hypothesis proposed:

H2: is the product innovation variable influential toward Competitive advantage.

3. Innovation in the Use of Information Technology based on business digitization and its Impact on Competitive Advantage.

Prof. Klaus Martin Schwab in Ghufon (2018), in his book *The Fourth Industrial Revolution* (2017), states that we are currently at the beginning of a revolution that is fundamentally changing the way we live, work and relate to one another. The change was dramatic and happened at an exponential rate. This is indeed a drastic change compared to the previous industrial revolution era. The digital revolution and the era of technological disruption are other terms of industry 4.0. Called the digital revolution because of the proliferation of computers and the automation of records in all fields. Industry 4.0 is said to be the era of technological disruption because automation and connectivity in a field will make the movement of the industrial world and work competition non-linear. One of the unique characteristics of industry 4.0 is the application of artificial intelligence. One form of application is the use of robots to replace human labor so that it is cheaper, more effective, and efficient (Tjandrawinata, 2016).

The results of research conducted by Mahbubah and Sofie (2018) found that digitalization has a positive effect on business opportunities. Raza et al. (2020), in a study conducted on the digitalization of

the logistics process, stated that digitalization in the supply chain allows companies to meet customer desires, overcome supply-side challenges, and improve supply chain efficiency. Digitalization will bring Supply Chain 4.0 to be faster, more flexible, smaller, more accurate, and more efficient delivery. Thus the proposed hypothesis is:

H3: The use of digitalization-based information technology has a positive effect on competitive advantage.

#### 4. Effectiveness of SMEs management control (X4) and its influence on competitive advantage.

In Kamus Besar Bahasa Indonesia, the word effective has the meaning of being able to bring results, consequences, or effects. Anthony and Govindarajan (2004) stated that the management control system is a process by which managers influence other members of the organization to implement organizational strategies. The management control process is carried out through strategic planning activities, budget preparation, implementation, and performance evaluation. This means that the effectiveness of management control is a process that affects everyone in the organization that aims to obtain results by implementing the company's strategies.

Simons (2002) concludes from the results of a 2-year field study, using a new model to show how management control systems can interact, focusing an organization's attention on strategic uncertainty. This process is examined in two competing firms to illustrate how top managers use formal systems to guide the emergence of new strategies and ensure a sustainable competitive advantage. From the statement of Simons (2002), it can be concluded that the management control system has an effect on competitive advantage.

On the other hand, Sachitra (2016) generally argues that the most common competitive advantage is a focus on indicators such as profitability, productivity, and market share. Competitive advantage is considered part of the foundation for a high level of performance. The company's ability to improve the quality of its products, reduce the costs of its products, or increase market share or profits is known as a competitive advantage. Thus the proposed hypothesis is:

H4: Effectiveness of SMEs management control has an effect on competitive advantage

## RESEARCH METHOD

The design of this research is causal research which is explanatory research on all selected samples to be surveyed to represent the population. According to the hypothesis, the correct statistical analysis for causal purposes is to use the Partial Least Square (PLS) model. This method will reveal the magnitude of the influence of the independent (free) variables on the dependent (bound) variable, either individually or simultaneously.

The population of this research is 127 creative batik industries in D.I. Yogyakarta. It is planned to take a sample of 65 batik industries in regencies and cities in Yogyakarta, but in reality, some are not operating due to the COVID-19 pandemic from 2020-2021. Thus, the samples willing to be taken at random are only 55 batik creative industries.

## Variables and Variable Operationalization

### *Competitive Advantage (Y)*

The operational definition of competitive advantage can be expressed as a specific way of using available resources and other appropriate activities to separate the company from its competitors as well as to maintain sustainability and development (Sachitra V, Chong SC, 2016). Furthermore, Hayes and

Schmenner (1978) identified that there are five competitive priority indicators: (1) Price; (2) Quality; (3) Dependability; (4) Product Flexibility; (5) Volume Flexibility. The measuring instrument used is a questionnaire with a Likert scale to obtain ordinal data.

#### *Governance of SMEs (X1)*

The SMEs Governance indicators used in this research are from the aspect of managed market opportunities and the governance aspect of SMEs (Shamsudin and Noor, 2012) and Sadino, Bob, 2016). Indicators of aspects of managed market opportunities are carried out by means; namely (1) infrastructure development; (2) establishment of business groups; (3) business network development, Marketing, and partnerships; (4) human resource development; and (5) promotion. For indicators of corporate governance that will be analyzed, there are five aspects in the Indonesian Code of Good Corporate Governance, 2006, namely transparency, accountability, responsibility, independence, and fairness. For each indicator, the measuring instrument used is a questionnaire with an ordinal scale.

#### *Product Innovation (X2)*

Thus, the product innovation indicators used in this research are 7 (seven) criteria (Rahayu et al. (2015), namely quality, price, production time, demand, customer satisfaction, market share, profit rate.

#### *Innovation of the Use of Information Technology Based on Business Digitalization (X3)*

Business digitalization, carried out by utilizing the internet for various business activities, is called E-Commerce. Bryan A. Garner quoted by Halim (2005). There are various existing applications developed from 3 (three) basic application categories, namely: (1) Discovery, which is an application for information access (browsing and information retrieval/searching); (2) Communication, that is e-mail, chat, newsgroups; and (3) Collaboration, that is an application for collaboration between individuals/groups, such as workflow systems, screen sharing, visual teleconferencing, group decision support systems (GDSS).

#### *Effectiveness of management control (X4)*

Effectiveness is something related to determining whether the company's goals have been achieved (Tunggal, 2003:12). In the planning function, namely, the budget related to budget determining whether the company's goals set in the budget have been achieved.

#### **Data sources**

Obtaining this research data is using a questionnaire to 55 SMEs managers of the creative batik industries who are willing to be interviewed in the Regency and City in Yogyakarta.

#### **Data Analysis Tools X1, X2, X3, X4, Against Y: Partial Least Square (PLS) Analysis**

Hypothesis testing uses the statistical tool of Partial Least Square (PLS). The first step is to describe the data. Further, testing using the PLS method consists of testing the outer model (measurement model, namely the relationship between indicators and their constructs) and inner (structural) models. To state that the hypothesis is accepted or rejected, the t-table value can be compared with the t-statistics or t-count. If  $t\text{-count} > t\text{-table}$ , then the hypothesis is accepted. This means that the independent variable affects the dependent variable. On the other hand, if  $t\text{-count} < t\text{-table}$ , then the hypothesis is rejected.

## FINDINGS AND DISCUSSION

As an overview, the data collected are primary data, namely data derived from respondents' answers which were collected using distributed questionnaires. The population of this study amounted to 127 SMEs in Regencies and cities in Yogyakarta. The sampling technique used random sampling of 55 SMEs managers who were willing to do research.

### Characteristics of Respondents

Based on the collected questionnaires, the characteristics of the respondents of SMEs in creative batik industries in Regencies and cities in Yogyakarta are obtained. Data on the characteristics of respondents are more women than men, with the education of the most respondents being the high school with 26 consisting of 2 men and 24 women. At least one respondent comes from elementary education level and one person from D2 and D3 education, and one person from doctoral degree.

### Descriptive Statistics

Descriptive statistical analysis is used to see the state of the data for each research object. Table 4.1 presents descriptive statistics regarding the minimum, maximum, average, and standard deviation values for each research variable. The variables in this research are Corporate Governance (X1), Product Innovation (X2), innovation in the Use of Information Technology based on business digitization (X3), and Effectiveness of Management Control (X4), and Competitive Advantage (Y).

Table 1. Descriptive Statistics

Variabel	N	Minimum	Maximum	Mean	Std. Deviation
X1	55	1,60	5	3,5891	0,72205
X2	55	1,86	5	3,8689	0,60866
X3	55	1,33	5	3,6662	0,77834
X4	55	1,33	5	3,7638	0,72454
Y	55	1,71	5	3,8151	0,64861
Valid N (listwise)	55				

Source: Data processed 2021

Data Table 1 shows that Corporate Governance has an average score of 3,5891. If the average score of respondents' answers is greater than 3,5891, then the respondent has high MSME governance. On the other hand, if the respondent's average score is less than 3,5891, then the respondent has low SME governance. The value of respondents' answers about governance ranges from 1.60 to 5. Thus the descriptive statistics of the independent variables are further.

Competitive advantage has an average score of 3.8151. If the average score of respondents' answers is greater than 3.8151, then the competitive advantage is high. On the other hand, if the average score of respondents' answers is less than 3.8151, then the competitive advantage is low. The value of respondents' answers about the effectiveness of SMEs management control ranges from 1.71 to 5.

### Partial Least Square (PLS) Analysis

This research uses Partial Least Square analysis to test the variable constructs of Corporate Governance (X1), Product innovation (X2), The use of IT-Digitalization (X3), the effectiveness of management control (X4) on the competitive advantage of SMEs (Y). The stages of analysis carried out

include validity and reliability tests, inner or outer model tests, outer model tests, and analysis of results uses the Structural Equation Model –PLS.

#### *Validity Test and Reliability Test*

The results of the validity test show that all AVE root values for each construct are greater than the loading factor value  $> 0.05$ . It means that each construct of each variable has good discriminant validity. Furthermore, the results of the reliability test show that the coefficient value of Cronbach's Alpha for each variable is more than 0.600, so that all the question items on the SMEs Governance (X1), Product Innovation (X2), The using of I.T. – Business Digitization (X3), and Effectiveness of management control (X4), and Competitive advantage (Y) is reliable.

#### *Inner Model or Structural Model Testing*

The structural model was evaluated using R-Square for the dependent construct, Stone-Geisser Q-Square test for predictive relevance and t-test, as well as the significance of the coefficients of structural path parameters (Ghozali, 2016). In addition, by looking at the R-Square value, the PLS model is also evaluated by looking at the Q-Square Predictive Relevance, which can measure how well the observed values are generated by the model and also the estimated parameters.

The value of Q-Square Predictive Relevance that is greater than 0 indicates that the model has predictive relevance, while a Q-Square Predictive Relevance value less than 0 indicates that the model lacks predictive relevance.

$$Q^2 = 1 - (1 - (R \text{ square})^2)$$

$$Q^2 = 1 - (1 - (0.8622)^2) = 0.257$$

Based on the results of the calculation of the Q-square value, it can be seen that the Q-square value is 0.257, which means that this number is greater than 0 (zero). This shows that the variables of Governance (X1), Product Innovation (X2), the Use of IT-Digitization (X3), Effectiveness of management control (X4) have a good predictive level of Competitive Advantage (Y).

#### *Outer Model*

Between indicators in this research are assumed to be uncorrelated, so the internal consistency measure of reliability (Cronbach Alpha) is not needed to test formative construct reliability (Ghozali, 2016). This is different from reflective indicators, which use three criteria to assess the outer model, namely convergent validity, composite reliability, and discriminant validity. Ghozali (2016) also states that formative constructs are basically a regression relationship from indicators to constructs, so the way to assess it is by looking at the value of the regression coefficient. The recommended weight value is 0.500.

Based on the results of the outer model analysis, the outer loading value of all variables is greater than 0.500, and this means that the research model is good, so there is no need to modify the model.

#### *Results of Hypothesis Testing Analysis with Partial Least Square.*

The analysis in this research is the Partial Least Square (PLS) analysis. This analysis is used to determine the influence between the variables of SMEs Governance (X1), Product Innovation (X2), The Use of IT-Digitization (X3), Effectiveness of Management Control (X4), and Competitive Advantage of Batik Industry SMEs (Y).

The following are the results of Partial Least Square (PLS) shown in Figure 4.1. PLS analysis image shows the construct of the influence of SMEs governance, Product innovation, The use of information



technology based on business digitization, and the effectiveness of management control has an effect on Competitive advantage. This analysis is reinforced by the results of the equation in Table 2.

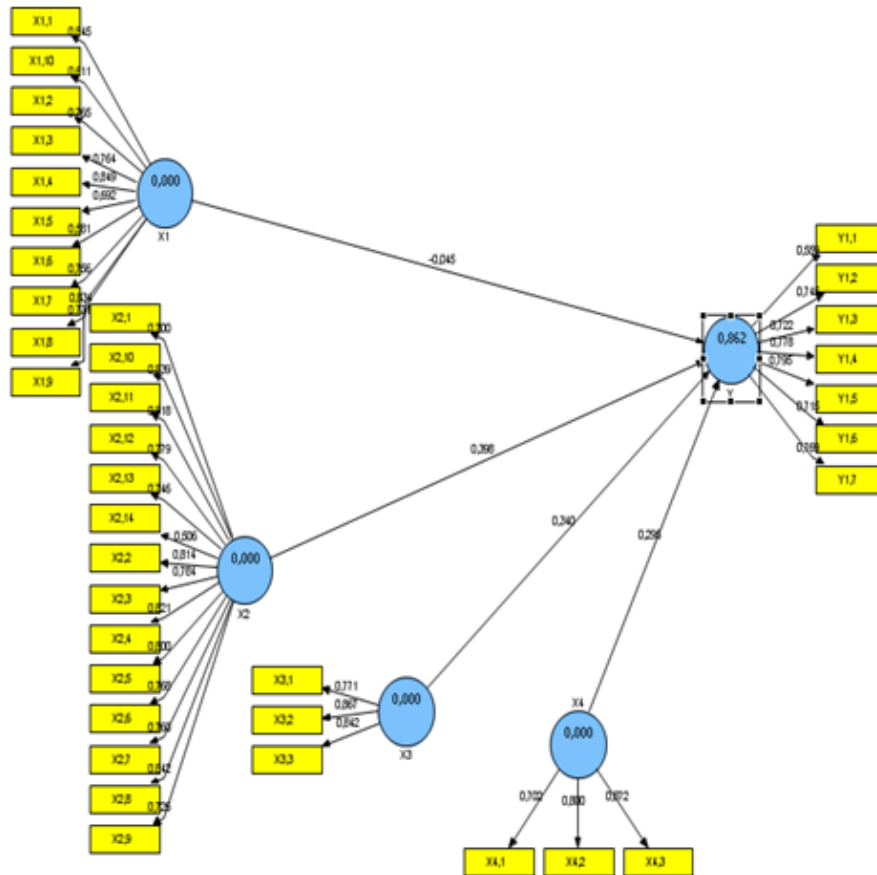


Figure 1. SMEs Partial Least Square (PLS) Analysis

Tabel 2. The result of SEM Partial Least Square (PLS)

Variables	Regression		
	Coefficient	t-value	t-table
Corporate governance (X <sub>1</sub> ) -> Competitive advantage (Y)	-0,0450	0,6942	1,980
Product innovation (X <sub>2</sub> ) -> Competitive advantage (Y)	0,3960	4,0546	1,980
The use of IT-Digitalization (X <sub>3</sub> ) -> Competitive advantage (Y)	0,3400	2,5584	1,980
Management control effectiveness (X <sub>4</sub> ) -> Competitive	0,2960	2,2259	1,980

N: 55

Source: Data processed 2021, Partial Least Square (PLS), 2021.

In Table 2 here is the result of the SEM Partial Least Square (PLS), which shows the influence of governance (X<sub>1</sub>), product innovation (X<sub>2</sub>), and the use of digitalization-based Information Technology (X<sub>3</sub>), and the effectiveness of management control (X<sub>4</sub>) on the competitive advantage of SMEs (Y).

*Testing the Effect of Corporate Governance on the Competitive Advantage of SMEs*

According to the result of SEM Partial Least Square (PLS) calculation, the t-count value (0.6942) < t-table (1.980), it can be concluded that the governance variable (X1) has no significant effect on competitive advantage (Y). According to the result of the research test in Table 4.5, it shows that there is no influence of governance on competitive advantage. These results prove that good or bad governance in SMEs cannot describe the good or bad competitive advantage. This can be caused due to the results of competitive advantage are determined by the successful implementation of the SME governance.

*Testing the Effect of Product Innovation on Competitive Advantage*

Based on the results of SEM Partial Least Square (PLS) data processing, the t-count value (4.0546) > t-table (1.980), it is concluded that the product innovation variable (X2) has a significant effect on competitive advantage (Y).

This means that product innovation has a significant effect on competitive advantage. The data show that product innovation has a positive contribution to competitive advantage. This indicates that the better the product innovation provided by an organization, the better the competitive advantage of SMEs. The shift in the era of product innovation in organizations will increase the competitive advantage of SMEs.

*Testing the Effect of Using Digitalization-Based Information Technology on Competitive Advantage*

Based on the results of SEM Partial Least Square (PLS) data processing, it is obtained that the t-count value (2.5584) > t-table (1.980), it can be concluded that the use of digitization-based Information Technology (X3) has a significant effect on Competitive Advantage (Y).

These results indicate that the higher the level of the use of Information Technology, the higher the Student's Academic Environmental Performance. These results prove that there is a positive influence on the use of digitization-based Information Technology on Competitive Advantage. These data indicate that the use of digitization-based Information Technology has a positive contribution to competitive advantage. This shows that the better use of digitization-based information technology will be followed by increasing the competitive advantage of SMEs.

*The testing of the Effect of Management Control Effectiveness on Competitive Advantage*

Based on the results of SEM Partial Least Square (PLS) data processing, the t-count value (2.2259) > t-table (1.980), it is concluded that the variable of Management Control Effectiveness (X4) has a significant effect on competitive advantage (Y). This means that product innovation is significantly influential on competitive advantage. These data indicate that the Effectiveness of Management Controls is a positive contribution to competitive advantage. This shows that the better the Effectiveness of Management Control provided by an organization, the better the efficiency and cost-effectiveness will also be and will encourage the competitive advantage of SMEs in the credit industry in Yogyakarta.

**CONCLUSION AND FURTHER RESEARCH****Conclusions**

Based on the results of this research data analysis, it can be concluded that:

1. SMEs Governance has no significant effect on the competitive advantage of SMEs. This research supports the statement of Palupi et al. (2013) conducted on small and medium-scale businesses. Further, it does not support the findings of Nurdin (2015) and Josephin (2000).

2. Product innovation, the Use of digitalization-based Information Technology, and the effectiveness of management control have a positive effect on Competitive advantage. The dominant variable is product innovation, while the lowest variable in which its effect on Competitive advantage is the effectiveness of management control.

### **Recommendations**

Based on the conclusions, here are some recommendations that can be considered. SMEs governance has not contributed much to competitive advantage. Likewise, the effectiveness of management control is still low in its influence on competitive advantage. This finding shows that if management governance is getting better, it will be followed by an increase in the effectiveness of management control which will, directly and indirectly, increase competitive advantage. To achieve good governance results, it is necessary to develop business management processes to achieve competitive advantages

### **Limitations and Contributions**

This research is still considered to have limitations because it only examines the role of corporate governance, SMEs, product innovation, the use of information technology based on business digitalization, and the effectiveness of management control on their influences on competitive advantage. The findings of this research are that MSMEs governance has not contributed well to competitive advantage. Likewise, the effectiveness of management control is still low. Therefore, other factors that have not been investigated in this research need to be conducted in another research or service to SMEs in the form of "entrepreneurship competency training" education to support corporate governance and management control in time of the pandemic.

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