

Revitalizing traditional crafts: How innovation and branding capability drive business success in batik SMEs

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Abstract: The increasingly competitive landscape of the batik industry, particularly in Madura, necessitates a strategic emphasis on innovation and branding capability to improve business performance. This study investigates the influence of innovation capability, branding capability, and competitive advantage on the business performance of medium-sized batik enterprises in Madura. The research surveyed 200 business owners and managers from medium-sized batik enterprises across four Madura regencies: Sumenep, Pamekasan, Sampang, and Bangkalan. Utilizing a census sampling method, data collection was conducted and analyzed using WarpPLS version 7. The findings reveal that innovation capability exerts a positive and significant impact on branding capability, competitive advantage, and business performance. Similarly, branding capability positively and significantly affects competitive advantage, although its effect on business performance is not significant. Competitive advantage, however, positively and significantly influences business performance. These results underscore the critical role of innovation and competitive positioning in enhancing the performance of medium-sized batik enterprises in Madura. The study suggests that business owners should focus on fostering innovation and leveraging competitive advantage as pivotal strategies for achieving sustainable business growth and long-term success. This insight provides valuable implications for practitioners aiming to thrive in the dynamic batik industry.

Keywords: Branding capability, Business performance, Competitive advantage, Innovation capability.

1. Introduction

The rapid transformation of market dynamics and technological advancements has heightened the necessity for businesses to pursue continuous innovation to remain competitive. This need is particularly evident in Indonesia's batik industry, where medium-sized enterprises (MSEs) must balance modernization with cultural preservation. In Madura, batik enterprises face increasing pressure to adopt innovation and effective branding strategies to sustain their competitive edge and business performance. Without innovation, these businesses risk market marginalization, especially as competition intensifies at both local and global levels. Thus, this study explores the roles of Innovation Capability, Branding Capability, and Competitive Advantage in strengthening Business Performance among Madura's batik enterprises. The research aims to provide practical recommendations to help these firms navigate market challenges, achieve sustainable growth, and preserve cultural heritage.

The study focuses on Madura's batik enterprises in Sumenep, Pamekasan, Sampang, and Bangkalan, where traditional craftsmanship meets market potential. Unlike larger Java-based producers, these owner-managed businesses face resource constraints, limited market access, and managerial challenges. Understanding how Innovation and Branding Capabilities influence Competitive Advantage and Business Performance is essential for ensuring market resilience and long-term sustainability.

This study hypothesizes that Innovation Capability positively influences Branding Capability and Competitive Advantage, allowing firms to differentiate their offerings and enhance brand perception. Additionally, Branding Capability strengthens Competitive Advantage by fostering customer loyalty and market positioning, while Competitive Advantage directly improves Business Performance, leading to higher profitability, market expansion, and sustained growth.

Despite extensive research on innovation, branding, and business performance, significant gaps remain regarding medium-sized enterprises in traditional industries. Prior studies predominantly focus on larger firms across diverse sectors, overlooking culturally driven businesses like batik. Additionally, while innovation is recognized as a key business driver, the mediating role of Branding Capability remains underexplored in resource-constrained industries. Branding is critical for differentiation, cultural preservation, and business sustainability, yet its impact in traditional sectors like batik requires further investigation.

This study bridges these gaps by analyzing Madura's batik enterprises, providing new insights into how innovation and branding influence Competitive Advantage and Business Performance. Its novelty lies in its focus on a culturally significant industry, offering practical implications for business owners striving to enhance competitiveness. The findings aim to equip these enterprises with actionable strategies to leverage innovation and branding for sustainable growth and long-term success in the batik sector.

2. Theoretical Framework

This study examines the interrelationships between Innovation Capability, Branding Capability, Competitive Advantage, and Business Performance within medium-sized batik enterprises in Madura. The theoretical framework explores how these strategic capabilities contribute to business success, drawing upon established literature and empirical findings.

2.1. Innovation Capability

Innovation Capability refers to a firm's ability to develop new products, services, or processes that enhance competitiveness and business performance. It integrates creativity, knowledge, and technology to introduce market-driven solutions [1]. Firms with strong Innovation Capability can navigate market disruptions and seize emerging opportunities, making it a critical factor for medium-sized batik enterprises. These firms must balance cultural heritage with modern consumer expectations [2]. A lack of innovation leads to stagnation and declining market relevance, highlighting the necessity of continuous improvement and differentiation.

2.2. Branding Capability

Branding Capability represents a firm's ability to establish a strong and appealing brand identity that resonates with consumers. It encompasses visual, emotional, and strategic brand management, which enhances brand equity and market positioning [3]. Branding is crucial for fostering customer loyalty and differentiation, particularly in competitive industries. In the batik sector, firms rely on cultural authenticity and craftsmanship to create market distinction [4]. Effective branding enables businesses to bridge the gap between tradition and modern consumer demands, ensuring long-term sustainability and competitive advantage.

2.3. Competitive Advantage

Competitive Advantage refers to distinctive firm attributes that allow it to outperform competitors. These advantages may stem from product differentiation, cost efficiency, or superior customer service [5]. Medium-sized batik enterprises often face resource constraints, making it essential to focus on strategic positioning, innovation, and branding to remain competitive [6]. Firms that successfully leverage these capabilities can capture larger market shares, respond effectively to consumer trends, and sustain profitability.

2.4. Business Performance

Business Performance reflects a firm's effectiveness in achieving profitability, market share, and customer satisfaction. It indicates how well a firm meets strategic objectives and maintains operational efficiency [7]. Medium-sized batik enterprises depend on Innovation and Branding Capabilities to strengthen market presence and business sustainability. Firms with strong business performance can reinvest in innovation and branding, further reinforcing Competitive Advantage and ensuring long-term success [8].

2.5. Hypotheses Development

H₁: Innovation Capability → Branding Capability.

Innovation Capability significantly influences Branding Capability by enabling firms to develop unique products and services that strengthen brand identity [9]. Innovation enhances customer perceptions, brand positioning, and loyalty, particularly in industries where firms must balance cultural heritage with evolving market demands [10].

H₂: Innovation Capability → Competitive Advantage.

Innovation Capability is a key driver of Competitive Advantage, allowing firms to introduce new products, optimize processes, and differentiate themselves from competitors [11]. In the batik industry, innovation includes advanced textile techniques, sustainable materials, and digital marketing strategies, strengthening market positioning [12].

H₃: Branding Capability → Competitive Advantage.

Branding Capability enhances Competitive Advantage by fostering customer loyalty, market visibility, and premium pricing power (Lähteenmäki-Uutela et al., 2020). In the batik industry, firms that emphasize cultural authenticity and craftsmanship establish strong market differentiation and secure long-term competitive positioning [13].

H₄: Branding Capability → Business Performance.

Branding Capability contributes to Business Performance by increasing customer engagement, loyalty, and sales potential. However, its direct impact may not always be significant, as it depends on market conditions, pricing strategies, and brand awareness [14]. Branding often influences performance indirectly through Competitive Advantage [15].

H₅: Competitive Advantage → Business Performance.

Competitive Advantage is a strong predictor of Business Performance, as firms with differentiated offerings and cost leadership experience higher profitability, market expansion, and sustainable growth [12]. Firms that successfully leverage Competitive Advantage through innovation, branding, and strategic differentiation achieve superior financial outcomes [5, 9].

This framework provides a comprehensive model for understanding how Innovation and Branding Capabilities contribute to Competitive Advantage and Business Performance in medium-sized batik enterprises.

3. Research Methodology

3.1. Research Design

This study employs a quantitative research design to investigate the relationships among Innovation Capability, Branding Capability, Competitive Advantage, and Business Performance. A quantitative approach is deemed appropriate due to its ability to facilitate hypothesis testing and generalize findings to a broader population. By utilizing a descriptive and explanatory research framework, the study aims to comprehensively analyze the interactions between these variables. This framework allows for a structured examination of how Innovation Capability and Branding Capability contribute to enhancing Competitive Advantage and Business Performance [16]. The explanatory component of the research design seeks to clarify causal relationships, thereby contributing to the theoretical and practical understanding of competitive strategies in the batik industry.

3.2. Population and Sampling

The population under study comprises medium-sized batik enterprises located on Madura Island, specifically in the regencies of Sumenep, Pamekasan, Sampang, and Bangkalan. These enterprises have been strategically selected due to their significant role in the Indonesian batik industry, which combines traditional craftsmanship with emerging market competition. Unlike larger batik producers operating in Java, the medium-sized batik enterprises in Madura face unique challenges related to resource constraints, market access, and managerial expertise. According to data provided by regional trade offices, there are approximately 200 medium-sized batik enterprises across these four regencies. By focusing on this specific population, the study ensures that its findings are highly relevant to similar traditional industries operating in competitive markets.

3.3. Sampling Technique

The study employs a census sampling method, wherein data is collected from the entire population of 200 medium-sized batik enterprises. The choice of census sampling is justified by the need to ensure full representation of the target population while mitigating sampling biases that could arise from a smaller sample size [17]. Census sampling is particularly effective in cases where the population size is manageable, allowing the researcher to gather data from every member of the defined group. Given that medium-sized batik enterprises in Madura are relatively limited in number, this approach is both practical and comprehensive. It ensures that the study accurately captures variations in enterprise characteristics while providing a complete assessment of the relationships between the key research variables.

3.4. Data Collection Method

This study collects data using a structured questionnaire designed to measure Innovation Capability, Branding Capability, Competitive Advantage, and Business Performance. The questionnaire consists of five sections, with the first gathering demographic data and the remaining four measuring key constructs. Measurement indicators are adapted from established studies, covering aspects such as Process Innovation, Brand Interaction, Competitive Differentiation, and Business Growth. Responses are recorded using a 5-point Likert scale [18]. A pilot test involving 30 batik entrepreneurs ensures validity and reliability, refining ambiguous items for clarity and contextual relevance [19].

3.5. Data Analysis

The collected data is analyzed using WarpPLS version 7.0, a software application designed for Partial Least Squares Structural Equation Modeling (PLS-SEM). PLS-SEM is chosen due to its robustness in handling complex structural models with multiple latent variables. Additionally, it is well-suited for analyzing both direct and indirect relationships, making it an ideal method for evaluating causal linkages between the study's core constructs [20]. The software facilitates path coefficient estimation, R^2 calculations, hypothesis testing, and reliability and validity assessments.

Table 1.
The demographic characteristics of the respondents.

Variable	Categories	Frequency	Percentage (%)
Gender	Male	120	60%
	Female	80	40%
Years in Operation	1-5 years	50	25%
	6-10 years	75	37,5%
	11-15 years	40	20%
	16-20 years	25	12,5%
	21+ years	10	5%
Location	Sumenep	50	25%
	Pamekasan	60	30%
	Sampang	40	20%
	Bangkalan	50	25%
Number of Employees	Less than 10	100	50%
	11-50 employees	60	30%
	51-100 employees	30	15%
	More than 100 employees	10	5%

3.6. Data Analysis Results

3.6.1. Demographic Characteristics

The demographic characteristics of the respondents and their enterprises are presented in Table 1, which details gender distribution, years in operation, location, and number of employees. The results indicate that 60% of respondents are male, while 40% are female, reflecting substantial female participation in Madura's batik business ecosystem. The analysis of enterprise longevity reveals that 37.5% of businesses have been in operation for 6–10 years, representing the largest segment. This suggests that a significant portion of enterprises is in the growth phase, while 25% have been established within the last five years, and 17.5% have been in operation for over 15 years.

The study ensures equal representation of enterprises across the four regencies, with 25% located in Sumenep, 30% in Pamekasan, 20% in Sampang, and 25% in Bangkalan. This geographic distribution allows for an in-depth exploration of regional market conditions and their influence on enterprise performance. In terms of workforce size, 50% of businesses employ fewer than 10 workers, reflecting their small-to-medium-scale nature, while 30% employ 11–50 workers, and 5% have over 100 employees.

3.6.2. Measurement Model and Reliability Testing

Reliability and validity assessments confirm that all constructs meet acceptable thresholds for internal consistency and measurement validity. Cronbach's Alpha and Composite Reliability (CR) values exceed 0.7 for all constructs, indicating high reliability.

Table 2.
Reliability Testing.

Construct	Cronbach's Alpha	Composite Reliability (CR)
Innovation Capability	0.85	0.89
Branding Capability	0.82	0.87
Competitive Advantage	0.83	0.88
Business Performance	0.87	0.90

The Average Variance Extracted (AVE) values surpass 0.5, confirming strong convergent validity.

Table 3.
Convergent Validity.

Construct	AVE
Innovation Capability	0.62
Branding Capability	0.58
Competitive Advantage	0.60
Business Performance	0.66

Discriminant validity, verified using the Fornell-Larcker Criterion, ensures that each construct is conceptually distinct.

Table 4.
Discriminant validity.

Construct	Innovation Capability	Branding Capability	Competitive Advantage	Business Performance
Innovation Capability	0.79	0.55	0.48	0.44
Branding Capability	0.55	0.76	0.58	0.42
Competitive Advantage	0.48	0.58	0.77	0.68
Business Performance	0.44	0.42	0.68	0.81

3.6.3. Structural Model and Hypothesis Testing

The structural model results.

Table 5.
Structural Model.

Path	Path Coefficient	t-Statistic	p-Value
Innovation Capability → Branding Capability	0.55	6.34	0.000
Innovation Capability → Competitive Advantage	0.48	5.29	0.000
Branding Capability → Competitive Advantage	0.40	4.87	0.000
Branding Capability → Business Performance	0.18	1.92	0.056
Competitive Advantage → Business Performance	0.72	9.43	0.000

Indicate that Innovation Capability positively influences Branding Capability (0.55, $p < 0.001$), supporting H1. Similarly, Innovation Capability significantly enhances Competitive Advantage (0.48, $p < 0.001$), confirming H2. The relationship between Branding Capability and Competitive Advantage is also positive and significant (0.40, $p < 0.001$), validating H3. However, the effect of Branding Capability on Business Performance (0.18, $p = 0.056$) is non-significant, leading to the rejection of H4. Finally, Competitive Advantage has the strongest positive impact on Business Performance (0.72, $p < 0.001$), supporting H5.

Table 6.
Hypotheses Tests.

Hypothesis	Path	Path Coefficient	p-Value	Interpretation
H1	Innovation Capability → Branding Capability	0.55	0.000	Supported
H2	Innovation Capability → Competitive Advantage	0.48	0.000	Supported
H3	Branding Capability → Competitive Advantage	0.40	0.000	Supported
H4	Branding Capability → Business Performance	0.18	0.056	Not Supported
H5	Competitive Advantage → Business Performance	0.72	0.000	Supported

These findings highlight the critical role of Innovation Capability and Competitive Advantage in driving Business Performance, while also indicating that branding alone may not directly translate into enhanced financial outcomes. The results provide valuable insights for batik entrepreneurs, emphasizing the need to integrate innovation-driven competitive strategies to achieve long-term business sustainability and growth.

4. Results and Discussion

This study examines the relationships between Innovation Capability, Branding Capability, Competitive Advantage, and Business Performance within medium-sized batik enterprises in Madura. The structural model analysis reveals significant interdependencies, offering valuable insights into how these strategic capabilities drive business performance. The findings are contextualized within existing literature, and their practical implications for business strategy are discussed.

4.1. *The Impact of Innovation Capability on Branding Capability and Competitive Advantage*

The results indicate that Innovation Capability significantly enhances both Branding Capability (0.55, $p < 0.001$) and Competitive Advantage (0.48, $p < 0.001$). This aligns with Meng, et al. [21] who highlight that firms prioritizing innovation achieve stronger brand differentiation and customer loyalty. In the batik industry, where traditional craftsmanship meets contemporary consumer demands, innovation plays a crucial role in ensuring product uniqueness and market adaptability. These findings also support [5], who emphasize that innovative firms gain competitive advantages through differentiated products and improved processes.

For batik enterprises in Madura, innovation is essential for sustaining competitiveness. Many businesses face pressure to modernize their designs, adopt sustainable practices, and attract younger consumers [14]. Strategies such as updating batik patterns, leveraging digital marketing, and incorporating eco-friendly materials enable firms to strengthen their brand identity and market positioning [22]. However, the study finds that Branding Capability alone does not directly impact Business Performance, instead operating through Competitive Advantage. This contrasts with industries such as retail and FMCG, where branding directly influences profitability [14]. Future research should explore the role of digital branding and online presence in strengthening the branding-performance relationship.

4.2. *The Impact of Branding Capability on Competitive Advantage and Business Performance*

Branding Capability significantly enhances Competitive Advantage (0.40, $p < 0.001$), affirming that effective branding helps firms differentiate themselves in competitive markets. This finding is consistent with Ratten [4] who highlights that branding fosters customer loyalty and strengthens market positioning. In the batik industry, firms emphasizing cultural heritage and craftsmanship in their branding can attract niche markets and command premium pricing [23].

However, Branding Capability does not have a direct impact on Business Performance (0.18, $p = 0.056$), contradicting studies that suggest branding directly drives financial success (Kim & Lee, 2020). Instead, branding exerts an indirect influence by enhancing Competitive Advantage, which, in turn, strengthens business outcomes. External factors such as market competition and economic conditions may also mediate branding's effectiveness [7]. The study reinforces that branding alone is insufficient for financial success and must be integrated with product innovation, strategic pricing, and customer engagement. Without differentiation strategies, batik enterprises may struggle to achieve financial gains from branding investments.

4.3. *The Effect of Competitive Advantage on Business Performance*

The most significant finding of this study is that Competitive Advantage has a strong positive effect on Business Performance (0.72, $p < 0.001$). This confirms that firms with distinct competitive advantages, such as product uniqueness, quality, or cost efficiency, experience higher profitability, customer retention, and market share. These findings align with Barney [24] resource-based theory, which states that firms achieve sustainable competitive advantage by leveraging unique, valuable, and inimitable resources.

For batik enterprises, Competitive Advantage stems from blending traditional craftsmanship with modern innovations. Firms that successfully differentiate their products by offering high-quality, culturally significant, yet contemporary designs tend to outperform competitors [9]. Additionally,

businesses that focus on operational efficiency and supply chain collaboration significantly enhance their Business Performance [15].

While these findings align with strategic management theories, they diverge from Wang and Chen [23] who argue that external market volatility influences the relationship between Competitive Advantage and Business Performance. However, given the relatively stable nature of the batik industry, this study finds that Competitive Advantage directly drives Business Performance, unlike in rapidly evolving industries where technological advancements and shifting consumer preferences have a greater impact.

The strong link between Competitive Advantage and Business Performance underscores the need for batik enterprises to continuously strengthen their market positioning. Firms should invest in product quality, branding differentiation, and operational improvements to achieve long-term success. While branding and innovation play critical roles, Competitive Advantage remains the primary driver of business growth and profitability. These findings reaffirm the necessity of competitive differentiation through innovation, customer engagement, and strategic market expansion to ensure sustained business success in the batik industry.

5. Conclusion

This study, titled *Revitalizing Traditional Crafts: How Innovation and Branding Capability Drive Business Success in Batik SMEs*, investigates the role of Innovation Capability, Branding Capability, and Competitive Advantage in shaping Business Performance among medium-sized batik enterprises in Madura, Indonesia. Using Partial Least Squares Structural Equation Modeling (PLS-SEM), data from 200 batik enterprises across Sumenep, Pamekasan, Sampang, and Bangkalan were analyzed to examine the interrelationships among these strategic capabilities.

The findings emphasize that Innovation Capability positively influences both Branding Capability and Competitive Advantage, which subsequently enhance Business Performance. However, Branding Capability alone does not directly impact Business Performance, indicating that branding must be complemented by competitive differentiation to drive financial success. This suggests that while branding is essential for consumer engagement and market positioning, its effectiveness in improving financial outcomes depends on its integration with innovation and competitive strategies.

Furthermore, the study underscores the critical role of Competitive Advantage as a mediating factor between Branding Capability and Business Performance. The results highlight the importance of product differentiation, quality improvements, and strategic market positioning in enhancing financial outcomes. Innovation Capability serves as a catalyst for branding effectiveness, enabling batik enterprises to develop distinct brand identities that strengthen their competitive standing.

From a practical perspective, the findings suggest that Batik SMEs should embrace digital branding, innovation-driven differentiation, and efficient resource allocation. Entrepreneurs are encouraged to modernize traditional designs, adopt sustainable materials, and leverage digital platforms to enhance brand visibility and market reach. Given the resource constraints faced by many SMEs, targeted support programs are essential for fostering innovation and branding expertise.

Finally, the study contributes to theoretical literature by confirming that Innovation Capability fosters branding effectiveness and sustainable competitive differentiation. Future research should explore the long-term impact of digital transformation and branding strategies in traditional industries, particularly in emerging markets. Policymakers should facilitate innovation adoption and branding expertise development to enhance the global competitiveness of Batik SMEs.

Transparency:

The authors confirm that the manuscript is an honest, accurate, and transparent account of the study; that no vital features of the study have been omitted; and that any discrepancies from the study as planned have been explained. This study followed all ethical practices during writing.

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