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# Market Forces, Dynamic Capabilities, and SME Performance: Testing the Mediating Role of Competitive Strategy in Indonesian Processed Food SMEs

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**Abstract.** This research looks at how market forces and dynamic capabilities affect the performance of small and medium-sized enterprises (SMEs) in the processed food industry in Tasikmalaya, Indonesia. It also checks if advantage strategy and strategic partnership programs act as mediators between external and internal factors and how they influence business performance. The study used a quantitative method, collecting data from 378 owners and managers out of a total of 4,459 processed food SMEs using the Slovin technical sampling method. The tools used to measure different concepts were based on existing theories and were rated on a five-point Likert scale. The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The measurement part of the study shows good reliability and convergent validity, with all the concepts meeting the standard levels for indicator loadings, composite reliability, and average variance extracted. While the overall model fits well, the structural part shows that none of the proposed direct or indirect relationships are statistically significant at the 5% level. In other words, market forces and dynamic capabilities do not have a significant impact on SME performance, either directly or through advantage strategy and strategic partnerships. These results indicate that, for resource-limited processed food SMEs, formal strategic approaches and partnerships might not be effective in turning external pressures and internal strengths into better performance. The study adds to the knowledge on strategic management and SMEs by showing the limitations of traditional strategy-performance links in developing markets and traditional industries. It emphasizes the need for more context-aware frameworks when studying SME competitiveness.

**Keywords:** advantages strategy, dynamic capability, market forces, performance, SME's

# 1. Introduction

Small and Medium Enterprises (SMEs) play a crucial role in the national economy by creating jobs, distributing income, and empowering local communities (Wardaya et al., 2019). SMEs often encounter various internal and external challenges, particularly in accessing capital, adopting technology, improving human resources, developing products, and expanding market reach (Quinton et al., 2018). In Tasikmalaya City, the growth of industrial SMEs over recent years has not mirrored their contribution to regional GDP, highlighting an empirical gap. The processed food SMEs involves making and moving food items that have gone through changes like physical treatment, chemical changes, or methods to keep them safe and fresh for longer (Hugo, 2024). These changes help make the food easier to use, safer to eat, and more valuable in the market. While the number of enterprises has increased steadily, this growth has not led to proportional improvements in industrial value-added performance, indicating that business performance remains a critical issue.

In today's fast-paced and globally connected markets, industries are experiencing major changes because of new technologies and quickly changing customer needs (Prihandono et al., 2024). As a result, businesses must use new and creative strategies (Hosseinian Dastjerdi & Tumer, 2024), from general ways to compete to more unique methods that give them an edge, to keep and grow their position in the market (Rêgo et al., 2022). In this situation, the dynamic capabilities framework has become a key idea in strategic management (Guenduez & Mergel, 2022). It shows how companies identify opportunities, take advantage of them, and change their business models when environments shift rapidly (Teece, 2018). Dynamic capabilities allow organizations to build, grow, and adjust their resources (Khurana et al., 2022), making this framework especially useful for understanding how companies adapt and stay competitive during the digital transformation era (Prihandono et al., 2024). Market dynamics such as competition, buyer power, supplier pressure, and alternatives are recognized to influence strategic decisions (Brodny & Tutak, 2022).

A review of existing research shows there is a significant gap in understanding: few studies have explored the connection between SME performance (Chung et al., 2024; Hang et al., 2022; Karami et al., 2023), strategic advantage (Ihsan, 2025; Wang et al., 2021)dynamic capabilities (Khurana et al., 2022; Mandal et al., 2017), and market force (Kilic & Aytac, 2024; Ndzabukelwako et al., 2024), especially when looking at local industrial SMEs. Earlier work has emphasized the role of unique resources and global trends, but it has not closely examined how strategic advantage and dynamic capabilities work together to improve SME performance within specific regions. Some studies show that strong market demands encourage innovation and efficiency, hence enhancing performance, while others show that SMEs frequently lack the means to adapt effectively, resulting in weak or insignificant results (Ates & Acur, 2022). This also points to a missing piece in theory, as current ideas about strategic management (Joshi & Subedi, 2024), competitive advantage (Chen et al., 2024), and organizational performance need to be adapted to better fit the particular features and challenges (Thapa, 2025), faced by local SMEs. To address this, this study looks at SME performance through the combined perspective of strategic advantage and dynamic capabilities, with the goal of creating a strategy model that boosts the competitiveness of industrial SMEs in Tasikmalaya City. This study aims to develop and validate an integrated model that explains how internal and external environments influence strategy and, in turn, shape the performance of processed-food small and medium enterprises (SMEs) in Tasikmalaya City.

# 2. Literature Review

## 2.1. Market forces

Market forces are the external factors that directly affect how businesses compete and generate value, and they are especially important for small and medium-sized enterprises (SMEs) that operate in fast-changing and resource-limited environments (Surya et al., 2021). Porter's Five Forces approach

examines industry competitiveness and its impact on small and medium-sized businesses (SMEs) (Kilic & Aytac, 2024). Industry rivalry and buyer power appear as the most powerful drivers, squeezing SMEs through price competitiveness and desire for lower costs, particularly in the retail and telecom sectors (Čović et al., 2024; Porter, 1985). High competition frequently reduces profit margins through price wars and resource restrictions, making adaptation critical for survival (Rahayu et al., 2025). Factors like how competitive the market is, changes in what customers want (Yahaya & Nadarajah, 2023), how much power suppliers have (Oduro & Mensah-williams, 2023), new competitors entering the market (Sutherland, 2014), and the availability of alternative products all impact an SME's ability to stay profitable and remain relevant (Padi et al., 2022). Since SMEs usually have less money, technology, and management resources, they are more affected by market changes compared to bigger companies (Quinton et al., 2018). By understanding these market forces, SMEs can predict changes, modify their strategies, improve their products, and boost their competitiveness, helping them grow sustainably and perform better in the long run (Ndzabukelwako et al., 2024).

## 2.2. Dynamic Capabilities

Dynamic capabilities mean a company's ability to notice new chances and dangers, act quickly with smart plans, and change its resources to stay competitive when things change fast (Heubeck, 2023). For small and medium-sized businesses, which usually have less money, technology, and people, having good dynamic capabilities is very important for being flexible and surviving over time (Huang & Ichikohji, 2024). By improving their ability to sense, these businesses can spot changes in what customers want (Mehek, 2020), new market trends (Juju et al., 2025), and new technologies (Permata et al., 2025). With good seizing abilities, they can use their resources to create new products (Hosseinian Dastjerdi & Tumer, 2024), improve how they work (Lawal & Oguns, 2025), or go into new markets (Sciarelli, 2012). Reconfiguring abilities let them change how their company is organized, work with others, and how they run their business to keep staying competitive (Åberg & Torchia, 2020). In fast-changing markets, SMEs that have strong dynamic capabilities are more likely to handle uncertain situations, take advantage of new opportunities, and make their business perform better overall (Dejardin et al., 2023).

## 2.3. Advantages Strategy

An advantage strategy is a plan of actions and decisions that companies use to gain and keep a competitive position in their industry (Kadhim et al., 2018; Sulistyo, 2022). For small and medium-sized businesses, having a good advantage strategy is important because it helps them stand out even when they have fewer resources and face strong competition ('Aliyah & Wahyuni, 2024). These strategies can involve being more cost-effective (Callaway & Jagani, 2015), offering unique products or services (Wu et al., 2019), coming up with new ideas (Ko et al., 2020), improving quality (Cai, 2023), building closer relationships with customers (Lee & Trim, 2006), or focusing on a specific market (Meyer & Peter, 2024). Choosing and carrying out the right advantage strategy allows SMEs to make their offerings more valuable, draw in and keep customers, and run their operations more efficiently (Ginsberg & Bloom, 2004). In fast-changing and unpredictable markets, a strong advantage strategy helps SMEs act quickly in response to changes (Prihandono et al., 2024), take advantage of new chances (Saarikko et al., 2020), and boost their business results and ability to stay around for the long term ('Aliyah & Wahyuni, 2024).

## 2.4. MSME's Performance

MSMEs' performance means how well micro, small, and medium businesses reach their goals in both money-related and other important areas (Ndzabukelwako et al., 2024). This includes things like how much sales are growing (Dutot & Bergeron, 2016), how profitable they are (Löfsten, 2014), their share

of the market (Huo & Li, 2022), how productive they are (Tjahjadi et al., 2022), the quality of their products (Cai, 2023), how happy their customers are (Chandler et al., 2021), and whether their business can keep going long-term (Chatra et al., 2024). For MSMEs, how well they do depend a lot on how well they use their resources, react to changes in the market, bring in new ideas, and run their business and operations effectively (Muduli et al., 2020). Because they have less money, technology, and people, they need to make the most of what they have while dealing with challenges from outside (Quinton et al., 2018). When MSMEs perform well, it helps them stay in business and grow, and it also helps the economy by creating jobs, adding value, and making the local economy stronger.

**The Relationship Between Market Forces and Advantage Strategy**

Market forces like competition, power of suppliers, what buyers want, and the risk of alternative products affect how companies in the processed food industry create strategies to gain an edge. To deal with these challenges and keep making money, companies use Porter's main strategies, being the lowest cost, offering something unique, or focusing on a specific group. In this industry, strong competition pushes companies to keep improving their products and how efficiently they operate to hold onto their place in the market (Wood et al., 2021). The connection between market forces and advantage strategy is well recognized in strategic management studies. Competitive pressure, customer preferences, and changes in the industry often push companies to follow either innovation or cost-focused strategies (Kadhim et al., 2018). Many studies show that strong market forces can encourage firms, especially small and medium-sized businesses, to choose strategies like innovation, differentiation, or cost leadership in order to stay competitive (Lai, 2016; Porter, 1980). Some findings suggest that market forces might not have a big impact on how firms decide their strategies, pointing to factors like internal skills, limited resources, or management styles as more important in shaping strategic decisions, especially for smaller businesses with fewer resources (Seddaoui, 2025).

**The Relationship Between Dynamic Capabilities and Advantage Strategy**

Dynamic capabilities allow processed food companies to adjust their strategies to gain a competitive edge in changing markets. These capabilities help them spot new opportunities, take advantage of them by using available resources, and change their operations as needed. This enables them to stay unique or offer products at a lower cost, even when dealing with things like changing raw material prices and new rules from regulators (Harun et al., 2023). The link between dynamic capabilities and strategic advantage is well known in strategic management research. Companies that have strong abilities to sense changes, seize new opportunities, and reconfigure their resources are usually better at developing and carrying out strategies based on innovation or differentiation (Kadhim et al., 2018; Woerner et al., 2021). Many studies show that dynamic capabilities help firms adapt their resources, improve their processes, and take advantage of new opportunities to gain a competitive edge (Teece, 2018). These capabilities are key in supporting firms to pursue different types of innovation, such as incremental, radical, architectural, and disruptive, which are central to achieving strategic advantage (Heubeck & Meckl, 2022). Some research also shows that dynamic capabilities don’t always lead to strategic advantage, especially for small and medium-sized enterprises that may face financial issues, lack skilled management, or have limited ability to absorb and use new knowledge, which makes it harder for them to turn these capabilities into real strategic actions (Dejardin et al., 2023; Saputra et al., 2024).

**The Relationship Between Advantage Strategy and MSME’S Performance**

Competitive advantage strategies greatly improve the performance of small and medium-sized businesses in the processed food industry by boosting sales, increasing efficiency, and strengthening their position in the market, especially when there is a lot of competition. These strategies help connect different approaches like entrepreneurial and market-oriented thinking to better results such as higher profits and business growth (Sudirman et al., 2024). The relationship between advantage strategy and MSMEs’ performance is widely supported in strategic management literature, where cost leadership,

differentiation, and innovation-based strategies are shown to enhance both financial and non-financial outcomes (Surapto & Handayani, 2023). Empirical evidence indicates that MSMEs adopting clear advantage strategies—such as incremental or radical innovation, superior product quality, or efficient cost structures—tend to achieve higher profitability, better customer satisfaction, and stronger operational performance (Porter, 1985; Rêgo et al., 2022). Innovation-oriented strategies, in particular, have been found to significantly improve the growth and competitiveness of small firms operating in dynamic markets (Kraus et al., 2023). Some studies report non-significant or inconsistent effects, arguing that resource constraints, managerial limitations, and environmental uncertainty may hinder MSMEs from fully translating strategic initiatives into measurable performance improvements (Fatchuroji et al., 2024; Maulani, 2022).
(Agus et al., 2023)

**The Relationship Between Market Forces to MSME'S Performance Through Advantage Strategy**

Market factors have a substantial impact on MSME performance in the processed industry by driving enterprises to adopt competitive tactics like as cost leadership, differentiation, and lean operations, which moderate this link. These techniques help MSMEs negotiate competition, supply chain turbulence, and consumer needs successfully. Empirical studies emphasize dynamic capacities and market orientation as major enablers (Agus et al., 2023). The connection between market forces and the performance of small and medium-sized businesses (MSMEs) through the use of advantage strategies shows how external pressures shape the choices businesses make, which in turn affect their results (Ndzabukelwako et al., 2024). Previous research indicates that factors like competition, customer needs, and changes in the industry often push companies to choose strategies such as being the lowest cost, offering unique products, or focusing on innovation (Porter, 1979; Schweiger et al., 2019). These strategies can help increase profits, customer happiness, and business growth (Cai, 2023; Hidayat & Idrus, 2023; Porter, 1985). Studies also show that advantage strategies act as a bridge, meaning that market forces have a greater effect on business performance when companies turn external pressures into actions like developing new products, improving quality, or making processes more efficient (Huang & Ichikohji, 2024; Rêgo et al., 2022). Some research suggests that market forces don't always lead to better performance, either directly or through these strategies, especially for MSMEs with fewer resources or weaker ability to plan and execute strategies effectively (Ndiaye et al., 2018; Sentoso et al., 2024).

**The Relationship Between Dynamic Capabilities to MSME'S Performance Through Advantage Strategy**

Dynamic capabilities improve MSME performance in the processing industry by allowing enterprises to detect opportunities, capitalize on them through resource reconfiguration, and maintain competitive advantages in the face of instability. This link is bridged by advantage tactics such as differentiation and cost leadership, which translate adaptive capacities into practical outcomes like sales growth and profitability. This approach is especially important for processing industries dealing with raw material volatility and market shifts (Islamuddin et al., 2025). The relationship between dynamic capabilities and MSME performance through advantage strategy highlights how a firm's ability to sense opportunities, seize resources, and reconfigure operations shapes its strategic choices and ultimately affects performance (Kadhim et al., 2018). Prior studies show that dynamic capabilities often strengthen advantage strategy, such as innovation, quality enhancement, or cost efficiency, by enabling firms to realign resources and adapt rapidly to market changes (Cho et al., 2022; Hosseinian Dastjerdi & Tumer, 2024; Teece, 2018). Other research suggests that dynamic capabilities do not always translate into superior performance, either directly or through strategic pathways, particularly when SMEs face resource shortages, limited absorptive capacity, or weak implementation processes (Dejardin et al., 2023).

Taking the literature discussion into account, the following hypothesis remained to be investigated:

*H1. Market Forces is positively associated to Advantage Strategy*
*H2. Dynamic Capabilities is positively associated to Advantage Strategy*
*H3. Advantage Strategy is positively related to MSME's performance*
*H4. Market Forces is positively associated to MSME's performance through Advantage Strategy*
*H5. Dynamic Capabilities is positively associated to MSME's performance through Advantage Strategy*

# 3. Methods

## 3.1. Research Object

This study looks at a structural model with two exogenous factors, one mediating variable, and one endogenous variable. The unit of analysis is 4,459 industrial MSMEs in Tasikmalaya City, and the respondents are owners or managers of processed-food MSMEs. A quantitative approach was used to collect data from 378 respondents via Slovin technical sample method with a standardized five-point questionnaire based on known operational definitions and dimensions of market forces, dynamic capabilities, advantage strategy, strategic partnership programs, and MSME performance. The resulting dataset was evaluated with Structural Equation Modeling- Partial Least Square (SEM-PLS) to determine the interrelationships within the suggested research model.

## 3.2. Research Design

Data collection, analysis, and interpretation are all part of this research strategy. This kind of quantitative research uses numerical data that has been statistically processed to measure and analyze relationships between variables. The explanatory survey method is a kind of quantitative study that uses surveys to gather data in order to explain the relationship or influence between variables. Statistical methods are used to evaluate survey data in order to test hypotheses and identify trends or correlations between variables.

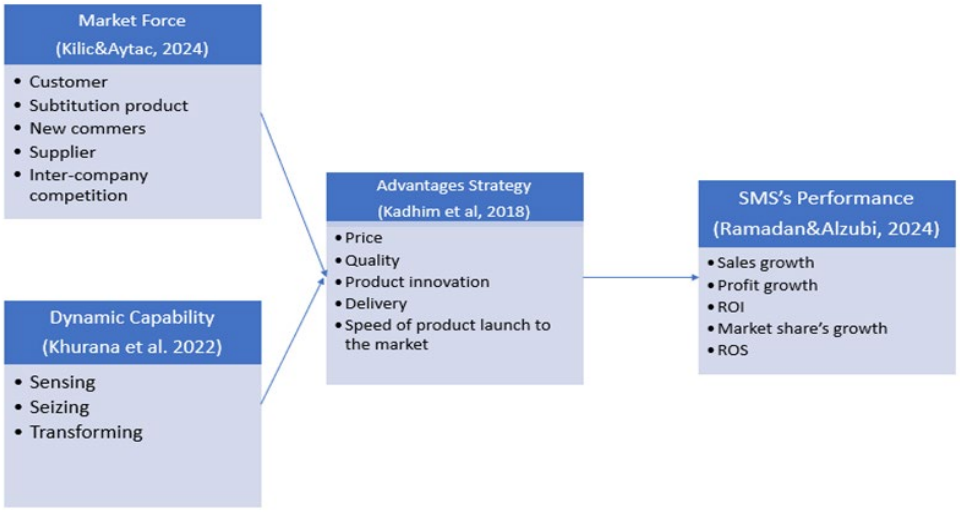


Fig.1: Research Design.

## 3.3. Data Analysis Technique

Data from this study were analyzed using Partial Least Squares–Structural Equation Modeling (PLS-SEM), with help from the SmartPLS software. PLS-SEM was chosen because it works well for research that explores new ideas and complex relationships, especially when the main goals are making predictions and developing theories instead of proving existing ones (Hair et al., 2022).

The analysis followed a two-stage approach. First, the measurement model was assessed to evaluate the reliability and validity of the constructs. Discriminant validity was checked using the Fornell–Larcker criterion. Second, the structural model was examined to test the hypothesized relationships among constructs. The significance of the path coefficients was assessed using a bootstrapping procedure with 5,000 resamples.

# 4. Result and Discussion

## 4.1. Measurement Model Assessment

The measurement model was checked by looking at indicator reliability, internal consistency reliability, convergent validity, and discriminant validity.

**Indicator Reliability**

To check how well each indicator works, outer loadings were used. As shown in Figure 2, all the indicators had very high loadings, above the suggested minimum of 0.70. Most of them were over 0.98, which means they all measure their related concepts very reliably.

**Internal Consistency Reliability**

To check how consistent the indicators are within each construct, Cronbach's Alpha and Composite Reliability were used. The results in Table 1 show that Cronbach's Alpha for all constructs, such as MF, DC, AS, and PR, are 0.997, which is much higher than the minimum acceptable value of 0.70. The Composite Reliability values for all constructs are also 0.997, showing that the internal consistency is very strong.

**Convergent Validity**

Convergent validity was checked using the Average Variance Extracted (AVE). As stated in Table 1, the AVE values range from 0.962 to 0.963, which is way above the recommended minimum of 0.50. This shows that each construct explains more than 96% of the variation in its indicators, confirming strong convergent validity.

**Discriminant Validity**

Table 2 shows the results of the discriminant validity test based on the Fornell–Larcker criterion. The numbers along the diagonal are the square roots of the Average Variance Extracted (AVE) for each construct, while the numbers in the other positions show how much each construct is related to the others. Looking at the table, the square root of AVE for each construct is higher than the correlations between that construct and all the others. This means that each construct explains more variance in its own indicators than it does in the indicators of other constructs in the model.

Overall estimation of PLS (measurement and structural model) of omnichannel customer experience model towards customer repurchase intentions and word of mouth on cellular products loyalty can depicted in Figure 2.

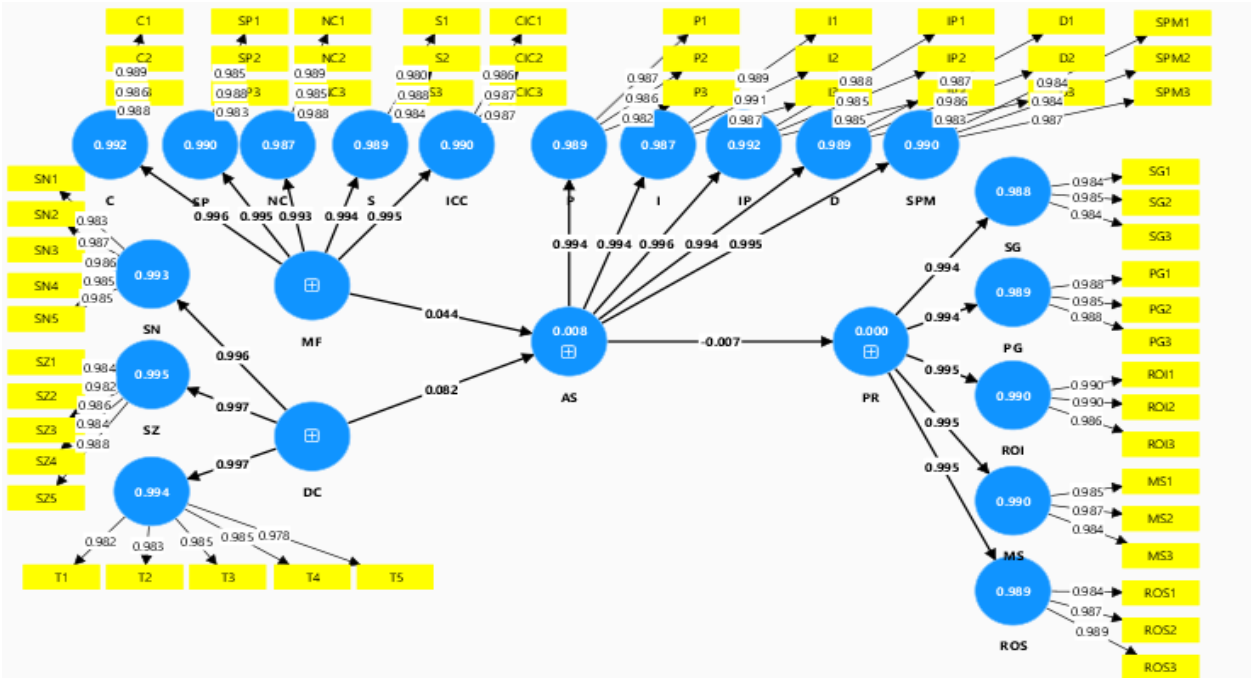


Fig.2: Overall PLS Model

Table 1. Construct Validity and Reliability

| | Cronbach's alpha | Composite reliability | Average variance extracted (AVE) |
|---|---|---|---|
| **AS** | 0.997 | 0.997 | 0.962 |
| **DC** | 0.997 | 0.997 | 0.963 |
| **MF** | 0.997 | 0.997 | 0.962 |
| **PR** | 0.997 | 0.997 | 0.963 |

Table 2. Fornell-Lacker

| | AS | C | D | DC | I | ICC | IP | MF | MS | NC | P | PG | PR | ROI | ROS | S | SG | SN | SP | SPM | SZ | T |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **AS** | 0.981 | | | | | | | | | | | | | | | | | | | | | |
| **C** | 0.039 | 0.988 | | | | | | | | | | | | | | | | | | | | |
| **D** | 0.994 | 0.035 | 0.985 | | | | | | | | | | | | | | | | | | | |
| **DC** | 0.082 | 0.014 | 0.070 | 0.981 | | | | | | | | | | | | | | | | | | |
| **I** | 0.994 | 0.042 | 0.983 | 0.085 | 0.989 | | | | | | | | | | | | | | | | | |
| **ICC** | 0.043 | 0.990 | 0.039 | 0.015 | 0.042 | 0.987 | | | | | | | | | | | | | | | | |
| **IP** | 0.996 | 0.042 | 0.989 | 0.082 | 0.990 | 0.044 | 0.986 | | | | | | | | | | | | | | | |
| **MF** | 0.044 | 0.996 | 0.039 | 0.015 | 0.045 | 0.995 | 0.046 | 0.981 | | | | | | | | | | | | | | |
| **MS** | -0.009 | 0.016 | -0.013 | 0.049 | -0.007 | 0.016 | -0.009 | 0.014 | 0.986 | | | | | | | | | | | | | |
| **NC** | 0.045 | 0.986 | 0.041 | 0.016 | 0.049 | 0.986 | 0.048 | 0.993 | 0.014 | 0.987 | | | | | | | | | | | | |
| **P** | 0.994 | 0.039 | 0.986 | 0.078 | 0.984 | 0.044 | 0.988 | 0.044 | -0.008 | 0.046 | 0.985 | | | | | | | | | | | |
| **PG** | -0.006 | 0.013 | -0.011 | 0.037 | -0.005 | 0.012 | -0.009 | 0.009 | 0.984 | 0.007 | -0.003 | 0.987 | | | | | | | | | | |
| **PR** | -0.007 | 0.018 | -0.012 | 0.042 | -0.005 | 0.017 | -0.009 | 0.015 | 0.995 | 0.014 | -0.007 | 0.994 | 0.981 | | | | | | | | | |
| **ROI** | -0.004 | 0.023 | -0.009 | 0.041 | -0.000 | 0.023 | -0.005 | 0.022 | 0.989 | 0.020 | -0.004 | 0.986 | 0.995 | 0.989 | | | | | | | | |
| **ROS** | -0.008 | 0.020 | -0.015 | 0.043 | -0.003 | 0.018 | -0.010 | 0.017 | 0.988 | 0.017 | -0.008 | 0.987 | 0.995 | 0.988 | 0.987 | | | | | | | |
| **S** | 0.044 | 0.987 | 0.039 | 0.019 | 0.047 | 0.988 | 0.047 | 0.994 | 0.012 | 0.984 | 0.044 | 0.007 | 0.013 | 0.020 | 0.015 | 0.984 | | | | | | |
| **SG** | -0.010 | 0.016 | -0.012 | 0.037 | -0.009 | 0.013 | -0.010 | 0.012 | 0.988 | 0.009 | -0.010 | 0.987 | 0.994 | 0.985 | 0.984 | 0.009 | 0.984 | | | | | |
| **SN** | 0.076 | 0.010 | 0.065 | 0.996 | 0.078 | 0.010 | 0.076 | 0.010 | 0.046 | 0.009 | 0.073 | 0.035 | 0.039 | 0.039 | 0.040 | 0.014 | 0.035 | 0.985 | | | | |
| **SP** | 0.045 | 0.989 | 0.041 | 0.012 | 0.046 | 0.986 | 0.048 | 0.995 | 0.013 | 0.985 | 0.047 | 0.007 | 0.014 | 0.022 | 0.016 | 0.987 | 0.012 | 0.006 | 0.985 | | | |
| **SPM** | 0.995 | 0.038 | 0.987 | 0.093 | 0.986 | 0.043 | 0.988 | 0.042 | -0.005 | 0.042 | 0.988 | -0.003 | -0.005 | -0.002 | -0.006 | 0.042 | -0.006 | 0.087 | 0.045 | 0.985 | | |
| **SZ** | 0.087 | 0.015 | 0.075 | 0.997 | 0.089 | 0.016 | 0.086 | 0.017 | 0.046 | 0.018 | 0.082 | 0.033 | 0.038 | 0.038 | 0.040 | 0.020 | 0.033 | 0.991 | 0.013 | 0.098 | 0.985 | |
| **T** | 0.082 | 0.017 | 0.068 | 0.997 | 0.086 | 0.018 | 0.082 | 0.019 | 0.055 | 0.020 | 0.078 | 0.041 | 0.047 | 0.046 | 0.049 | 0.022 | 0.043 | 0.990 | 0.015 | 0.094 | 0.993 | 0.983 |

## 4.2. Structural Model Assessment (Inner Model)

This study used Partial Least Squares Structural Equation Modeling (PLS-SEM) to check the proposed

hypotheses. The measurement model shows strong convergent validity, as all constructs have average variance extracted (AVE) values that go above the suggested minimum of 0.50.

But when looking at the structural model, none of the expected relationships were statistically significant at the 5% level, as shown in Table 3. Specifically, the direct effect of Advantage Strategy (AS) on Performance Results (PR) wasn't supported (β = −0.007; t = 0.139; p = 0.889), meaning that changes in advantage strategy aren't linked to measurable performance results in the sampled SMEs. Market Force (MF) didn't have a significant impact on Advantage Strategy (β = 0.042; t = 0.861; p = 0.389), suggesting that just matching market conditions isn't enough to create or improve advantage strategies. Dynamic Capability (DC) also didn't have a significant effect on Advantage Strategy (β = 0.081; t = 1.711; p = 0.087), even though the direction of the effect was positive.

The mediating role of Advantage Strategy wasn't supported either. Both indirect paths—Market Force through Advantage Strategy to Performance Results (β = −0.000; t = 0.091; p = 0.927) and Dynamic Capability through Advantage Strategy to Performance Results (β = −0.001; t = 0.119; p = 0.905)—were not statistically significant. These results show that Advantage Strategy does not act as a key factor linking Market Force and Dynamic Capability to SME performance in this context.

Table 3. Hypothesis Testing (Inner Model Estimation)

| | Original sample (O) | Sample mean (M) | Standard deviation (STDEV) | T statistics (\|O/STDEV\|) | P values |
|---|---|---|---|---|---|
| AS -> PR | -0.007 | -0.007 | 0.053 | 0.139 | 0.889 |
| DC -> AS | 0.081 | 0.081 | 0.047 | 1.711 | 0.087 |
| MF -> AS | 0.042 | 0.041 | 0.049 | 0.861 | 0.389 |
| MF -> AS -> PR | -0.000 | -0.000 | 0.003 | 0.091 | 0.927 |
| DC -> AS -> PR | -0.001 | -0.001 | 0.005 | 0.119 | 0.905 |

## 5. Discussion

Although the model shows a strong fit in describing overall trends and has high explanatory power, the lack of significant structural relationships suggests that the proposed theories are not supported by real-world evidence in the case of processed-food small and medium enterprises in Tasikmalaya. This shows an important difference between how well a model measures thing and whether it truly explains why things happen. Having good measurement qualities doesn't always mean the ideas behind them are proven.

The weak effect of Advantage Strategy on performance suggests that formal approaches to gaining a competitive edge may not lead to better results for small businesses with limited resources. For small-scale food processing companies, performance is likely shaped more by how efficiently they run their operations, how decisions are made informally, and how they focus on staying afloat in the short term, rather than by carefully planned strategies aimed at gaining advantage. The lack of a clear link between Market Force and Advantage Strategy suggests that SMEs may adjust to market changes in a flexible and reactive way, rather than following a structured strategic plan. Market force might happen through trial and error and personal experience rather than being clearly defined as a formal strategy that can boost performance.

The finding that Dynamic Capability has no significant effect on Advantage Strategy implies that the development of key strategic abilities, such as sensing opportunities, seizing them, and reorganizing

resources, may not be deeply rooted in small food-processing businesses. Factors like limited leadership skills, financial problems, and decisions made by the owner alone might stop these capabilities from becoming real strategic benefits.

The fact that Advantage Strategy doesn't act as a mediator between Market Force, Dynamic Capability, and performance supports the idea that traditional strategic management ideas, which were mostly created for bigger companies in more developed economies, may not fully reflect the challenges faced by SMEs in emerging markets. These results suggest that there are specific context-based limitations that affect how well conventional strategies relate to business performance.

Even though the study didn't support the initial ideas it was testing, it still brings several key points to the table. First, it shows that some widely accepted ideas about how companies perform, like the importance of dynamic capabilities and the use of advantage strategies, might not be as universal as people think. The research found that in a small business setting in a developing country, these connections weren't clear, which means we need to think more carefully about when and where these ideas work.

Another important point is that for small businesses in traditional sectors like food processing, the usual approach of using explicit strategies to gain an advantage might not be the main way they succeed. Instead, their success could come from things they do on a daily basis, like how they manage their resources or how they interact with customers and suppliers.

The study also shows that when we look at how companies develop strategies, that need to take into account the specific situation they're in. It found that just because a company has certain resources or operates in a certain market doesn't automatically mean they'll perform better. This suggests that other theories, like those looking at how institutions influence behavior or how limited resources shape strategy, might be more useful for understanding how small businesses operate.

On the research methods side, the study shows that even if a model fits well and the measurements are strong, that doesn’t mean the theory is correct. It reminds us that we need to focus on understanding the theory behind the data, not just on how well the numbers match up.

For SME owners and policymakers, the findings indicate that focusing on formal advantage strategies might not quickly improve business performance. Rather than that, support programs should concentrate on improving fundamental managerial skills, operational efficiencies, and access to necessary resources. Policymakers looking to boost SME performance should think about interventions that tackle underlying structural issues instead of pushing general strategic approaches that might not fit the actual conditions of local businesses.

## 6. Conclusion

This study looks at how Market Force, Dynamic Capability, Advantage Strategy, and performance are connected in small and medium-sized food-processing businesses in Tasikmalaya. While the model explains a lot and the measurements are reliable, the actual relationships between these factors are not significant. This shows that there is a gap between how well these factors are measured and how well the theory explains real-world outcomes.

The results show that formal strategic ideas, especially Advantage Strategy and Dynamic Capability, do not strongly influence performance in these small food businesses. Performance is more influenced by informal ways of making decisions, efficient operations, and strategies focused on staying afloat in

the short term. These businesses respond to market changes in a flexible and reactive way, often learning through experience rather than through planned strategies.

The fact that Advantage Strategy does not act as a mediator also raises doubts about the usefulness of standard strategic management theories in small businesses in developing economies. Overall, this study emphasizes the need to consider the specific context when applying strategy theories and suggests that new, more adaptable frameworks are needed to better match the realities faced by small businesses with limited resources and in less developed institutional settings.
This study also has some limitations. Because it uses a cross-sectional approach, it's hard to determine cause and effect. Also, since the data is based on people's own reports, there's a chance of common method bias. Future studies might use a longer-term design, include more objective ways to measure performance, or look at factors like company size, how ready they are for digital changes, or how much change is happening in their environment. Using qualitative methods or combining different research methods could also help understand better how small businesses create and carry out their strategies in real situations.

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