MANAGERIAL ABILITY AS AN EFFORT TO IMPROVE SME PERFORMANCE THROUGH COMPETITIVE ADVANTAGE IN THE PANDEMIC TIME COVID 19

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Abstract: The purpose of this study was to investigate competitive advantage as a mediator for the influence of managerial ability on the performance of SMEs in Malang City. The population of this research is the owners of SMEs in Malang, amounting to 113,000 units engaged in food processing, handicraft, and handicraft business units. Sampling in this study using the Slovin formula with a sampling error rate of 5% obtained a total sample of 100 SMEs. The sampling method is through a random procedure (random sampling). Data analysis using Structural Equation Modeling (SEM). The results showed that there is an effect of managerial ability on the performance of SMEs in Malang City and competitive advantage can mediate the effect of managerial ability on the performance of SMEs in Malang City. Future research can analyze the networking capability variables that contribute to the competitive advantage and performance of SMEs.

Keywords: Managerial Ability, Competitive Advantage, Performance of SMEs

In the era of globalization, every company will face complexity, change, and increasingly fierce business competition (Basu and Siems, 2004). The competition that has occurred between companies lately is not only tight but also occurs between companies from various countries as a result of the imposition of a free market economy by several world organizations, including AFTA. In this regard, the government issued INPRES No. 3 / 2010 concerning equitable development programs which contain specific programs containing three things, one of which is: pro-people development programs, namely family-based poverty reduction programs, community empowerment, and empowerment of Small and Medium Enterprises (SMEs). The current lack of solid fundamentals for the Indonesian economy has prompted the government to continue to empower SMEs.

Small and medium enterprises are the largest business groups. The existence of SMEs has an important role in improving the standard of living of the community, as well as in economic development.
A phenomenon that occurs in the city of Malang, the Mayor of Malang, Sutiaji assessed that Small and Medium Enterprises in Malang City until 2018 had not yet developed. Since 2007, the increase in SMEs has only been limited to quantity, while the increase in quality is still far from expectations. “From 2007 to 2018, SMEs in Malang has always been micro, never graduating. Meanwhile, from BPS data for the city of Malang 2007, the number of SMEs in Malang reached 156 units. While this figure continues to increase in 2018, reaching 113 thousand SME units.

The Covid-19 pandemic has a significant impact on the economy of Malang City. Regional Original Income also experienced a decline of 20.78 percent, due to the economy which has stalled until now in mid-2020 (merdeka.com). One of the sectors that have been hard hit by the Covid-19 pandemic is SMEs. The Head of Section for Business Development and Strengthening of the Malang City Industry and Trade Cooperative Office (Diskopindag) explained that in Malang there were around eight thousand SMEs and during the Covid-19 pandemic, 20 percent of them or around 1,600 experienced suspended animation and could not produce or operate his business. This condition occurred from March to early September 2020 and the most affected were textile and fashion SMEs, while in the food and beverage sector they remained with their business during the Covid-19 pandemic even though the turnover obtained had decreased by around 70 percent.

Seeing the phenomenon that occurs, improving the performance of SMEs is interesting to conduct studies and improving the performance of SMEs cannot be separated from the quality of a manager. The role of manager becomes one of the main topics that will never run out for discussion and research. According to Bititci et al., (2011) managerial involvement in business strategy is because there is an understanding to ensure that the business strategy process is carried out thoroughly, there is no concern depending on whether the manager/owner has the skills to run the process. The business strategy process depends on specific managerial / owner sources.

Research using a resource-based view initiated by Penrose (1959) stated that company growth is limited by a manager’s ability to coordinate resources. Strategic decisions and the selection of appropriate resource owners/managers in small companies largely determine the final performance of the company. Managerial abilities are intangible knowledge, skills, and experiences that can be utilized by managers (Hitt, et al., 2001). Cahyono and Suhada (2016), Sembiring (2016), Astuti and Murwatiningsih (2016), Giriati (2019), Asikhia and Naidoo (2020), and Rahayu and Magdalena (2021) concluded that managerial ability can make a difference to the performance of SMEs. Different results are shown by Lo (2012), Umar (2014) and Nur et al. (2014) stated that the effect of managerial ability was not significant on performance.

Based on the results of previous research regarding the effect of managerial ability on the performance of SMEs, there are still differences in results so that it opens a gap as a research gap and the competitive advantage variable can appear as a mediation for the influence of managerial ability on the performance of SMEs to be a gap in this study.

Nowadays, the competition and development of the business world are getting stronger and sharper so that to increase the business, it requires serious handling from every entrepreneur to be able to compete with other companies. Where to increase the success of the business, one of the efforts that must be made is to increase internal resources. The most important internal resource is managerial ability. Management ability has an important role in the smooth running of a business. Research by Hajar (2012) and Setiawan (2012) proves that managerial ability has a positive and significant effect on competitive strategy. The competitive strategies in marketing in this study are cost leadership, differentiation, and focus. Cong and Thu (2012) concluded that the competitiveness of SMEs is influenced by direct experience, competency-building relationships, strategic vision, operations management competence, and professional knowledge of SME owners.

Competitive advantage encourages companies to stay afloat and earn profits. Competitive advan-
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tage also encourages company performance through profit achievement, sales development, and increasing the number of consumers. This is shown in research conducted by Meutia (2013), Majeed (2011), Kiyabo and Isaga (2020) which concludes that competitive advantage affects performance.

Based on the background, there is a fundamental question for strategic management observers is how to improve the performance of SMEs. Based on this explanation, it is interesting to conduct a research study that tries to analyze competitive advantage as a mediator for the influence of managerial ability on SME performance and the role of competitive advantage as a mediator for the influence of managerial ability on SME performance during the Covid-19 pandemic is a novelty in this study. This empirical study is expected to contribute to SMEs in improving their performance during the Covid-19 pandemic.

LITERATURE REVIEW

SME performance

SMEs are important as a place for business development for entrepreneurs and fund providers as a solution to overcoming unemployment, job creation, innovation, and long-term economic development (Abiodun and Eniola, 2014). In running their business, SMEs always try to achieve their business goals. Goals are the result of the final process of all SME operational activities, so efforts are needed to achieve them. Nelly (2005) explains that the achievement of company goals can be measured by performance.

The phenomenon of SME performance measurement in Indonesia generally does not have or is inconsistent in terms of recording and reporting the results of financial performance and production each period, so the measurement of SME performance is carried out following Najib and Kiminami (2011) to measure the performance of SME businesses using subjective measurement methods including sales volume, profitability, and market share, while Chong’s (2008) study uses a goal approach in helping SME owner-managers to evaluate performance against predetermined goals. To achieve the planned target, performance is evaluated against financial and non-financial measurements. Likewise, Camison in Sanchez and Marin (2005) measure business performance in SMEs. The measurement of business performance puts forward aspects of profitability, productivity, and market perceptions of the owner/manager of SMEs concerning the suitability of these measures to business achievement, as well as the level of satisfaction of these measures towards performance achievement.

Competitive Advantage

According to David (2006), Competitive Advantage is everything a company does very well compared to its competitors. When one company can do something and another company cannot, or has something its competitors want, it represents a competitive advantage. Having and maintaining a competitive advantage is essential to the long-term success of an organization. Generally, a company can maintain its competitive advantage only for a certain period because of being imitated by competitors and weakening that advantage. A competitive advantage allows companies to gain superior performance over a certain period (Pitts and Lei, 2003). The four criteria for a company’s resources to achieve sustainable competitive advantage, namely: (a) resources must add positive value to the company, (b) resources must be unique or scarce among potential competitors and existing competitors, (c) resources power must be difficult to imitate, and (d) resources cannot be replaced by other sources by competing companies. From the point of view of RBV, a company cannot hope to buy or take the sustainable competitive advantage that another organization has, because this advantage is a scarce resource, difficult to imitate, and cannot be replaced (Barney, 1991). Hall (1990) states that competitive advantage consists of three dimensions, namely: longevity, the level of difficulty to be imitated, and the level of ease of equaling.

Managerial Abilities

Managerial ability is the ability to take planning, organizing, implementing, and controlling actions to achieve predetermined goals (Setyamusa, 2009). Meanwhile, according to Sutarno (2012) manage-
rrial ability is the ability of a manager or entrepreneur in managing his business, where the company will be successful if the management is good and regular in carrying out management functions. From the two definitions, it is concluded that managerial ability is the ability possessed by a business manager, where these abilities include being able to make a business plan, organize employees, implement, and supervise the undertaking.

**Research Concept**

Small and medium enterprises are the most numerous business groups. The existence of SMEs has an important role in improving the standard of living of the community, as well as in economic development so that the performance of SMEs is very much attention. Improving the performance of SMEs cannot be separated from the quality of a manager. Managerial abilities are intangible knowledge, skills, and experiences that can be utilized by managers (Hitt, et al., 2001; Kor, 2003). Cahyono and Suhada (2016), Sembiring (2016), Astuti and Murwatiningsih (2016), Giriati (2019), Asikhia and Naidoo (2020), and Rahayu and Magdalena (2021) concluded that managerial ability can make a difference to the performance of SMEs. Management ability has an important role in the smooth running of a business. Research by Hajar et al. (2012) and Setiawan (2012) prove that managerial ability has a positive and significant effect on competitive strategy. Cong and Thu (2012) concluded that the competitiveness of SMEs is influenced by direct experience, competency-building relationships, strategic vision, operations management competencies, and professional knowledge of SME leaders. Competitive advantage encourages companies to stay afloat and earn profits. Competitive advantage also encourages company performance through profit achievement, sales development, and increasing the number of consumers. This is shown in research conducted by Meutia (2013), Majeed (2011), Kiyabo and Isaga (2020) concluding that competitive advantage affects performance.

The description presented shows the diversity of variables that affect the performance of SMEs and have not been integrated into one model. Based on this, there is a gap for further research so that this research model is depicted in Figure 1 as follows:

![Conceptual Model](image)

**HYPOTHESIS DEVELOPMENT**

Managerial ability will determine the procedures and policies implemented by SMEs, so that the better the managerial abilities of SMEs, the better the performance achieved by these SMEs. Improving the performance of SMEs cannot be separated from the quality of a manager. Managerial abilities are intangible knowledge, skills, and experiences that can be utilized by managers (Hitt, et al., 2001; Kor, 2003). Sani et al. (2015), Cahyono and Suhada (2016), Sembiring (2016), Astuti and Murwatiningsih (2016), Giriati (2019), Asikhia and Naidoo (2020), and Rahayu and Magdalena (2021) concluded that
and Rahayu and Magdalena (2021) concluded that managerial ability can make changes to the performance of SMEs. Based on the study above, the following hypotheses can be formulated:

H1: Managerial ability has a significant effect on the performance of SMEs

The resource-based approach aims to classify organizational strategic resources that have the most potential to create competitive advantage (Akio, 2005). Ireland (2003) argues that if you can manage resources and capabilities in a strategic and structured manner, the competitive advantage will increase. Managerial ability is part of an organization’s strategic resources that have an important role in the smooth running of a business. Research by Hajar (2012) and Setiawan (2012) proves that managerial ability has a positive and significant effect on competitive strategy. Cong and Thu (2012) concluded that the competitiveness of SMEs is influenced by direct experience, competency-building relationships, strategic vision, operations management competencies, and professional knowledge of SME leaders. Based on the study above, the following hypotheses can be formulated:

H2: Managerial ability has a significant effect on competitive advantage

Respatya (2001) explains that companies that produce products and services must start paying attention to the concept of competitive advantage so that the company can survive which will eventually earn a profit. Competitive advantage drives performance through profit achievement, sales development, and increasing the number of consumers. Meutia (2013) and Majeed (2011), Kiyabo, and Isaga (2020) concluded that competitive advantage affects performance. Based on the study above, the following hypotheses can be formulated:

H3: Competitive advantage has a significant effect on the performance of SMEs

Hajar et al. (2012) and Setiawan (2012) prove that managerial ability has a positive and significant effect on competitive strategy. Meanwhile, Meutia (2013) and Majeed (2011), Kiyabo and Isaga (2020) prove that competitive advantage has a significant effect on business performance. Based on the study above, the following hypotheses can be formulated:

H4: Competitive advantage mediates the effect of managerial ability on the performance of SMEs

METHOD

This research is included in the type of causal research, namely, to identify the cause and effect relationship between variables, the researcher looks for the real type of facts to help understand and predict the relationship (Zikmund in Ferdinand, 2006). The type of data used in this research is subject data (self-report data), which is the type of research data in the form of attitudes, opinions, experiences, or characteristics of a person or group of people who are research subjects or respondents (Indriantoro and Supomo, 2004). While the data source used in this study is the primary data source.

The population of this research is Small and Medium Enterprises (SME) located in Malang City, amounting to 113,000 units in 2018 which are engaged in food processing, handicraft, and handicraft business units. Research respondents are SME owners because they can provide information based on considerations following the objectives of the research problem. Sampling in this study using the Slovin formula with a sampling error rate of 5% obtained a total sample of 100 SMEs. The sampling method is through a random procedure (random sampling).

The variables in this study can be explained in the operational matrix in Table 1.

To measure the variables to be studied through respondents’ responses, a Likert scale was used. In this study, each answer to the questions in the questionnaire was scored as follows: 1 = Strongly disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly Agree. The analytical method used in this research is the analysis technique in this study is Structural Equation Modeling (SEM). Whether or not this direct effect was tested by the t-test. With a significance level α = 5%. The criteria for acceptance or rejection of hypothesis testing are as
follows: if the probability <5%, then H0 is rejected; H1 is accepted and if the probability > 5% then H0 is accepted; H1 is rejected.

Mediation Test

The mediation test shows the relationship between the independent and dependent variables through a connecting or mediating variable. The influence of variables on the dependent variable does not occur directly but through a transformation process represented by the mediating variable (Baron and Kenney, 1986). The mediating variable is the variable that becomes the intermediary (mediation) of the relationship between exogenous variables and endogenous variables. To find out whether a variable can act as a mediating variable, it will be tested. The mediation test is used to determine whether the mediating variable is complete (complete mediation) or partial mediation (partial mediation).

RESULTS

Instrument Testing

The results of testing the validity and reliability of the instrument can be seen in Table 2 below:

Table 2. Test Results of the Validity and Reliability of the Instrument

<table>
<thead>
<tr>
<th>Variable</th>
<th>Item</th>
<th>Correlation</th>
<th>Status</th>
<th>Coefficient</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managerial skills</td>
<td>X1.1</td>
<td>0.606</td>
<td>Valid</td>
<td>0.704</td>
<td>Reliable</td>
</tr>
<tr>
<td></td>
<td>X1.2</td>
<td>0.563</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X1.3</td>
<td>0.695</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X1.4</td>
<td>0.805</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X1.5</td>
<td>0.714</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competitive Advantage</td>
<td>X2.1</td>
<td>0.663</td>
<td>Valid</td>
<td>0.658</td>
<td>Reliable</td>
</tr>
<tr>
<td></td>
<td>X2.2</td>
<td>0.785</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 1. Operational Matrix of Research Variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Indicator</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managerial skills (X&lt;sub&gt;1&lt;/sub&gt;)</td>
<td>able to make a business strategy plan &lt;br&gt;pay attention to environmental changes &lt;br&gt;build a reliable work team &lt;br&gt;able to solve business problems &lt;br&gt;ability to make their own decisions</td>
<td>Mahmud (2009)</td>
</tr>
<tr>
<td>Competitive advantage (Y&lt;sub&gt;1&lt;/sub&gt;)</td>
<td>resources must add a positive value &lt;br&gt;resources must be unique or rare &lt;br&gt;resources must be difficult to replicate &lt;br&gt;a resource cannot be replaced with any other source</td>
<td>Barney, (1991) dan Hall (1990)</td>
</tr>
</tbody>
</table>
Based on the results of the validity and reliability tests carried out on the instrument items, it shows that all research instrument items are said to be valid and reliable, because they have met the validity testing criteria, namely the Pearson product-moment correlation index value \( r \) \( \geq 0.3 \) and the reliability testing criterion is the Alpha value. Cronbach \( \geq 0.6 \).

**Results of Confirmatory Factor Analysis**

The results of measurement of the dimensions or variable indicators that can form latent variables with CFA and the determination of indicators from research variables are based on the value of the factor loading. A summary of the results of the CFA test on the indicators that make up the research variables is shown in Table 3.

Based on Table 3, it can be explained that the indicators that form the managerial ability variable have a factor loading value (FL) above 0.5. Thus, all the indicators tested are important indicators of managerial ability. Furthermore, when viewed from the loading factor value of each indicator, the indicator that is considered to have the largest or strongest contribution to form the managerial ability variable is to pay attention to environmental changes with a loading factor value of 0.761. The indicators that form the competitive advantage variable have a factor loading (FL) value above 0.5. Thus, all the indicators tested are important indicators for forming a competitive advantage. Furthermore, when viewed from the loading factor value of each indicator, the indicator that is considered to have the largest or strongest contribution to form a competitive advantage variable is that resources must be unique or rare with a loading factor value of 0.835.

The indicators that make up the SME performance

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Variable Description</th>
<th>FL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managerial ability</td>
<td>able to make a business strategy plan</td>
<td>0.605</td>
</tr>
<tr>
<td>Managerial ability</td>
<td>pay attention to environmental changes</td>
<td>0.761</td>
</tr>
<tr>
<td>Managerial ability</td>
<td>build a reliable work team</td>
<td>0.650</td>
</tr>
<tr>
<td>Managerial ability</td>
<td>able to solve business problems</td>
<td>0.524</td>
</tr>
<tr>
<td>Competitive Advantage</td>
<td>ability to make their own decisions</td>
<td>0.645</td>
</tr>
<tr>
<td>Competitive Advantage</td>
<td>resources must add a positive value</td>
<td>0.553</td>
</tr>
<tr>
<td>Competitive Advantage</td>
<td>resources must be unique or rare</td>
<td>0.835</td>
</tr>
<tr>
<td>Competitive Advantage</td>
<td>resources must be difficult to replicate</td>
<td>0.668</td>
</tr>
<tr>
<td>Competitive Advantage</td>
<td>a resource cannot be replaced with any other source</td>
<td>0.693</td>
</tr>
<tr>
<td>SMEs performance</td>
<td>financial performance</td>
<td>0.789</td>
</tr>
<tr>
<td>SMEs performance</td>
<td>innovative performance</td>
<td>0.767</td>
</tr>
<tr>
<td>SMEs performance</td>
<td>production performance</td>
<td>0.795</td>
</tr>
<tr>
<td>SMEs performance</td>
<td>marketing performance</td>
<td>0.747</td>
</tr>
</tbody>
</table>
variables have a factor loading (FL) value above 0.5. Thus, all the indicators tested are important indicators for shaping the performance of SMEs. Furthermore, if it is seen from the loading factor value of each indicator, the indicator that is considered to have the biggest or strongest contribution to form the SME performance variable is production performance with a loading factor value of 0.795.

Results of Goodness of Fit SEM Analysis

The theoretical model in the research conceptual framework is said to be fit if it is supported by empirical data. The results of testing the goodness of fit overall model, following the results of the SEM analysis, to determine whether the hypothetical model is supported by empirical data, are given in Figure 3.

The results of the Goodness of Fit Overall test based on Figure 3, it can be seen that all the criteria show that the model is good and has met the cut-off value so that the model is categorized as suitable and suitable for use, so that interpretation can be carried out for further discussion.

Figure 3. Testing the Goodness of Fit Overall Model

Hypothesis Test

Analysis of the Structural Equation Model (SEM) using AMOS 6.0 was used to test the hypothesis proposed by the researcher. As a basis for testing the hypothesis used the Critical ratio (Cr) from the results of the Weight regression output. The research hypothesis will be accepted if the p-value < of significance is 5%, then the null hypothesis is rejected. The results of hypothesis testing are presented in Table 4 below:

Table 4. Hypothesis Testing Results

<table>
<thead>
<tr>
<th>Relationship</th>
<th>Path Coefficient</th>
<th>C.r.</th>
<th>p-value</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managerial ability</td>
<td>→ Competitive advantage</td>
<td>0.285</td>
<td>2.101</td>
<td>0.036</td>
</tr>
<tr>
<td>Competitive advantage</td>
<td>→ Performance SMEs</td>
<td>0.269</td>
<td>2.148</td>
<td>0.032</td>
</tr>
<tr>
<td>Managerial ability</td>
<td>→ Performance SMEs</td>
<td>0.374</td>
<td>2.859</td>
<td>0.004</td>
</tr>
<tr>
<td>Managerial ability</td>
<td>→ Performance SMEs</td>
<td>0.450</td>
<td>3.362</td>
<td>0.000</td>
</tr>
</tbody>
</table>
Based on the results of the path analysis of the influence between managerial ability on competitive advantage, it shows significant results with a coefficient value of 0.285 (a) and competitive advantage has a significant effect on the performance of SMEs with a coefficient value of 0.269 (b). The result of the influence of the variable managerial ability which is controlled by competitive advantage has a significant effect on the performance of SMEs with a coefficient value of 0.374 (c). Furthermore, (c) has a smaller coefficient value (decreased) than the effect of managerial ability on the performance of SMEs without the mediating variable of competitive advantage, with a coefficient value of 0.453 (d). Thus it can be concluded that the competitive advantage of partial mediation (partial mediation) from the indirect effect of managerial ability affects the performance of SMEs.

**DISCUSSION**

**The influence of managerial ability on the performance of SMEs**

Based on the results of hypothesis testing, it proves that the performance of SMEs during the Covid pandemic can be maintained and improved by increasing the managerial abilities of SMEs in Malang City. These results can be explained that the Covid-19 pandemic has a wide impact on all lines of business, many businesses have collapsed, as well as businesses run by SMEs in Malang City find it very difficult to continue to produce because the conditions of Covid-19 create many problems starting from difficulties in getting raw materials, sales decline, distribution is stuck, employees are being sent home so that many SMEs have experienced a decline in their performance. To improve the performance of SMEs during the Covid pandemic, business actors must have managerial skills such as having the ability to make business strategy plans, pay attention to environmental changes, build a reliable work team, be able to solve business problems, and have the ability to make their own decisions, so the performance of SMEs is also good. so that business success can be achieved.

Based on the results of confirmatory analysis of factors, SMEs in Malang City will improve production performance during the Covid pandemic because of the role of managerial abilities in paying attention to environmental changes, including the internal environment such as organizational structure, organizational culture, and resources owned by SMEs and managerial ability to anticipate changes in the external environment such as consumers, competitors, and government policies. Improving the performance of SMEs cannot be separated from the quality of a manager. Managerial abilities are intangible knowledge, skills, and experiences that can be utilized by managers (Hitt, et al., 2001; Kor, 2003). These results corroborate the study conducted by Sani et al. (2015), Cahyono and Suhada (2016), Sembiring (2016), Astuti and Murwatiningsih (2016), Giriati (2019), Asikhia and Naidoo (2020), and Rahayu and Magdalena (2021) concluded that managerial ability can make changes to the performance of SMEs.

**The managerial ability has a significant effect on competitive advantage**

Based on the results of hypothesis testing, it proves that managerial ability has an impact on increasing the competitive advantage of SMEs in Malang City. These results can be explained that to survive during the Covid pandemic and have a competitive advantage which is shown by resources that add positive value, are unique or rare, difficult to imitate, and cannot be replaced with other sources, SME owners must have managerial abilities by paying attention to changes. environment such as organizational structure, organizational culture, and resources owned by SMEs to anticipate changes in consumers, competitors, and government policies.

The results of this study are in line with the RBV theory which states that a resource-based approach aims to classify organizational strategic resources that have the most potential to create competitive advantage (Akio, 2005). Ireland (2003) argues that if you can manage resources and capabilities in a strategic and structured manner, the competitive advantage will increase. Managerial ability is part of an organization’s strategic resources that have an important role in the smooth running of a business. The research produced by Hajar (2012)
and Setiawan (2012) proves that managerial ability has a positive and significant effect on competitive strategies. Cong and Thu (2012) concluded that the competitiveness of SMEs is influenced by direct experience, competency-building relationships, strategic vision, operations management competencies, and professional knowledge of SME leaders.

**Competitive advantage has a significant effect on the performance of SMEs**

Based on the results of hypothesis testing, it proves that competitive advantage has an impact on improving the performance of SMEs in Malang City. These results can be explained that to be able to survive during the Covid-19 pandemic and have an increase in production performance because SMEs can create a competitive advantage which is shown by the presence of SME resources that add positive value, are unique or rare, difficult to imitate and cannot be replaced with other sources.

The results of this study are in line with Ireland, et al. (2003) stated that if you can manage resources and capabilities in a strategic and structured manner, the competitive advantage can be achieved and company performance will increase. Respatya (2001) explains that companies that produce products and services must start paying attention to the concept of competitive advantage so that the company can survive which will eventually earn a profit. Competitive advantage drives performance through profit achievement, sales development, and increasing the number of consumers. The results of studies conducted by Meutia (2013) and Majeed (2011), Kiyabo and Isaga (2020) concluded that competitive advantage has a significant effect on business performance.

**Competitive advantage mediates the effect of managerial ability on the performance of SMEs**

Based on the results of the analysis, it is found that there is evidence that competitive advantage can mediate the effect of managerial ability on the performance of SMEs. This result means that the Covid-19 Pandemic has a significant impact on the economy of Malang City as indicated by a decline in the performance of the SME sector. To improve the performance of SMEs during the Covid-19 pandemic, SME owners must have managerial skills to pay attention to environmental changes. Managerial abilities possessed by SME owners are strategic organizational resources that have the most potential to create competitive advantage, in these conditions have an impact on improving the performance of SMEs.

The results of this study are in line with the Resource-Based View (RBV) theory developed by Clulow et al., (2007) that the Resource-Based View (RBV) theory is a means of explaining competitive advantage which ultimately results in superior performance in the company. This resource-based approach aims to classify organizational strategic resources that have the most potential to create competitive advantage (Akio, 2005). Ireland, et al. (2003) argued that if you can manage resources and capabilities in a strategic and structured manner, competitive advantages can be achieved and company performance will increase. The RBV approach makes a major contribution to how to improve marketing performance and effectiveness (Kayabasi and Mmetwa, 2016). To have diverse and heterogeneous resources, companies must acquire and develop intangible resources and capabilities. Clulow et al. (2007) introduced a model to show the relationship between intangible assets (e.g. client trust, reputation, networks, and intellectual property) and capabilities (e.g. knowledge, organizational culture, skills, and experience) as valuable, unique, and complex resources resulting in being imitated by sustainable competitive advantage.

The results of this study are in line with Respatya (2001) which explains that companies that produce products and services must start paying attention to the concept of competitive advantage so that the company can survive which will ultimately earn a profit. Hajar et al. (2012) and Setiawan (2012) prove that managerial ability has a positive and significant effect on competitive strategy, Cong and Thu (2012) concluded that the competitiveness of SMEs is influenced by direct experience, competency-building relationships, strategic vision, operations management competencies, and professional knowledge of SME leaders. Meanwhile, com-
petitive advantage drives performance through profit achievement, sales development, and increasing the number of consumers. This is shown in research conducted by Meutia (2013) and Majeed (2011), Kiyabo and Isaga (2020) that competitive advantage has a significant effect on business performance.

CONCLUSIONS

Based on the results of this study, it can be concluded that managerial ability affects the performance of SMEs. Competitive advantage can mediate the influence of managerial ability on the performance of SMEs. Based on the above conclusions, the recommendations are as follows: First, to SMEs in Malang City to be more sensitive to market developments that occur inside and outside the city. SMEs in Malang City must be able to respond to market developments so that business sustainability is maintained. Second, to the Malang City Regional Work Unit which is related to the growth and development of SMEs to provide opportunities and for SME owners to provide managerial training. Third, further researchers to conduct studies on entrepreneurial orientation.

IMPLICATIONS

The Covid-19 pandemic has had a significant impact on the economy of Malang City as shown by the decline in the performance of the SME sector. To improve the performance of SMEs during the Covid-19 pandemic, SME owners must have managerial skills to pay attention to environmental changes. Managerial abilities possessed by SME owners are strategic organizational resources that have the most potential to create competitive advantage. This conception is in line with the RBV theory developed by Clulow et al., (2007) that the RBV theory is a means of explaining competitive advantage which ultimately results in superior performance in a company. This resource-based approach aims to classify organizational strategic resources that have the most potential to create competitive advantage (Akio, 2005). Ireland, et al. (2003) argued that if you can manage resources and capabilities in a strategic and structured manner, competitive advantages can be achieved and company performance will increase.

LIMITATIONS

The researcher realizes that there are limitations that affect the results of this study. Therefore, it is hoped that future researchers who are interested in researching the same topic can pay more attention to existing limitations to be able to provide better research results in the future. The following are some of the limitations in this study, among others: The researcher only analyzes two variables that affect the performance of SMEs, namely managerial ability and competitive advantage. The data obtained in this study is limited because it only uses quantitative questionnaires filled out by respondents and the objects studied are in the food processing, handicraft, and handicraft business sectors, so they cannot provide a specific description of the results because food processing, handicraft, and handicraft businesses have different characteristics.

RECOMMENDATIONS

Owners of SMEs in Malang City, in improving the performance of SMEs during the Covid-19 pandemic, must have managerial skills in reading opportunities and threats that arise in the business environment, creating products that are unique and difficult to imitate. The government needs to provide support to SMEs in the form of development, financing, guarantees, and partnerships. For further researchers, it is expected to research networking capability to increase competitive advantage and the performance of SMEs during the Covid-19 pandemic.

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