

The Impact of Social Media and Innovation on SME Business Performance: The Mediating Role of Competitive Advantage in West Java, Indonesia

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Abstract: Small and Medium Enterprises (SMEs) play a critical role in Indonesia's economic development; however, increasing market competition and rapid digital transformation require SMEs to enhance their competitiveness and business performance continuously. This study examines the effects of social media and innovation on SME business performance, with competitive advantage serving as a mediating variable. A quantitative explanatory research design was employed using survey data collected from 400 SME owners in West Java Province, Indonesia, selected through purposive sampling. The data were analyzed using descriptive statistics and Partial Least Squares Structural Equation Modeling (PLS-SEM) to examine both direct and indirect relationships among the variables. The findings reveal that social media and innovation have positive and significant effects on competitive advantage. Innovation exhibits a stronger influence on competitive advantage than social media, indicating its strategic role in creating differentiation and sustaining competitiveness. Furthermore, social media, innovation, and competitive advantage positively and significantly influence business performance. The coefficient of determination indicates that social media and innovation explain 56.3% of the variance in competitive advantage, while social media, innovation, and competitive advantage jointly explain 63.4% of the variance in business performance. These findings support the Resource-Based View (RBV), suggesting that digital capabilities and innovation-oriented resources constitute important sources of sustainable competitive advantage and superior organizational performance. The study contributes to the literature on SME development and digital transformation by demonstrating the strategic importance of integrating social media utilization and innovation to enhance business performance.

Keywords: *Social Media, Innovation, Competitive Advantage, Business Performance, SMEs*

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INTRODUCTION

Indonesia is the largest economy in Southeast Asia and possesses a diverse economic structure encompassing sectors such as agriculture, industry, and services. Based on empirical records provided by Statistics Indonesia (Badan Pusat Statistik / BPS), Micro, Small, and Medium Enterprises (SMEs) occupy a highly strategic function within national economic activities, providing approximately a 60% share of Indonesia's Gross Domestic Product (GDP) alongside absorbing around 97% of the country's total labor force (Ekon, 2023). This substantial contribution positions micro and small business entities as a foundational pillar of Indonesia's macroeconomic framework, supporting

economic growth while driving poverty reduction, job creation, and reduced regional economic disparities across the country.

Indonesia's economic progress cannot be separated from the significant influence of rapid technological advancements. Technology has brought substantial changes across various economic sectors, including the SME sector. The adoption of information technology, communication technologies, and digitalization has given SMEs broader opportunities to promote their products to larger markets and access financial resources. These developments have enhanced SMEs' competitiveness and growth potential in an increasingly dynamic business environment. Table 1 below shows this trend.

Table 1. Proportion of SME Credit to Total Credit in Indonesia

Outstanding Credit	Proportion of SME Credit to Total Credit (Trillion Rupiah)		
	2017	2018	2019
Micro Enterprises	221,41	251,34	277,23
Small Enterprises	282,78	312,07	332,12
Medium Enterprises	438,2	469,24	488,79
Total SMEs	942,39	1032,64	1098,14

Source: Badan Pusat Statistik (BPS), 2019

Based on data on the share of small business credit in overall financing from 2017 to 2019, a significant upward trend is evident in the amount of credit extended to small and medium-scale commercial entities. In 2017, total financial allocation to the broader SME sector amounted to IDR 942.39 trillion, increasing to IDR 1,098.14 trillion in 2019. Each category, micro, small, and medium enterprises, also experienced growth, indicating an increasing demand for access to financing. For instance, credit extended to micro enterprises increased from IDR 221.41 trillion in 2017 to IDR 277.23 trillion in 2019. Similarly, the small and medium enterprise sectors recorded comparable growth, with credit reaching IDR 332.12 trillion and IDR 488.79 trillion, respectively, in 2019. These figures highlight the growing role of SMEs in Indonesia's economy and underscore the importance of financial access in supporting business expansion and sustainability.

Business performance plays a vital role inrole in formulating and executing appropriate strategies for small and medium-sized enterprises, especially when addressing the multifaceted challenges of the era of disruption. Strong business performance reflects how effectively and efficiently organizational resources are managed, fostering innovation and strengthening firm resilience and adaptability to market shifts. Research on business performance provides critical empirical evidence on the determinants driving enterprise success, including the capacity to sustain growth, maintain operational stability, and develop relevant strategic responses to evolving market conditions (Harel, 2021). Furthermore, a comprehensive understanding of business performance enables small enterprises to pinpoint operational inefficiencies while strengthening their market position within a rapidly evolving and competitive business ecosystem.

In addition, SME products are an important indicator of business performance, especially amid increasing competition in a turbulent, disruption-driven era. Innovative offerings that effectively address market needs can provide a significant competitive advantage for business owners. However, many SMEs still face challenges in product development, including improving quality, differentiating products, and complying with market standards. Limited access to technology and information often constrains SMEs'

capacity to innovate and improve their products. Research conducted by Bustinza demonstrated that product development and innovation contribute positively to SME business performance by enhancing firms' ability to create value and respond to changing market demands. These empirical results offer important perspectives on the effect of innovation on business outcomes and provide strategic recommendations to enhance the market position and competitive strength of SME products in regional and global markets (Bustinza et al., 2019).

The challenges faced by SMEs are becoming increasingly complex due to constantly changing market dynamics and globalization, which simultaneously create both opportunities and threats. Therefore, identifying strategic factors that influence SME performance has become increasingly important. Among these factors, digital social channels have become an indispensable strategic promotional tool that enables SMEs to deepen customer interactions, elevate brand recognition, and broaden market reach in a highly competitive corporate landscape. The rapid growth and adoption of online platforms have revolutionized how commercial entities connect with consumers, showcase offerings, and create business value through more efficient and cost-effective communication. Digital networking platforms serve as more than a promotional outlet; they build closer customer relationships, facilitate two-way communication, and improve customer responsiveness. Social networking channels, including Instagram, Facebook, TikTok, and WhatsApp Business, enable SMEs to promote their products to a broader audience at relatively low cost. Therefore, understanding the mechanisms through which digital platform use drives SME firm-level outcomes has become an increasingly pivotal area of study for academics and industry professionals seeking to enhance SME competitiveness in the digital era.

An empirical investigation by Fitriani et al. (2023) found that 78% of SMEs using social media reported increased sales, 74% experienced market expansion, and 68% reported improved brand awareness. These findings indicate that digital networking channels elevate product visibility while also strengthening customer relationships and increasing brand loyalty. Although social media provides various significant benefits, only 35% of SMEs have a well-planned social media strategy (Zhang et al., 2020). Most SMEs still use social media on an ad hoc basis, which limits the long-term benefits of utilizing these platforms. Therefore, small business enterprise leaders need to design a structured digital communication and marketing roadmap to maximize its potential.

Beyond the strategic use and adoption of online platforms, innovation across product lines, service delivery, and business processes is also crucial to enhancing SME competitiveness. Innovation enables SMEs to meet evolving customer needs, create superior products, and improve operational efficiency (Legowo et al., 2022). According to Srimulyani et al. (2023), continuous innovation not only helps SMEs survive in the marketplace but also strengthens their position amid global competition.

While a substantial body of literature has explored the nexus between innovation and SME business outcomes, the findings remain inconclusive and inconsistent. Several empirical works have documented that innovation serves as a positive catalyst in improving business outcomes and operational efficiency among SMEs (Legowo et al., 2022; Srimulyani et al., 2023). Conversely, other scholarly investigations have found that innovation exerts no significant impact on firm performance (Bariza & Dellyana, 2023; Clauss et al., 2019). These conflicting results highlight an unaddressed research gap, particularly regarding the mechanisms through which innovation translates into

enhanced business performance. Furthermore, previous scholarly work has predominantly focused on the direct link between innovation and business outcomes. At the same time, limited attention has been given to mediating variables that may strengthen or explain this relationship. Therefore, this investigation bridges this literature gap by incorporating competitive advantage as a mediating mechanism linking innovation and SME firm performance. This approach is expected to yield a more nuanced perspective on the pathways through which innovation enhances business performance by creating and sustaining competitive advantage, thereby offering new insights into SME competitiveness in increasingly dynamic and competitive markets.

Based on these conditions, the primary objective of this empirical inquiry is to examine how social networking media and innovative capabilities affect firm outcomes, with competitive advantage acting as an intervening mechanism, across SME products in West Java Province. The fundamental significance of this scientific research stems from the premise that improved business performance drives long-term sustainability, competitiveness, and overall profitability for SMEs operating throughout West Java. Therefore, this investigation examines the direct effect of social media on overall business performance, the direct impact of innovation on firm outcomes, and the indirect pathways linking digital social channels and innovation to enterprise performance through competitive advantage as a mediating variable. This study offers a distinct empirical contribution by incorporating competitive advantage as a mediating mechanism, providing a more comprehensive view of the structural pathways through which digital communication engagement and innovative practices influence small business outcomes.

The core aim of this empirical inquiry is to examine the strategic influences of digital social networking utilization and innovation on overall business outcomes and product performance among SMEs in West Java Province. Furthermore, this paper evaluates the specific role of digital platforms and innovation in enhancing SME market competitiveness, a crucial factor in sustaining competitiveness in increasingly dynamic markets. In addition, this research investigates the mediating effect of competitive advantage in the structural relationship between social media and innovation and small enterprise outcomes, including both firm performance and product performance.

RESEARCH METHODS

This investigation employs a quantitative empirical methodology within an explanatory framework. This methodological orientation is chosen because the research aims to analyze causal pathways between social media and innovation as predictor constructs, competitive advantage as an intervening variable, and product and business performance as outcome variables. The research is designed to explain both the direct and mediated interconnections among the empirical variables specified in the conceptual model.

The present empirical study is conducted among small and medium-sized enterprises operating throughout West Java Province, Indonesia. The selection and focus on West Java is based on its strategic role as one of the largest centers of SME development in Indonesia, characterized by a substantial number of business actors across various commercial domains, including culinary ventures, handcrafted goods, service providers, and creative industries. The research specifically focuses on SMEs that actively engage with digital social networking platforms for promotional and commercial development activities.

This overall target population encompassing this investigation comprised enterprise units located across West Java Region, Indonesia. Given this large and geographically dispersed population, a targeted non-probability purposive sampling scheme was adopted. The empirical sample size was determined using established minimum participant thresholds for Partial Least Squares Structural Equation Modeling (PLS-SEM), considering the structural complexity of the proposed model and the need for adequate statistical power. Accordingly, a final sample of 400 usable, complete respondents was retained for empirical estimation. Sample selection adhered strictly to the specified parameters: (1) the business was actively operating, (2) the business utilized digital networking tools within its promotional strategies alongside business communication activities, as well as (3) the respondent was directly involved in managing the business. This filtering benchmark ensures that selected respondents have the requisite domain familiarity and practical insight to assess social media utilization, innovation, competitive advantage, and business performance.

This empirical study utilizes a dual data framework comprising primary and secondary information. Primary data are collected directly from research participants through standardized survey instruments containing indicators related to each research variable. Secondary information is retrieved from various sources, including government reports, official statistics released by Statistics Indonesia (BPS), academic journals, books, and other relevant documents on SME development, social media utilization, innovation, and competitive advantage.

Data collection was carried out through a survey using a standardized questionnaire consisting of 44 measurement indicators derived from existing empirical instruments in the scholarly literature. The Social Media construct was measured using 12 items covering customer relationships, communication, and post-purchase interaction, adapted from established measures of digital promotional channel utilization and firm-level operational outcomes (Ainin et al., 2015; Parveen et al., 2015). The Innovation variable was operationalized through 13 indicators covering product quality, product variety, and product design, adapted from previous research on innovation and SME performance. Competitive advantage was measured using 9 items reflecting differentiation, cost advantage, and market entry capability, based on established conceptualizations of competitive advantage. SME Business Performance was evaluated through 10 indicators assessing sales expansion, market coverage expansion, business reputation, and achievement of business objectives, adapted from previously validated measures of SME performance. Every item was contextually aligned with small business operations in West Java while retaining their core substantive meaning and conceptual integrity of the original constructs.

The empirical dataset was processed using descriptive statistical methods to outline participants' characteristics and the distribution of responses across the research indicators. Descriptive analysis identified the level of social media utilization, innovation practices, competitive advantage, product development, and organizational performance across small business entities operating in West Java. The outcome of this analysis serves as a baseline for understanding the underlying empirical conditions surrounding the research objects before evaluating the hypothesized structural paths across constructs.

Furthermore, hypothesis testing was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) to evaluate the hypothesized direct and mediated causal paths connecting the latent variables. Statistical processing was

conducted using SmartPLS software (version 4) and comprised two primary analytical phases: evaluating the measurement (outer) model and evaluating the structural (inner) model. The outer model was tested to confirm scale reliability and construct validity, including item loadings, composite reliability, convergent validity, and discriminant validity. The structural (inner) model was then examined to assess the explanatory power and predictive relevance of the conceptual framework and to test all proposed hypotheses. The inferential statistical analysis examined standardized path coefficients, t-statistics, and corresponding p-values generated via resampling bootstrapping procedures to evaluate the statistical significance level of the hypothesized structural linkages. In addition, the predictive relevance and explanatory capacity of the framework were assessed using relevant PLS-SEM criteria, including R^2 , Q^2 , f^2 , and SRMR. Through this analytical approach, the present investigation evaluates the direct influences of digital channels and innovation on competitive advantage and firm-level outcomes, as well as their mediated pathways to business success through the intervening role of competitive advantage.

RESULTS AND DISCUSSION

Descriptive Analysis of Research Variables

Descriptive statistical testing was conducted in order to generate a foundational understanding concerning respondents' perceptions regarding the key constructs examined in this study, namely social media, innovation, competitive advantage, as well as organizational performance across small business entities situated in West Java Province. This analysis is an important initial step in evaluating the data's general tendencies before proceeding to inferential analysis. The mean values reflect the level of agreement with the questionnaire items for each latent factor. In contrast, standard deviation values indicate the overall extent of variability or spread in respondents' evaluations. Higher mean scores suggest more favorable perceptions of the respective variables, whereas smaller standard deviations indicate greater consensus among participants' assessments. Table 2 presents the summary descriptive statistics for all constructs under study.

Table 2. Descriptive Analysis of Research Variables

Variable	Number of Items	Mean	Standard Deviation
Social Media	12	3,680	0,678
Innovation	13	3,654	0,671
Competitive Advantage	9	3,305	0,551
Business Performance	10	3,487	0,589

As shown in Table 2, every measured construct had mean values exceeding 3.00, indicating that respondents consistently expressed favorable evaluations of their businesses' operational conditions. The social media variable recorded the highest overall average value ($M = 3.680$; $SD = 0.678$), reflecting that SMEs in West Java actively use digital communication channels to support commercial activities, marketing activities, and customer engagement. The innovation variable also received a relatively high average evaluation ($M = 3.654$; $SD = 0.671$), indicating that participants evaluated their businesses as moderately innovative in developing products, services, or business processes.

Business performance received a mean rating of 3.487 (SD = 0.589), reflecting an overall favorable assessment of the organizational outcomes achieved by the SMEs. Meanwhile, competitive advantage had the lowest relative mean statistic among the variables (M = 3.305; SD = 0.551), while still above the midpoint neutral threshold, suggesting that enterprise owners perceived a fair degree of competitive strength in their businesses. Overall, these findings indicate that SMEs in West Java exhibit relatively positive conditions across the studied dimensions, establishing a solid empirical baseline for subsequent testing of the structural relationships among social media, innovation, competitive advantage, and business performance.

Correlation Analysis Among Variables

Bivariate correlation testing was performed to assess the magnitude and nature of the bivariate associations among the empirical constructs investigated in this study, namely digital social channels, innovation, competitive advantage, and business performance. Evaluating these preliminary relationships is crucial for identifying potential associations between the constructs before testing the structural model. The resulting correlation metrics range from -1.0 to +1.0, where positive coefficients denote a direct linear association between variables, and higher absolute values reflect stronger associations. Table 3 presents the correlation matrix.

Table 3. Correlation Matrix Among Research Variables

Variable	MS	IN	CA	KB
Social Media (MS)	1.000	0.025	0.498	0.558
Innovation (IN)	0.025	1.000	0.574	0.556
Competitive Advantage (CA)	0.498	0.574	1.000	0.695
Business Performance (KB)	0.558	0.556	0.695	1.000

Based on the data in Table 3, the empirical correlation coefficients indicate predominantly linear, positive associations across all underlying study constructs. The strongest relationship emerged between competitive advantage and business outcomes ($r = 0.695$), suggesting that SMEs with stronger competitive advantages tend to achieve better firm-level outcomes. Innovation also exhibited a moderately strong positive linear association with competitive advantage ($r = 0.574$) alongside business performance ($r = 0.556$), indicating that innovative practices may contribute to both enhanced competitiveness and improved organizational outcomes. Similarly, social media showed positive correlations with competitive advantage ($r = 0.498$) and business performance ($r = 0.558$), implying that effective utilization of social media may support the development of competitive strengths and better business results. Interestingly, the linear association connecting social media with innovation was relatively weak ($r = 0.025$), suggesting a limited direct association between these two variables within the sampled SMEs. Overall, the correlation matrix demonstrates that competitive advantage is most strongly associated with business performance. At the same time, social media and innovation are moderately related to both competitive capability and firm performance, providing initial evidence that supports the conceptual framework under study.

The Effect of Social Media and Innovation on Competitive Advantage

To test the empirical validity of the proposed hypotheses on how social media and innovation affect competitive advantage, a structural path analysis was conducted. The analysis aimed to determine whether social media utilization, alongside the strategic

implementation of innovation, significantly contributes to enhancing SMEs' competitive advantage in West Java Province. The statistical significance of each hypothesized path was evaluated using standardized path coefficients (β), t-statistic values, and corresponding p-values. A positive structural path coefficient indicates a positive influence between variables, whereas a p-value below 0.05 confirms that the pathway is statistically significant. Table 4 presents the structural evaluation findings in detail.

Table 4. The Influence of Social Media and Innovation on Competitive Advantage

Structural Path	Path Coefficient (β)	t-value	p-value
Social Media to Competitive Advantage	0.394	14.594	< 0.001
Innovation to Competitive Advantage	0.461	16.930	< 0.001

As shown in Table 4, both social media and innovation exert direct, positive, and statistically significant impacts upon competitive advantage. Social media had a favorable impact on SME competitive positioning ($\beta = 0.394$, t-statistic = 14.594, p-value < 0.001), indicating that greater use of online networking tools supports the cultivation of stronger competitive advantages among SMEs. This finding suggests that digital communication channels offer strategic means for enterprises to improve market visibility, strengthen customer relationships, and enhance communication effectiveness, thereby increasing their competitive position. Furthermore, innovation had a stronger positive influence on competitive advantage ($\beta = 0.461$, t-statistic = 16.930, p-value < 0.001), indicating that innovative activities play an indispensable role in differentiating products, services, and business processes from competitors. The larger coefficient associated with innovation suggests that innovation contributes more substantially to competitive advantage than social media. Overall, these findings confirm that both social media utilization and innovation are important strategic resources for strengthening SMEs' competitive position and achieving sustainable business growth in increasingly competitive markets.

The Influence of Social Media, Innovation, and Competitive Advantage on Business Performance

To further examine the determinants of SME business performance, a structural path model evaluation was conducted to determine the direct effects of social media, innovative capability, and competitive advantage on business performance. This analysis evaluated the extent to which these variables drive improvements in firm-level outcomes among SMEs across West Java Province. The statistical relevance of each hypothesized relationship was assessed through standardized path parameters (β), t-statistic metrics, and corresponding p-value figures. Direct positive path estimates show that an increase in the independent variable corresponds to improved business performance. At the same time, p-values below the conventional significance cutoff of 0.05 indicate statistically significant structural linkages. In addition, the squared multiple correlation metric (R^2) was utilized to measure the variance explained by the conceptual model. Table 5 presents the empirical results from this analysis.

Table 5. Structural Model Assessment and Hypothesis Testing

Structural Path	β	t-value	p-value	f^2	R^2
Social Media to Competitive Advantage	0.394	14.594	<0.001	0.536	0.563
Innovation to Competitive Advantage	0.461	16.930	<0.001	0.722	0.563
Social Media to Business Performance	0.365	11.126	<0.001	0.313	0.634
Innovation to Business Performance	0.349	9.966	<0.001	0.251	0.634

Structural Path	β	t-value	p-value	f^2	R^2
Competitive Advantage to Business Performance	0.276	5.607	<0.001	0.079	0.634

The structural model estimation outcomes show that every proposed structural path exhibits a positive and statistically significant association. Digital social media engagement exerts a highly significant influence on competitive advantage ($\beta = 0.394$, t-statistic = 14.594, p-value < 0.001). At the same time, innovation has a stronger impact on competitive advantage ($\beta = 0.461$, t = 16.930, p < 0.001), with corresponding large effect sizes of $f^2 = 0.536$ and $f^2 = 0.722$, respectively. For business performance, social media ($\beta = 0.365$, t = 11.126, p < 0.001) and innovation ($\beta = 0.349$, t = 9.966, p < 0.001) both show significant positive effects, with medium effect sizes of $f^2 = 0.313$ and $f^2 = 0.251$, respectively. Competitive advantage also has a favorable effect on firm performance ($\beta = 0.276$, t-statistic = 5.607, p-value < 0.001), but its magnitude remains comparatively small ($f^2 = 0.079$). The empirical model accounts for 56.3% of the total variance in competitive advantage ($R^2 = 0.563$) and 63.4% of the total variance in firm outcomes ($R^2 = 0.634$), indicating substantial explanatory power. Overall, these findings show that innovation plays a particularly vital role in developing competitive advantage, while both social media and innovation make meaningful contributions to business performance.

Discussion

The findings from this empirical investigation reveal that digital social networking exerts a direct, favorable, and statistically significant influence on SMEs' overall competitive advantage across West Java Province. This result shows that the more effectively entrepreneurs use social media platforms, the better they can establish and sustain competitive advantage in the marketplace. Social media can no longer be regarded merely as an isolated promotional medium; rather, it has progressively evolved into an indispensable strategic instrument for fostering customer relationships, expanding market reach, and enhancing brand visibility. Through interactive communication and real-time engagement, social media enables businesses to strengthen customer trust and create superior value propositions that differentiate them from competitors. This finding is consistent with the arguments of Kaplan and Haenlein (2010), Kim and Ko (2012), and Dwivedi et al. (2021), who emphasize that interactive digital platforms enable bidirectional interaction that enhances organizational value creation and strengthens firms' competitive positioning.

The significant influence of digital social channels on firm competitiveness further suggests that small and medium enterprises actively engaged in digital platforms have greater opportunities to achieve differentiation and strengthen their market position. By using interactive outlets such as Instagram, Facebook, TikTok, and WhatsApp Business, entrepreneurs can quickly share product details, build customer communities, and gather valuable feedback to improve their businesses. These capabilities enable firms to adapt more quickly to shifting market demands and evolving consumer expectations. The empirical evidence reinforces the premise that digital technologies constitute critical strategic assets that pose significant barriers to competitor imitation, thereby generating sustainable competitive advantages. This argument aligns with Tuten and Solomon (2017) and Hajli (2014), who contend that effective digital engagement can serve as a unique organizational capability that enhances competitiveness in increasingly digitalized markets.

The results also show that innovation has a direct, favorable, and statistically significant impact on competitive advantage, with a stronger path magnitude than that observed for social media. This empirical outcome highlights the vital role of innovation in helping SMEs develop new products, improve product quality, diversify offerings, and optimize business processes. In highly dynamic and competitive business environments, innovation serves as a key differentiating factor, allowing enterprises to generate unique value propositions that rivals struggle to replicate. Consequently, innovative firms show greater agility in adapting to changing customer needs and industry trends, strengthening their competitive standing. These findings align with empirical evidence from prior investigations by Bustinza et al. (2019), Clauss et al. (2019), and Legowo et al. (2022), who established that innovation is a fundamental driver of organizational competitiveness and long-term business sustainability.

Another notable empirical insight from this investigation is that social media positively and significantly influences SME business performance. This result suggests that greater utilization of social media contributes to increased sales growth, broader market penetration, and enhanced business reputation. Digital social networking platforms offer small enterprises cost-effective promotional opportunities while also enabling access to larger and more diverse customer segments. Furthermore, direct interaction with customers through digital platforms fosters stronger customer relationships, improves customer loyalty, and strengthens brand image. These findings support the studies of Al-Adwan and Kokash (2019), Parveen et al. (2016), and Ainin et al. (2015), whose empirical findings reported that effective utilization of digital networking platforms significantly improves organizational performance and business outcomes.

The study further reveals that innovation has a direct, favorable, and statistically significant impact on business performance. This empirical outcome shows that small businesses that consistently pursue innovation tend to achieve superior growth and performance compared with less innovative firms. Innovation enables organizations to create commercial offerings and services that resonate more effectively with dynamic market demands, boosting customer retention and increasing the likelihood of repeat transactions. Furthermore, innovation contributes to operational efficiency, improved productivity, and enhanced adaptability to environmental changes. These results align with empirical observations in prior work by Srimulyani et al. (2023), OECD (2018), and Saunila (2020), which emphasize that innovation is one of the most important determinants of organizational productivity and business success.

The positive impact of competitive advantage on firm-level outcomes shows that competitive superiority remains a crucial determinant of SME success. The significant path coefficient indicates that SMEs possessing strong product differentiation, competitive pricing strategies, and broader market access are more likely to achieve superior business outcomes. This finding supports Porter's (1985) framework of competitive strategy, which asserts that enterprise units that create greater value than their competitors are more likely to attain superior performance. Furthermore, the empirical findings align with those reported by Baia et al. (2020), Newbert (2008), and Ismail et al. (2012), who identified competitive advantage as a key predictor of organizational effectiveness and sustained firm viability.

This coefficient of determination (R-squared) of 56.3% indicates that social media and innovation jointly explain a substantial share of the variation in SME competitive

advantage. This result suggests that both variables constitute essential foundations for building organizational competitiveness. Nevertheless, 43.7% of the variance remains outside the model's explanatory scope, indicating that additional constructs, including entrepreneurial orientation, managerial capabilities, human resource quality, and business environment support, may also contribute significantly to competitive advantage. These findings underscore the multidimensional nature of competitiveness, shaped by an interplay of internal organizational capabilities and external environmental influences.

Similarly, the overall coefficient of determination of 63.4% for the business performance model indicates that social media, innovation, and competitive advantage collectively explain a substantial share of variation in SME business performance in West Java. The model's high explanatory power indicates that the framework has strong predictive capability in identifying the factors that influence business success. These findings provide empirical support for Resource-Based Theory (RBV), which asserts that distinctive internal assets alongside firm capabilities, such as innovation competence and digital technology utilization, can serve as foundations for sustainable competitive positioning that subsequently drive enhanced organizational firm-level outcomes (Barney, 1991; Wernerfelt, 1984).

Overall, the findings confirm that social media and innovation are two strategic factors that enhance business outcomes via direct pathways as well as mediated mechanisms involving the development and cultivation of competitive advantage. In this empirical context of SMEs in West Java, digital transformation through social media use should be accompanied by continuous product innovation alongside operational refinements. The strategic combination or synergy of digital capabilities and innovative capacity enables firms to build stronger competitive advantages, which in turn foster business growth and long-term sustainability. This empirical research contributes substantially to scholarly work on SMEs, digital business transformation, and competitive advantage by showing that business success is not determined solely by technology adoption, but also by firms' ability to transform technological resources into valuable capabilities that generate meaningful and sustainable competitive advantages.

CONCLUSION AND RECOMMENDATIONS

This empirical research investigated the strategic effects of digital social channels and innovation on SME firm-level outcomes, with competitive advantage acting as an intervening mechanism among small business units in West Java Province. The empirical findings show that both social media and innovation have direct, positive, and statistically significant effects on market-based competitive positioning. SMEs that effectively leverage digital social networking platforms for promotion, communication, and interactive customer relations tend to have stronger competitive positions in the marketplace. Similarly, continuous innovation in products, services, and business processes contributes significantly to firm competitiveness by enabling SMEs to generate distinctive value propositions and differentiation. Furthermore, the empirical findings reveal that digital social channels, innovation, and competitive advantage each exert favorable and statistically meaningful direct influences on business performance, indicating their important roles in enhancing sales growth, market expansion, customer satisfaction, and overall organizational success.

The study also confirms that competitive advantage functions as a pivotal mediating pathway through which digital social channels and innovation contribute toward improved business performance. SMEs that can transform digital engagement and innovative practices into distinctive competitive strengths are more likely to achieve superior business performance metrics. These findings lend empirical support to Resource-Based Theory (RBV), which emphasizes how rare, valuable, and difficult-to-replicate organizational assets and capabilities can generate sustainable strategic advantage and drive enhanced firm-level success. Therefore, integrating digital marketing strategies and innovation initiatives is a critical pathway for SMEs seeking to strengthen their competitiveness in increasingly dynamic business environments.

Based on these findings, SME owners are encouraged to optimize the targeted use of digital platforms and continue investing in innovation activities to strengthen their strategic market position and drive organizational outcomes. Policymakers and government institutions should provide training, mentoring, and technological support programs that facilitate digital transformation and innovation among SMEs. Subsequent research is encouraged to incorporate additional explanatory factors, including entrepreneurial orientation, digital competency, organizational learning, and market orientation, and to adopt long-term temporal or comparative methodological frameworks to provide deeper, more holistic insight into the factors influencing SME competitiveness and performance.

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