

Local Wisdom-Based Competitive Advantage Strategy in Small and Medium Businesses

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ARTICLE INFO	ABSTRACT
Keywords: Competitive advantage local wisdom, strategy, small and medium business Kata Kunci: keunggulan bersaing, kearifan lokal, strategi, usaha kecil dan menengah. Corresponding author: sandy.gunawan@prasetyamulya.ac.id Copyright © 2026 by Authors, Published by IRJBS. This is an open access article under the CC BY-SA License 	Small and medium enterprises (SMEs) play a significant role in the Indonesian economy. However, SMEs face several obstacles in developing their businesses and creating competitive advantages. As a business unit in the developing stages, SMEs are greatly influenced by the values adopted by the owner. Developing competitiveness requires SMEs to consider aspects of wisdom and values in the area where the SMEs are located. SME development through the integration of local values with business strategies will help better illuminate how these values influence business sustainability and competitiveness. The research attempts to determine the effect of traditional values on business strategies conducted by SMEs and its influence on competitiveness. The research focuses on SMEs in Badung Regency, Bali. Balinese people are known to uphold their traditions and customs in their lives. This study shows that local wisdom and values can serve as guidelines as a strategy to increase SMEs' competitiveness of SMEs. SARI PATI <i>Usaha kecil dan menengah (UKM) memainkan peran penting dalam perekonomian Indonesia. Namun, UKM menghadapi berbagai hambatan dalam mengembangkan usahanya dan menciptakan keunggulan bersaing. Sebagai unit usaha yang berada pada tahap pengembangan, UKM sangat dipengaruhi oleh nilai-nilai yang dianut oleh pemiliknya. Untuk membangun daya saing, UKM perlu mempertimbangkan aspek kearifan dan nilai-nilai lokal di wilayah tempat UKM tersebut beroperasi. Pengembangan UKM melalui integrasi nilai-nilai lokal dengan strategi bisnis akan membantu memperjelas bagaimana nilai-nilai tersebut memengaruhi keberlanjutan dan daya saing usaha. Penelitian ini berupaya menentukan pengaruh nilai-nilai tradisional terhadap strategi bisnis yang dijalankan oleh UKM serta dampaknya terhadap daya saing. Fokus penelitian ini adalah pada UKM di Kabupaten Badung, Bali. Masyarakat Bali dikenal menjunjung tinggi tradisi dan adat istiadat dalam kehidupan mereka. Hasil penelitian ini menunjukkan bahwa kearifan lokal dan nilai-nilai tradisional dapat berfungsi sebagai pedoman strategi untuk meningkatkan daya saing UKM.</i>

INTRODUCTION

Small and medium enterprises (SMEs) play a significant role in the development of the Indonesian economy. SMEs are approximately 99% of business entities in Indonesia and donate about 60.51% of the total Gross Domestic Product. The business units in addition employ around 97% of the total workforce (Kemenko, 2024). Despite its contribution, SMEs encounter several obstacles in improving its businesses. The challenges is, for example, that the absence of appropriate strategy for competitive advantage development.

SME strategy must take into account the values as well as local wisdom and tradition of the region where the SME domicile. Based on research by Rahyuda et al. (2017), the strength of local values in accordance with the character of SME owner has not been structuredly used as basis in developing SMEs' competitiveness. The consideration of the values is crucial considering the culture diversity that possess strong influence in communities around Indonesia. Local values and tradition have regulated the ways of human in conducting daily life as these have created harmony in human social life. Dawson (2013) stated that culture of affection, social bounding and traditional wisdom inherited across generations are strongly embedded into most local SMEs.

Local wisdom as a traditional value becomes a guideline in running life and improves human civilization through the application of intelligence, creativity, and knowledge by considering elements of local wisdom, such as natural resource potential, environment, paradigm, and behavior (Jundaini, 2018). Local values can be references in the development of SMEs (Rahyuda et al. 2017, Wahyudiono and Soekiman, 2019). Based on this traditional values, SME owners operate the businesses with social responsibility practices both to humankinds and the environment.

An example of a successful SME application of local values as a basis for running their businesses is an

SME in Bali. This company produces aromatherapy and skin care products aimed at foreign and domestic markets. SMEs apply the local wisdom value of Tri Hita Karana, which is a philosophical value of life regarding the harmony of human relations with God, fellow humans, and the environment. The application of local values is realized through selecting organic raw materials from fostered farmers who create products that are safe for consumers, waste processing, and employing housewives from the surrounding environment in an effort to empower women and create a family-like work atmosphere. The application of local values has a positive impact on business actors in increasing the productivity and competitiveness of the company.

Local wisdom values play a very important role in encouraging progress and entrepreneurial orientation and can be a guideline for improving human civilization (Jundaini, 2018). However, according to Rahyuda et al. (2017), the power of local wisdom values have not been embedded well to improve competitiveness, especially in SMEs. Additionally, Rahyuda et al. (2017) stated that vulnerable business growth is due to low level of understanding of local wisdom based management. The research puspose is to determine the effect of applying local values as foundation for business strategy creation in SMEs.

LITERATURE REVIEW

Small and Medium Business Definition

Government regulation (PP) No. 7 year 2021 is a regulation that regulates the ease, protection, and empowerment of cooperatives and micro, small, and medium enterprises. This government regulation explains the classification of business scales. The classification is based on the amount of business capital and sales results shown in Table 1.

Several studies have shown that SMEs in Indonesia still face many obstacles in running their businesses. These obstacles bring SMEs difficulty in increasing their business competitiveness. Ismail (2020) found

Table 1. Criteria of Small and Medium Businesses in Indonesia

No	Scale	Capital (Rp billions)	Sales (Rp billions)
1	Micro	≤ 1	≤ 2
2	Small	> 1 and ≤ 5	> 2 and ≤ 15
3	Medium	> 5 and ≤ 10	> 15 and ≤ 50

that SMEs face problems such as the inability to grow their business, lack of innovative products, less-than-optimal marketing, and the inability to maintain customer loyalty. Pramudita (2021) also found several obstacles faced by micro, small, and medium enterprises (MSMEs) in running their businesses, such as lack of innovation, weak marketing strategies, short-term owner mindsets, and the inability to meet consumer expectations.

Local Values

Humans follow a life order guided by local values. These local values are used to maintain life in an environment that is integrated with belief systems, norms, and culture and are expressed in a tradition that has been followed for a long time (Wahyudiono and Soekiman, 2019). Local values can have several forms, such as life values and norms, beliefs, and customs according to their respective regions.

According to Wahyudiono and Soekiman (2019), local wisdom has a function to maintain the sustainability of nature and to develop human resources, culture, and science as well as guidelines, beliefs, and rules that must be met in human life. Kongprasertamorn (2007) concluded that local values provide knowledge as a guideline for life to establish relationships with all individuals in their environment, whose guidelines consist of ethics, morals, and teachings to love nature and are a legacy from previous generations.

Jundaini (2018) stated that local values are needed to develop human civilization by considering the elements in this value consisting of natural resource potential, environment, paradigm, and behavior. Therefore, local values play an important role in creating a person's social responsibility for behaving in everyday life, including in running a business.

Corporate Social Responsibility

Based on previous research (Mandl and Dorr, 2007; Szabo, 2008), the application of corporate social responsibility in SMEs can be categorized into four parts: workforce-oriented, society-oriented, market-oriented, and environment-oriented aspects. The workforce-oriented aspect can occur in the form of providing employee training and development, equal opportunities for employees, a comfortable and safe working atmosphere, and a balance between work and personal life. The society-oriented aspect can be in the form of providing support for social activities such as sports activities, education, assistance to the underprivileged, involvement in community activities, and cultural preservation activities. The market-oriented aspect can include producing quality products, reasonable prices and customer service, providing correct information to customers, ethical promotional activities, and quick response to customer complaints. The last aspect, environment-oriented, includes reducing and regulating waste, reducing air pollution, using environmentally friendly packaging, and other actions.

Social responsibility practices carried out by SMEs provide positive benefits in increasing business competitiveness. Table 2 presents some findings obtained from several studies conducted on the benefits of social responsibility practices by SMEs.

Competitive Advantage

SMEs, like larger businesses, must have a competitive advantage in order to maintain business continuity. Porter (1985:33) stated that competitive advantage comes from activities carried out by the company in designing, producing, marketing, distributing, and supporting products that originate from an area in which these activities contribute to the company's

Table 2. Benefits of Social Responsibility for SMEs

Authors	Benefits
Maden et al. (2012)	• Building and maintaining relationships with customers • Showing concern for staff • Strengthening relationships with stakeholders • Good relationships with stakeholders will improve financial performance • Creating value for stakeholders
Ansong (2017)	• Increasing the ability to innovate • Encouraging opportunities for collaboration • Increasing trust among stakeholders • Increasing competitiveness
Martinez (2017)	• Being able to set higher prices • Gaining brand loyalty • Maintaining long-term relationships with suppliers and distributors • Being attractive to potential employees because of the company's reputation, making it easier during the recruitment process • Easier to obtain government assistance when needed
Gahramanova (2019)	• Getting a better reception in overseas markets • Attracting investors

costs and create a basis for differentiation. The purpose of this competitive strategy is to achieve a profitable and sustainable position related to the level of competition in the industry (Porter 1985). Barney et al. (2006) define competitive advantage as a strategy a company implements that creates value that cannot be matched by other competitors. This is in line with Besanko et al. (2015), who stated that a company has a competitive advantage if it can generate a higher level of economic profit compared to competitors in the same market by providing more economic value to customers.

The added economic value given to customers can be realized through quality products. Carroll (1979; 2004) believes that quality products resulting from social responsibility practices will increase customer satisfaction levels. Long-term customer satisfaction will improve the company's reputation. A company's reputation is a reflection of the level of customer satisfaction with the products and services it produces (Brammer and Pavelin, 2006). This is in line with Walsh et al. (2006) and Walsh, Mitchell, and Jackson (2009), who found that reputation is a

consequence of long-term customer satisfaction. A good reputation for a company can indirectly create a sustainable competitive advantage.

Several studies reveal a relationship between corporate social responsibility and competitiveness in SMEs (Jenkin 2009; Apospori, Zografos, and Magrizos, 2012; Sweeney, 2009). In addition, companies can improve their competitiveness through a good reputation, increased sales, customer loyalty, and increased ability to attract and retain employees. These elements help to achieve responsible practice standards and create access to capital (Sweeney, 2009; Weiss, 2003). Corporate social responsibility practices can have a positive impact on employees by increasing satisfaction and a sense of belonging (Murillo and Lozano, 2006). This can also have an impact on increasing the efficiency of company operations and the quality of products or services. Corporate social responsibility practices enable companies to develop innovative products and services that can be a source of competitive advantage (Jenkins, 2009). Programs that consider environmental sustainability are a

key factor in innovation (Porter and Kramer, 2006; Nidumolu et al., 2009) and can increase market share and financial performance.

METHODS

The method used in the research is qualitative methodology which conducted in Badung Regency Bali. The study focused SMEs domiciled in this regency as this are has experienced fast growing tourism favourite destination. In-depth interviews were conducted with 12 small businesses producing handicrafts, furniture, fashion, incense, aromatherapy, and skincare items and the method applied the semi-structured interview. The information gathered was then analyzed by firstly create transcript and that afterward summarized by using content analysis method. Based on the transcript from the interview, the step was to create rules used for coding to categorize the relevant information. After the coding, the steps afterward is to do analysis for interpretation. This step was conducted by examining and identification of relevant patterns, implied information and its relationship to the research topic. The final step was to perform conclusion based on the interpretation

RESULTS AND DISCUSSION

Bali as a renowned worldwide tourist destination has rich preserved tradition and local wisdoms. The cultures are dominantly influenced by Hinduism teaching as this is the main religion in the island. The Balinese highly refer their daily life to the cultural values and local wisdom in order to accomplish jagadhita that means to create peace for all creatures, harmonious life and attempation for liberation from misery.

Balinese people conduct their daily life and social relationship with the strong influence of local wisdom. The relationship between each other refers to local wisdom value of *tat twam asi* (I am you, you are me) meaning that each human has the same level of status in community. The value, moreover, is the foundation of mutual respect and tolerance in the community. When interacting each other,

Balinese people have belief called Karma stating that every action taken will have consequences. The good intention will result in good consequences and vice versa.

The realization of *tat twam asi* requires Catur Paramita as a regulation of relationship and attitudes in the community. The attitudes consist of four namely Maitri, Karuna, Mudita, and Upeksha. Maitri refers to friendliness, compassion, friendship and helpful in order to aim harmonious between each other. Karuna refers to empathy and compassion for other humans in suffer. In community, Balinese people believe that humans have to be empathy in the hardships of others and attempt to assist them to reducing the suffering. Other value is Mudita that means behavior to please other people, sympathize others' success without being envy. The last value Upeksha, refers to tolerance and mutual respect for others.

Balinese people who like to help by working together are also a manifestation of the local values of *menyama braya* (mutual cooperation), *ngayah* (selfless attitude), *sih laku darma* (human actions in carrying out their dharma must be based on a sense of love), *ngupin* (voluntary help), among others. According to Atmadja (2010), Balinese people view nature as an inseparable unity, and this close relationship requires Balinese people to maintain harmony with nature. If not, nature will be 'angry' and make human life difficult. Nature is seen as a sacred element that needs to be purified so that it is necessary to maintain balance and harmony with nature.

The strong attachment of Balinese people to nature is inseparable from the influence of Hindu teachings. Hindu teachings read, "*Mà-apo himsìr, mà-osadhìr himsìh...*" which means "Do not pollute the water and do not hurt or cut down the trees." Another teaching in Atharvaveda VIII states, "*Vì r u d h o v a i s v a d e v ìr ugr à h purusañivanìh*" which means, "Plants have the qualities of the gods. They are the saviors of humanity." Therefore, preserv-

ing nature is one of the religious activities for the Balinese people because it is a form of respect for the greatness of Hyang Widhi.

Balinese people view the harmonious relationships between humans and God, humans and others and nature must be preserved in harmonious ways to accomplish happiness in life. The harmonious relationships are known as the Tri Hita Karana philosophy. Tri Hita Karana has the meaning of three causes of happiness in life. To obtain this ideal condition, Balinese people have to maintain a harmonious connection between humans and God (Parhyangan), between other humans (Pawongan), and between the natures (Palemahan).

The Palemahan value can be conducted through preserving environment and nature sustainability as this condition can be the source of sustenance and prosperity for humans. Pawongan or human relationship can be conducted through preserving good relationship with family, friends and society. The element of manyama braya creates mutual relationship by helping others, maintain harmonious relationships with humans. This can in addition be manifested by being tolerance with the diversity and dynamics in life.

The two elements mentioned in the previous paragraph should be associated with a harmonious relationship with the Almighty God or Parhyangan. This connection with God is actualized through religious activities including praying and holy ceremonies. The manifestation of the three elements must be harmoniously conducted in daily life as prerequisite to accomplish prosperity in life (Siswanto et al. 2014). This Tri Hita Karana principle in addition greatly affects the tradition and culture of collectivism for harmonious association in the society (Houston et al. 2012).

SMEs in Bali operates its daily business referring to the philosophy of Tri Hita Karana. SMEs attempts to sustain harmonious connection between the Almighty, human and the environment. By doing

this, SMEs in Bali run their business with more responsibility and awareness to the society. Based on Carrol (1991), social responsibility business practices can result in competitive advantage. Therefore, SMEs can obtain indirectly competitiveness through socially responsible business practices based on the local wisdom.

The application of the Tri Hita Karana aspect of Pawongan, which maintains harmonious relations with others, is realized by an SME producing beachwear as follows:

"I always keep my commitment to my customers by speaking and acting honestly, maintaining the exclusivity of the model and design of each customer's products, because usually they buy clothes from me to resell. I also try to provide good service. Thank God, even though it's hard like now, my customers are still loyal.."

This sentiment reflects a commitment among SMEs to treat and maintain relationships with consumers. In addition, business actors exercise Pawongan or relationships with humans from the THK concept by maintaining family relationships and informal communication in the following ways:

"I have a good relationship with my employees... I usually like to join them in doing work or praying together. I also sometimes allow them to do work at home, with flexible working hours so they can take care of their children and families first..."

This informal communication is done to improve relationships by establishing harmonious relationships with employees. This unconsciously maintains employee loyalty, which impacts productivity.

An example of the practice of social responsibility as a form of implementing the THK concept is carried out by SME producing handicrafts, specifically by

empowering the surrounding community in the following ways:

“...my workforce comes from mothers around my business environment.. yes, the goal is to be able to provide them with jobs to help their husbands... I am also committed to not laying them off, even though the current situation is difficult... I still pay wages according to the standard, I do not reduce them, coincidentally I have another business, and the results I can use to pay their wages... I often go to prayer together with them, so that we are closer...”

The statement above shows the example of the SME practicing Pawongan principle that result in improving employees' motivation, productivity and loyalty.

SME whose product is herbal incense actualizes Palemahan principle by using natural raw material from mahogany and gaharu wood. As incense

is important part when Balinese conducting ritual activities in daily religious ceremony and meditation, the herbal incense is really important in reducing risk both to environment pollution as well as human health. This is due to most of existing incense in the market made from chemicals harmful to environment and human health. By using environmental friendly material, the SME has embraced the value of harmony to environment. As a result of this, the SME has experience improvement in revenue both from Balinese and foreign consumers.

The implementation of the local values of Tri Hita Karana as a strategy when associated with the implementation of social responsibility practices associated with Mandl and Dorr (2017) namely workforce-oriented, society-oriented, market-oriented, and environment-oriented and its consequence to SMEs' competitiveness are shown in Table 3.

Table 3 Implementation of Tri Hita Karana and Its Impact on Competitive Advantage

Social Responsibility Orientation – Tri Hita Karana					
		Market Oriented/ <i>Pawongan & Parhyangan</i>	Workplace Oriented <i>/ Pawongan & Parhyangan</i>	Environment Oriented / <i>Palemahan & Parhyangan</i>	Community Oriented / <i>Pawongan & Parhyangan</i>
SME1	Integration to Strategy	. Plant-based product . Apply safety standard . Maintain product quality . Customer service . <i>Customer service</i> . <i>Complaint handling</i> . BPOM Certified	. Innovative production process . Training for employees . Familihood . Fair wages . Formal and informal meeting with employees	. Eco-friendly production process . Avoid using chemical pesticide . Natural raw material	. Donation . Religious and cultural ceremony . Hiring people from community . Educate farmers as source of raw material . Sharing business experience . Fair trade
	Impact on Competitive Advantage	. Innovative and quality product . Customer satisfaction and loyalty . Good brand image . Sales increase	. Employee productivity, motivation, and loyalty	. Cost efficiency . Brand image	. Company reputation . Guaranteed supply from farmer reinforcement

		Market Oriented/ Pawongan & Parhyangan	Workplace Oriented / Pawongan & Parhyangan	Environment Oriented / Palemahan & Parhyangan	Community Oriented / Pawongan & Parhyangan
SME2	Integration to Strategy	- Natural and organic raw material - B POM certified	- Fair wage - Good communication with employees - Learning opportunity	- Waste managemnt - Eco friendly packaging - Natural raw material	- Community reinforcement - Donation - Educate supplier to supply good raw material
	Impact on Competitive Advantage	- Customer satisfaction and loyalty - Innovative and quality product - Good reputation	Employee loyalty and motivation	Eco friendly product	Terjaminnya bahan baku yang ramah lingkungan
SME3	Integration to Strategy	- Product quality - Product design - Eco friendly product	- Fair wages - Good communication with employees	- Use pre-owned material for raw material - Minimize waste and upcycling byproducts	Educate supplier to provide good raw material
	Impact on Competitive Advantage	- Customer satisfaction and loyalty - Good reputation and image	Employee loyalty and productivity	Cost efficiency	Guaranteed supply from supplier

Table 3 shows that SMEs implement the THK concept in their corporate social responsibility and integrate it into their business strategy to create competitiveness. SMEs that produce SPA products use natural and organic ingredients that are safe for consumers and register them with authorized institutions to guarantee the legality and safety of the product. In addition, these SMEs use environmentally friendly packaging so that it is easily biodegradable.

Other SMEs as producers of aromatherapy and skin care products use raw materials obtained from processing plant-based raw materials so that they are safe to use, providing education to farmers in producing quality raw materials. SMEs producing herbal incense from Mahogany and Gaharu wood said that the incense products can penetrate the

foreign market because the raw materials used are safe for human health and the environment.

These approaches are in accordance with the local wisdom value of Tri Hita Karana from the Pawongan element, which considers goodness for humans and also Palemahan by considering environmental sustainability. This local wisdom value is realized through socially responsible products. The following are some of the results obtained when conducting interviews with these SMEs.

“...the incense products that I make are intended to provide good benefits to the community by providing herbal products that are safe to use for their health. In addition, the materials used are environmentally friendly so that they are friendly to nature...”

"This herbal incense product is based on my thinking that good things will bring goodness too. The positive aura of this herbal incense will produce positive vibrations... my incense is usually used for aromatherapy... or for meditation. In the market there are many incenses made from chemicals... for the local market. Incense sells because the price is cheap, local buyers do not really care about herbs or not... foreign buyers prefer my herbal incense, because of the aroma and it is also safe to use and environmentally friendly..."

One SME surveyed makes furniture from used fishing boat wood. Used wood is in demand among customers abroad because the products indirectly help preserve the environment. In addition, this SME can meet the needs of customers abroad.

The SME actualized *Palemahan* value of Tri Hita Karana by using wood waste material resulting in preservation of fresh wood from the forest. The practice in addition ensure the consumers that the SME do not use material from illegal logging. As a result, the buyers' decision to purchase the furniture is due to environmental friendly product that will not occur if the products are made from deforestation.

"...foreign buyers before transacting with me ask where the wood material for the furniture I use in production comes from. If it comes from illegal logging, they will cancel the transaction process. Until now, my customers from abroad are happy with my environmentally friendly products, besides the quality of the materials and designs are also good..."

"Besides in Bali, I have wood suppliers from Banyuwangi. I taught them to first process wood from used fishing boats, so that it is ready to be used in the production process. Production costs can be reduced, and my suppliers are very happy because besides getting orders from me, they can also learn new skills."

Another SME who also produces furniture products from used fishing boat wood in implementing local values shares the following experience:

"My customers from Australia are very happy with the products I make because I can meet their tastes, besides because the raw materials come from used wood... there are also overseas customers, and I make sure that I do not use underage labor..."

"... other craftsmen whose products are similar to mine... many have gone out of business. I notice it's because they cannot meet the demands of overseas consumers' tastes."

Meanwhile, SMEs that produce furniture from driftwood waste embody local values as follows:

"My furniture products are very popular with overseas customers... because they are made from driftwood waste found on the beach... usually this waste wood is carried by high tide and pollutes the beach, but with the products produced, the beach is also cleaned... my products also prioritize quality, and I like to see references for new models as a source of inspiration for the next product... my husband and I also pay close attention to the quality of the products we make, sir..."

The implementation of Tri Hita Karana was conducted by SME producing SPA from organic and eco friendly material. To ensure the legality of its products, the SME registered its products to the Food and Drug Supervisory Agency (BPOM) in order to be legally certified. Besides this, the SME packages are from biodegradable packaging harmless to the environment.

"...my products are accepted in overseas markets because I really care about licensing... I register my products with BPOM or other official permits as needed, besides my

*products are made from natural ingredients...
my packaging is also environmentally friendly,
biodegradable..."*

Referring to the values of Tri Hita Karana, the SME has satisfied the element of *Pawongan* and *Palemahan* in which the SME produce safe product for consumers and at the same time promote environment preservation. The values contained in Tri Hita Karana has strongly affected the society in Bali and accordingly has influenced the entrepreneurial process in SMEs.

With this high entrepreneurial orientation, SME actors in Bali have the advantage of being market-oriented. This affects the ability of SME actors in Bali to innovate, be active, and have the courage to take risks (Riana, 2011). The implementation of Tri Hita Karana result in positive effect on the business performance and the capability to accomplish strong advantages (Winata, 2019).

By implementing the value of local wisdom, small business in Bali can create competitive advantages as the values affect the business to be more socially responsible. For example, SMEs product offer uniqueness that differ from other competitors'. This uniqueness refers to Porter (1985, 2007) generic strategy that is differentiation strategy expected to create customer loyalty and profit creation. The product innovation as a result of combination of social responsibility business practices increase the sustainability of the business (Rochayatun et al. 2023), maintain customer loyalty and empowerment of community (Gunawan et al. 2022).

In addition, the use of recycled material in producing products, the product cost can be more efficient leading to cost leadership as in Porter generic strategy. The implementation of *Pawongan* and *Palemahan* leads the SMEs to be more inclusive by involving the community and ensuring the environmental preservation. The engagement of community in the business result in corporate

reputation, image and legitimacy. This is aligned to theory of Corporate Social Responsibility by Carrol (1991) that is corporation can benefit and create competitive advantage by being socially responsible. Moreover, social responsibility practices in business strategy can improve the relationship between stakeholders and more access to new knowledge beneficial for the business (Marakova, 2021).

MANAGERIAL IMPLICATION

Based on the results of the analysis, SMEs must increase their knowledge capacity regarding the relationship between local values and business strategies to create competitiveness. SMEs need to increase their capacity and broaden their horizons by participating in socialization and education regarding the benefits of practicing social responsibility based on local values as a strategy to increase competitive advantage. Strategies based on local values can be realized by meeting the criteria in corporate social responsibility practices. The integration of local wisdom as strategy in small business requires efforts and times. However, despite the challenges, the originality cultural values generated from the integration is more appreciable in current markets.

The business strategy of SMEs based on local values show that local wisdom has the potential to create competitiveness when associated with corporate social responsibility practices. For this reason, the practice of social responsibility must be integrated into the strategy of SMEs. The values of local wisdom that are manifested in socially responsible businesses can create a different ability for SMEs which turns out to play a role in the success of SMEs in conducting trade transactions with foreign buyers. Small businesses are able to integrate the local values through actions such as product differentiation, sustainable practices in value chain, brand awareness by cultural story telling, community engagement and position itself as sustainable and ethical business entity. Therefore, understanding the values of local wisdom and social

responsibility practices by SMEs and their influence in running a business is very important, because the approach of SMEs must differ from that of large companies.

In order to encourage the integration of local wisdom into small business strategy, the government can intervene by establishing relevant policies for sustainable business ecosystem creation. Such policies can vary from delivering incentive for green innovation, improvement of relevant infrastructure, promoting of local wisdom socially responsible business and capacity building for entrepreneurial skills based on local wisdom. Moreover, the government policies should emphasize more on the integration local wisdom and cultural values into small business model and encourage the business to implement this by providing relevant skill and knowledge enhancement.

CONCLUSION

SMEs require to broaden horizons regarding business strategies to create competitiveness. The strategy to create competitiveness has actually been practiced by SMEs as a manifestation of local values in daily life. By understanding business strategies, SMEs can optimally embed local values as business

strategy by observing the relationship between each other. The manifestation of local values has so far been more focused on socially responsible business practices.

A broader understanding of all of these aspects is expected to contribute more to the strategy of SMEs in creating business competitiveness. This is expected to create a more structured framework between business strategies and social responsibility practices based on local values. Through the practice of social responsibility, this framework shows that local values have a strong influence in increasing the competitiveness of SMEs. Traditional beliefs as local wisdom can become strong foundation as reference for SMEs to improve its competitive advantage through thorough notion of implementing social responsibility based on the beliefs business strategy. The improvement of SMEs mindset while applying local wisdom in daily business can improve competitiveness by embedding social responsibility practices as business strategy. With the diversity of cultures and tradition in Indonesia, further research can focus on the influence of local values on the competitiveness of SMEs from other regions.

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