

The Mediating Role of Competitive Advantage on Marketing Innovation and Business Performance in Micro and Small Restaurants in Western Batangas

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Abstract. This study addresses the gap in understanding how marketing innovation influences competitive advantage and business performance in micro and small-scale restaurants in Western Batangas. Specifically, it examines the roles of market orientation and product innovation in contributing to competitive advantage, characterized by value, rarity, inimitability, and non-substitutability. The objectives were to analyze the effects of marketing innovation on competitive advantage and business performance, while also exploring the mediating role of competitive advantage. Employing an Explanatory Sequential Mixed-Method design, the research commenced with the quantitative analysis of data gathered from 159 restaurant owners and managers using a self-constructed questionnaire. Statistical tools, including frequency analysis, percentages, means, simple linear regression, and the Sobel Test, were utilized. This was followed by qualitative insights obtained through Focus Group Discussions with five participants, analyzed using Thematic Analysis. Results showed a concentration of restaurants in Balayan, Nasugbu, and Calatagan, with most operations lasting less than ten years and employing between 1 and 99 staff. Findings indicated that both market orientation and product innovation have a positive impact on competitive advantage; however, competitive advantage did not significantly mediate the relationship between marketing innovation and business performance. The Sobel test and qualitative interviews confirmed this. The study concludes that marketing innovation enhances the performance of micro and small-scale restaurants indirectly by providing a competitive advantage. A concise business manual was developed to provide actionable strategies for restaurant owners aimed at improving product offerings, services, and overall competitiveness in the market.

Keywords: Business manual; Competitive advantage; Marketing innovation; Micro and small-scale restaurants; performance.

1.0 Introduction

In today's dynamic business landscape, micro and small-scale restaurants face a range of challenges and opportunities. Marketing innovation has become a vital strategy for businesses seeking to remain competitive, adapt to changing consumer behaviors, and improve their performance. This study examines the mediating role

of competitive advantage on marketing innovation and business performance among micro and small-scale restaurants in Western Batangas. Marketing innovation refers to the creation of new marketing techniques that enhance customer value and provide a competitive edge for the company. It emphasizes unique approaches to promoting, distributing, or showcasing products that have not previously utilized new or significantly enhanced marketing strategies involving product design, pricing, promotion, or distribution. According to Kraus et al. (2020), marketing innovation is crucial for small businesses seeking to differentiate their brand and maintain relevance in highly competitive markets. This is especially critical in the food service sector, which includes micro and small restaurants, where innovation in customer engagement and product offerings contributes to firm resilience and market success.

Gaining a competitive advantage is essential for small businesses navigating saturated markets. Yehia et al. (2019) argue that businesses with strong marketing innovation strategies are more likely to outperform their competitors by creating unique customer value. In a more recent study, Kaur, Bedi, and Saini (2025) emphasized that innovativeness significantly enhances the performance of small and medium enterprises (SMEs), particularly when supported by a strong learning orientation. Their findings highlight that a firm's ability to learn and adapt amplifies the positive impact of innovation, ultimately strengthening competitive positioning and ensuring long-term sustainability.

In the context of Western Batangas, a district in the province of Batangas experiencing steady tourism growth and economic development, micro and small restaurants must constantly innovate to stand out. Informal interviews with restaurant owners reveal a pressing need for product differentiation and enhanced customer experience. However, empirical research focusing on how marketing innovation drives business performance in this area remains limited. Existing studies have predominantly addressed more urbanized and industrialized areas, highlighting a regional research gap.

As an emerging tourism and commercial hub, Batangas has witnessed a surge in entrepreneurial activities, particularly in the food and hospitality sectors. Western Batangas, which includes the city of Calaca and municipalities such as Balayan, Nasugbu, Calatagan, and Taal, has become renowned for its beaches, heritage sites, and local cuisine, attracting both tourists and investors. According to the Department of Trade and Industry (2023) and the Cities and Municipalities Competitive Index (2023), this region has experienced an increase in micro and small enterprises, particularly in the food and beverage sector.

Despite their economic potential, small-scale restaurants in the region face intense competition from larger, well-branded establishments. Nonato et al. (2023) documented that many MSME restaurateurs struggled with rising costs, stiff competition, and supply chain issues; however, those who survived did so by adapting through takeout/delivery solutions, as well as focusing on online marketing. Complementing this, Utami et al. (2024) found that applying Blue Ocean strategies, such as enhancing product quality, delivery options, and ambiance, significantly improved brand visibility and differentiation. These findings align with the pre-survey interviews, in which customers increasingly value quality, distinctiveness, and atmosphere — areas in which marketing-driven innovation can offer a competitive edge.

To address this gap, this study adopts a mixed-methods approach. First is the quantitative approach, which evaluates the extent to which marketing innovation affects competitive advantage and business performance among micro and small-scale restaurants. To further strengthen the analysis, the study also explores qualitative insights through interviews with restaurant owners and managers, uncovering their experiences, strategies, and challenges in implementing marketing innovations. This qualitative component provides a deeper understanding of the practical applications of innovation, enhancing the coherence and richness of the mixed-methods framework. Ultimately, the study aims to contribute not only to the academic field but also to practical business development. The findings will inform the creation of a business manual designed to support micro and small restaurant owners in enhancing their competitiveness, sustaining their operations, and contributing to the overall economic vitality of Western Batangas.

2.0 Methodology

2.1 Research Design

The study employed a mixed-methods research design to explore the research questions, integrating both quantitative and qualitative data collection and analysis. The Explanatory Sequential mixed-method design was employed, a two-phase approach that begins with the collection and analysis of quantitative data, followed by the collection and analysis of qualitative data to provide depth and context to the initial findings (Creswell & Creswell, 2023). This design enabled the study first to generate statistical insights into the relationships among variables – such as marketing innovation, competitive advantage, and business performance – and then deepen these insights through qualitative perspectives.

The quantitative phase provided numerical insights into the relationships between variables and statistical support for the study's hypotheses. In contrast, the subsequent qualitative phase enriched the findings by offering a deeper understanding of the phenomena under investigation. This methodological choice enhanced the robustness and depth of the study, contributing to a more holistic interpretation of the complex interplay between marketing innovation, competitive advantage, and business performance in micro and small-scale restaurants in Western Batangas. To further explore the quantitative findings, a Focus Group Discussion (FGD) was conducted with randomly selected owners and managers of micro and small-scale restaurants. Participants were provided with briefing materials to ensure clarity on the discussion's objectives, and structured interview questions were used to guide the session. A trained moderator employed neutral language, active listening, and inclusive facilitation techniques to reduce interviewer bias and promote open, honest dialogue. Efforts to minimize response bias included ensuring participants' confidentiality, encouraging voluntary participation, and avoiding leading questions. The qualitative data were analyzed using reflexive thematic analysis following Braun and Clarke's (2022) six-phase process. This method enabled the systematic identification and interpretation of patterns and themes from participant responses. These steps ensured the credibility and trustworthiness of the findings, which significantly contributed to the development of the study's proposed output.

2.2 Research Locale

The study was carried out in six (6) municipalities in Western Batangas, Philippines. This includes Nasugbu, Lian, Tuy, Calatagan, Balayan, and Calaca.

2.3 Research Participants

To determine the total number of respondents for the quantitative phase of the study, the Raosoft sample size calculator was used, based on a 95% confidence level, a 5% margin of error, and a population size of 269 micro and small-scale restaurants operating in the selected municipalities of Western Batangas. The recommended minimum sample size, based on these parameters, was 159 respondents, proportionally distributed as follows: 51 from Balayan, 38 from Nasugbu, 28 from Calatagan, 17 from Calaca, 14 from Lian, and 11 from Tuy. A simple random sampling technique was applied to ensure equal representation and minimize bias. The list of registered micro and small-scale restaurants was obtained from the Business Permit and Licensing Office (BPLO) of each municipality, from which names were randomly drawn to identify actual participants. Although no formal power analysis was conducted, the use of the Raosoft calculator is a widely accepted method for survey-based research that ensures an adequate level of statistical power for both descriptive and correlational analyses, particularly considering the small population size.

For the qualitative phase, five (5) participants were purposively selected from among the 159 survey respondents to participate in a Focus Group Discussion (FGD). Selection was based on their willingness to participate and the diversity of their backgrounds in terms of business location and years of operation. The discussion followed a semi-structured interview format, facilitated by a moderator to ensure consistency and depth of the conversation. Although the number of FGD participants is relatively small, literature supports that thematic saturation – the point at which no new themes emerge – can often be reached with 4 to 6 participants in focused qualitative studies, particularly when participants share similar characteristics or operate within the same sector (Guest, Namey, & McKenna, 2017). Given the shared context and business category of the participants, the number is deemed sufficient for exploring patterns and perspectives relevant to marketing innovation and competitiveness in the region. Nevertheless, care was taken to ensure that rich, detailed, and diverse insights were collected during the discussion.

2.4 Research Instrument

This study employed a self-constructed survey questionnaire as the primary data collection instrument. The questionnaire was divided into four parts: the subject's profile, marketing innovation, competitive advantage, and business performance of micro and small-scale restaurants, as assessed by the respondents. The first part focused on the business profile, which was determined in terms of the business's location, length of operation, and number of employees. The second part dealt with marketing innovation, which consisted of 23 indicators, 11 for market orientation and 12 for product innovation. The third part pertained to the competitive advantage, which comprised 26 indicators, distributed across value, rarity, inimitability, and non-substitutability. For the fourth part, performance was assessed using 14 indicators, divided into 7 for financial performance and 7 for operational performance. Additionally, interview guide questions were formulated and used during the Focus Group Discussion. This study aimed to explore the quantitative results on the perception and assessment of business owners or managers of micro and small-scale restaurants in selected municipalities of Western Batangas regarding marketing innovation, competitive advantage, and the performance of their establishments.

2.5 Data Gathering Procedure

The process of data gathering began with drafting a formal letter to obtain the list of micro and small restaurants from the Business Permits and Licensing Office in the selected municipalities of the respective locales. The researcher brought the letter to the said office and had it approved by the authorized person. After its approval, a copy of the requested document was provided to the researcher. Meanwhile, another letter intended for the respondents was constructed and approved by the thesis adviser. This was attached to the questionnaires that were distributed to the respondents.

On the other hand, the self-made survey questionnaires were personally hand-carried to the respondents for them to complete. They were asked to complete the survey questionnaire by answering the set of questions. After the respondents completed the survey questionnaires, they were given enough time to assess their responses. When the questionnaires were completed, interviews were conducted to validate the questionable responses in the survey instrument. Moreover, after completing the validation of respondents' responses, the proponent retrieved the questionnaires and proceeded to tally the accumulated data. Based on the tallied and tabulated data, the survey results were reviewed with the statistician for statistical treatment and analysis. Then, statistical results were provided by the statistician and subjected to analyses and interpretations by the researcher.

To ensure the validity and reliability of the questionnaire, it was presented to the adviser for initial face and content validation. Then, upon approval of the adviser, the researcher consulted the statistician for measurement accuracy of data, and then forwarded it to the grammarian for checking and verification of the statements and indicators for each variable used in the study. After the questionnaire had been validated by them, it was submitted to the panel of examiners and the chairperson for final evaluation. Pilot testing or a dry run was conducted to test the reliability of the self-constructed questionnaire. Twenty (20) owners/managers of small-scale restaurants from other municipalities, which are not the subject of the study, participated in the pre-tested survey. They were given the same set of questionnaires to test their internal consistency. Cronbach's Alpha was used to determine the validity and reliability of the questions.

After validating and testing the survey questionnaire's reliability, the proponent started conducting the study through questionnaire administration. Permission from the respondents was secured first by presenting them with a request letter to participate in the survey. Then the questionnaire was distributed to the respondents after explaining to them the purpose of conducting the study. The contents of the questionnaire were discussed with them, and they were asked to participate voluntarily. Five (5) days were spent in the distribution of the questionnaires to the owners/managers of the various small-scale restaurants in Western Batangas. The responses of the respondents were scored using the Likert Scale with a 1-5 continuum of responses in the questionnaire to measure marketing innovation, competitive advantage, and performance of the small-scale restaurants.

2.6 Data Analysis

This study applied both quantitative and qualitative methods. Frequency and percentage were used to describe respondent profiles. Mean scores assessed indicators of marketing innovation, competitive advantage, and business performance. Simple linear regression determined the effect of marketing innovation on competitive advantage and business performance. The Sobel test examined the mediating role of competitive advantage. For

qualitative data, reflexive thematic analysis was used to identify patterns and themes from the Focus Group Discussion.

2.7 Ethical Considerations

This research study followed ethical guidelines. Standards of ethics serve as guidelines for the proper pursuit of this research activity. With the proposed study, the researcher sought the respondents' permission, without forcing them to be involved in the conduct of the study. The respondents contributed based on informed consent, which entailed the researcher providing sufficient information and assurances about taking part, to allow them to understand the implications of their participation to reach a fully informed and freely given decision about whether or not to do so, without the exercise of any pressure. The privacy and anonymity of the respondents were also given paramount importance. The researcher maintained the highest level of objectivity in the discussion and analyses throughout the research. Any misleading information, as well as the representation of primary data findings in a biased way, was not tolerated. Furthermore, the works of other authors used in any part of the study were acknowledged and recognized. Lastly, any type of information and communication about the research study was treated with honesty and transparency.

3.0 Results and Discussion

3.1 Profile of the Respondents

Location of the Business

As indicated in Table 1, the majority of respondents were from Balayan, where 51 of the 159 businesses are located, accounting for 32.1 percent. This is followed by Nasugbu, which has 38 respondents, representing 23.9% of the total. Next, Calatagan has 28 respondents, making up 17.6 percent. Lian, ranking second to last, has 14 respondents or 8.8 percent. Meanwhile, Tuy has the fewest respondents, with only 11 businesses situated there, representing 6.9 percent. The data reveals that Balayan is the district's hotspot for micro and small-scale restaurants, followed by Nasugbu and Calatagan. This indicates a thriving food and beverage industry, with numerous privately-owned restaurants and other micro and small-scale food-related businesses catering to customers' needs and preferences. These municipalities serve as significant hubs for such businesses, surpassing others in the district. Conversely, Calaca, Tuy, and Lian have only a limited number of micro and small restaurants offering food and refreshments.

Table 1. *Frequency and percentage distribution of respondents as to the location of the business*

Location of the Business	Frequency	Percentage (%)
Nasugbu	38	23.90
Lian	14	8.80
Tuy	11	6.90
Balayan	51	32.10
Calatagan	28	17.60
Calaca	17	10.70
TOTAL	159	100.00

This suggests that considerable numbers of micro and small-scale restaurants are operating in other municipalities nationwide. These findings align with recent MSME data from the Philippine Department of Trade and Industry (DTI), which reports that in 2023, micro and small enterprises made up over 99 % of registered MSMEs, with the accommodation and food service industry accounting for nearly 15 % of all establishments, highlighting their significance in local economies. Consequently, entrepreneurs are encouraged to explore opportunities in Balayan, Nasugbu, and Calatagan, where micro and small-scale food ventures are more likely to be successful and thrive.

Length of Operation

Based on the data in Table 2, the majority of micro and small-scale restaurants have been established recently, with 55.3% of respondents operating for five years or less.

Table 2. *Frequency and percentage distribution of respondents as to the length of operation*

Length of Operation	Frequency	Percentage (%)
5 years and below	88	55.30
6 - 10 years	50	31.40
11 - 15 years	12	7.50
16 - 20 years	2	1.30
More than 20 years	7	4.40

Total	159	100.00
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The data suggests a surge in entrepreneurial activities and a dynamic business environment. Respondents with six to ten years of tenure represent 31.4%, while those with 16 to 20 years of tenure make up the smallest percentage at 1.3%. Establishments operating for more than 20 years comprise 4.4% of respondents, indicating resilience and adaptability. The data highlights the importance of experience for business growth.

Number of Employees

The data presented in Table 3 indicate that the restaurant industry in Western Batangas is predominantly composed of micro-businesses with 1 to 10 employees, mainly due to high competition. However, larger players with more established brand reputations, greater operational efficiency, or higher levels of investment account for 27.7% of the respondents.

Table 3. *Frequency and percentage distribution of respondents as to the number of employees*

Number of Employees	Frequency	Percentage (%)
1-10 employees	115	55.3
11 – 99 employees	44	31.4
Total	159	100.0

This insight is crucial for understanding the employment landscape within the sector, and it may have implications for various factors, including local economic development, labor market dynamics, and business sustainability. By understanding the workforce size and structure of restaurants in Western Batangas, business owners and/or managers can make informed decisions that would positively impact the industry and its stakeholders.

3.2 Evaluation of Marketing Innovation among Micro and Small Restaurants

Market Orientation

Table 4 presents the respondents' evaluation of marketing innovation through a market orientation lens, yielding a composite mean of 4.43, which is interpreted as "agree." Notably, indicator no. 11, focusing on regular customer feedback, holds the top rank with a mean of 4.64, followed by indicators emphasizing customer satisfaction and staff competence.

Table 4. *Market Orientation as Assessed by the Respondents*

	Indicators	Mean	Interpretation	Rank
1.	Customers' needs are regularly analyzed and tracked	4.60	Strongly Agree	4
2.	The restaurant's objectives are determined by customers' satisfaction	4.62	Strongly Agree	2
3.	The strategy to obtain competitive advantage is based on understanding the customers' needs.	4.41	Agree	6
4.	Marketing tactics are designed to provide customers with value.	4.39	Agree	7
5.	The management reacts very quickly to competitors' actions	4.19	Agree	10
6.	Marketing research is regularly conducted to find out what customers think about goods and services.	4.29	Agree	8
7.	Benchmarking activities are facilitated to improve performance by looking at other competitors' offerings.	4.09	Agree	11
8.	Information about the customers flows freely along the whole organization.	4.28	Agree	9
9.	The managers know how the staff of all the departments can help generate value for the customers.	4.58	Strongly Agree	5
10.	All the staff can competently handle customers' queries.	4.61	Strongly Agree	3
11.	Talking to customers for feedback is regularly done.	4.64	Strongly Agree	1
Composite Mean		4.43	Agree	

These results underscore the restaurant's commitment to customer-centric practices, highlighting the importance it places on feedback and customer satisfaction. Conversely, indicators related to benchmarking and quick responses to competitors rank lower, suggesting potential areas for improvement. These findings align with recent

research by Wonglimpiyarat (2020), who emphasized that customer orientation, responsiveness, and innovation are critical for micro and small enterprises to remain competitive, particularly in rapidly changing service environments. This underscores the pivotal role of customer-focused strategies in driving marketing innovation among micro and small restaurants. Prioritizing customer satisfaction, agility in responding to market shifts, and proactive competitor analysis emerge as vital strategies for sustaining competitiveness and fostering business growth.

Product Innovation

Table 5 illustrates the respondents' evaluation of marketing innovation regarding product innovation, yielding a composite mean of 4.42, interpreted as "strongly agree". Notably, indicator no. 7, which focuses on developing good product quality, claims the top spot with a mean of 4.56, closely followed by indicator no. 12, emphasizing the continuous improvement of core products, ranked second with a mean of 4.52. However, indicators related to developing new product technology and new menu recipes based on customer demands rank lower, suggesting a lesser degree of agreement in these areas.

Table 5. *Product Innovation as Assessed by the Respondents*

Indicators		Mean	Interpretation	Rank
1.	There is a uniqueness in the menu offerings.	4.43	Agree	5
2.	New menu recipes are quickly developed in response to customers' demands.	4.31	Agree	10
3.	A variety of menu choices are introduced in the market.	4.35	Agree	8
4.	New menu designs are created.	4.42	Agree	6
5.	Existing products' appearance is upgraded.	4.39	Agree	7
6.	Specialty products are produced.	4.45	Agree	4
7.	Good product quality is developed.	4.56	Strongly Agree	1
8.	Methods of food preparation and techniques are improved.	4.43	Agree	5
9.	New product technology is developed.	4.30	Agree	11
10.	New product marketing techniques are used.	4.33	Agree	9
11.	Product packaging and labeling are innovated.	4.48	Agree	3
12.	The core products are continuously improved.	4.52	Strongly Agree	2
Composite Mean		4.42	Agree	

This indicates a preference for incremental innovation, prioritizing the enhancement of existing products over the introduction of entirely new ones, reflecting a strategy that emphasizes consistent improvement to maintain high-quality standards rather than radical changes in response to shifting customer demands. These findings are consistent with Aland, Menahen Taneo, and Widyaningrum (2022), who found that product innovation significantly enhances the performance of food SMEs, mainly when improvements focus on enhancing existing product quality, leading to increased customer satisfaction, market share, and revenue. In light of this, micro and small-scale restaurants should continue to emphasize high-quality product development and customer orientation to drive innovation and sustain a competitive advantage.

3.3 Achieving Competitive Advantage

In terms of Value

Table 6 reveals that micro and small-scale restaurants can achieve a competitive advantage by prioritizing efficient marketing, maintaining high-quality standards, and consistently delivering products and services. Respondents ranked these factors as highly important, with a composite mean of 4.42, indicating a "great extent" of importance. In contrast, giving promotional discounts regardless of customer loyalty and using feedback to meet changing preferences were ranked lower in importance.

Table 6. *Competitive Advantage as Assessed in Terms of Value*

Indicators		Mean	Interpretation	Rank
1.	Provides consistent and reliable products/services relative to the expectations of the customers	4.49	Great Extent	2
2.	Offers reasonable pricing of the products	4.45	Great Extent	3
3.	Efficiently market the products with a clear value proposition	4.52	Very Great Extent	1
4.	Provides products/services that conform to quality standards	4.52	Very Great Extent	1
5.	Ensures accuracy and responsiveness in serving our customers	4.45	Great Extent	3
6.	Offers promotional discounts to loyal customers	4.14	Great Extent	5
		4.40	Great Extent	4

7. Ensures customer feedback to determine and meet the customers' changing tastes, preferences, and expectations		
Composite Mean	4.42	Great Extent

The study emphasizes the need for micro and small-scale restaurants to develop a clear and compelling value proposition that highlights these key factors to differentiate themselves from competitors, attract more customers, and drive revenue growth. Moreover, the survey results align with the findings of Nono et al. (2022), which revealed that marketing strategies can significantly impact how small retailers achieve a competitive advantage. Offering high-quality products and services while efficiently meeting customer needs is crucial for achieving a competitive advantage. Emphasizing effective marketing, product quality, consistency, and a clear value proposition enhances value creation and competitiveness.

In terms of Reality

Table 7 presents the results of the survey on assessing competitive advantage in micro and small restaurants.

Table 7. Competitive Advantage as Assessed in Terms of Rarity

	Indicators	Mean	Interpretation	Rank
1.	Offers specialty products	4.45	Great Extent	3
2.	Serves aesthetically packaged food for dine-in and take-out of the customers	4.37	Great Extent	5
3.	Creates well-designed menus	4.34	Great Extent	6
4.	Prepares products with a personal connection/personal touch with the customers	4.39	Great Extent	4
5.	Provides innovative taste/flavor to the product offerings	4.46	Great Extent	2
6.	Provides service with a high level of politeness, courteousness, and spirit of helpfulness	4.53	Very Great Extent	1
	Composite Mean	4.42	Great Extent	

The findings reveal that providing service with a high level of politeness, courtesy, and a spirit of helpfulness, offering innovative flavors to product offerings, and providing specialty products are significant factors that contribute to a competitive advantage, with composite means of 4.53, 4.46, and 4.45, respectively. Meanwhile, creating well-designed menus was ranked last in terms of contributing to competitive advantage. These results suggest that small and micro restaurants can gain a competitive advantage in the market by prioritizing factors such as excellent customer service and innovative menu offerings.

In terms of Inimitability

As shown in Table 8, the respondents' assessment of competitive advantage regarding inimitability indicated that the highest-ranked factor was "strong capabilities in brand development and management," which received a mean score of 4.50. In second place was "offers and serves authentic and standardized recipes," followed by "establishes a good reputation and image in the industry" in third. Conversely, "has lower distribution costs than competitors" and "offers superior foods and services compared to the competitors" received lower mean scores, ranking last and fifth, respectively.

Table 8. Competitive Advantage as Assessed in Terms of Inimitability

	Indicators	Mean	Interpretation	Rank
1.	Offers superior foods and services than the competitors	4.28	Great Extent	5
2.	Has lower distribution costs than competitors	4.15	Great Extent	6
3.	Ensures that the products have exclusive rights	4.36	Great Extent	4
4.	Establishes good reputation and image in the industry	4.41	Great Extent	3
5.	Offers and serves authentic and standardized recipes	4.46	Great Extent	2
6.	Has strong capabilities in brand development and brand management	4.50	Great Extent	1
	Composite Mean	4.36	Great Extent	

Based on these results, strong branding and authentic recipes are vital for achieving inimitability and gaining a competitive advantage. This finding aligns with previous studies that emphasize the importance of brand establishment and marketing innovation for small, service-oriented businesses.

In terms of Non-substitutability

Table 9 presents the respondents' assessment of competitive advantage in terms of non-substitutability. The study found that a trust-based relationship among employees is the most important factor for food service establishments to gain a competitive advantage.

Table 9. Competitive Advantage as Assessed in Terms of Non-substitutability

	Indicators	Mean	Interpretation	Rank
1.	Offers food/services suited specifically to the target customers' needs	4.60	Very Great Extent	2
2.	Offers food created by means of special processes unique to the restaurant	4.52	Very Great Extent	5
3.	Provides distinct services unique to the restaurant	4.53	Very Great Extent	4
4.	Possesses sufficient restaurant-specific product knowledge, such as on unique food presentation and quality	4.50	Very Great Extent	6
5.	Possesses specialized practices and techniques for developing and manufacturing unique food products	4.52	Very Great Extent	5
6.	Possesses knowledge of best practices and techniques in the delivery or sales of food and services	4.57	Very Great Extent	3
7.	Employees display a trust-based relationship	4.63	Very Great Extent	1
	Composite Mean	4.55	Very Great Extent	

Respondents also found it important to offer food and services appropriate to the customers' needs. On the other hand, respondents did not prioritize having sufficient knowledge of unique food presentation and quality as much as they did other indicators. Table 14 presents a comparison of the assessed competitive advantage of small-scale restaurants, as evaluated by the respondents, in terms of value, rarity, inimitability, and non-substitutability.

3.4 Evaluating Business Performance

In terms of Financial Performance

Table 10 shows that the respondents perceived the ability to increase sales within a specified period as the most important indicator of financial performance, with a mean score of 4.47 and a verbal interpretation of "agree". Monitoring and optimizing assets and liabilities was followed closely with a mean score of 4.46. Efficient utilization of resources and prudent spending on daily operations were also highly prioritized, with a mean score of 4.41. On the other hand, getting financial gain or profit from products and paying off loans and liabilities were considered less important, with a mean score of 4.37. Small restaurants should focus on developing and applying competitive strategies that leverage their unique resources and assets to create a competitive advantage.

Table 10. Business Performance as Assessed in Terms of Financial Performance

	Indicators	Mean	Interpretation	Rank
1.	Yields profit or financial gain from the products	4.37	Agree	5
2.	Secured with the restaurant's assets	4.38	Agree	4
3.	Able to pay off liabilities and short-term loans	4.37	Agree	5
4.	Efficient in spending money to support the day-to-day operation	4.41	Agree	3
5.	Efficient in maximum utilization of resources	4.41	Agree	3
6.	Able to increase sales over a particular period	4.47	Agree	1
7.	Constantly monitors and optimizes the use of assets and liabilities	4.46	Agree	2
	Composite Mean	4.41	Agree	

Monitoring and optimizing assets and liabilities was followed closely with a mean score of 4.46. Efficient utilization of resources and prudent spending on daily operations were also highly prioritized, with a mean score of 4.41. On the other hand, getting financial gain or profit from products and paying off loans and liabilities were considered less important, with a mean score of 4.37. Small restaurants should focus on developing and applying competitive strategies that leverage their unique resources and assets to create a competitive advantage.

In terms of Operational Performance

The findings of Table 11 indicate that employee satisfaction and after-sales service are the top indicators of operational performance, with the lowest-ranked indicator being the awareness and understanding of how each employee can contribute to creating customer value.

Table 11. Business Performance as Assessed in Terms of Operational Performance

	Indicators	Mean	Interpretation	Rank
1.	Gives close attention to after-sales service	4.55	Strongly Agree	2
2.	Measures customer satisfaction systematically and frequently	4.53	Strongly Agree	4
3.	Understand how everyone in the business can contribute to creating customer value	4.48	Agree	5
4.	Is responsive to one another's needs and requests	4.54	Strongly Agree	3
5.	Regularly conducts operation meetings to discuss the strengths and weaknesses of the existing products	4.53	Strongly Agree	4

6.	Measures customer satisfaction systematically and frequently	4.54	Strongly Agree	3
7.	Ensures the satisfaction of the employees	4.65	Strongly Agree	1
Composite Mean		4.55	Strongly Agree	

The respondents gave the highest mean score of 4.65 and a verbal interpretation of "Strongly Agree" to the indicator regarding ensuring employee satisfaction. The second-highest mean score of 4.55 was given to the indicator referring to giving close attention to after-sales service. Meanwhile, the indicator that ranked last or number 5, with a mean of 4.48 and a verbal interpretation of "Agree," pertained to understanding how everyone in the business can contribute to creating customer value. These results suggest that the respondents value catering to the needs of their employees while also paying close attention to customer satisfaction. The study is consistent with Lambert et al.'s (2021) findings, which suggest that employee engagement and customer focus have a positive impact on operational performance in quick-service restaurants.

3.5 Effects on Competitive Advantage

Market Orientation on Competitive Advantage

According to Table 12, the study found a positive correlation between market orientation and competitive advantage, indicating that increasing market orientation can enhance competitive advantage for micro and small-scale restaurants. The regression model significantly predicts competitive advantage, with an *F*-value of 75.804 and $p < .001$. Market orientation has a significant positive effect on competitive advantage, with $B = .535$ and $p < .001$. The equation to predict competitive advantage from market orientation is $CA = 2.076 + .535(MO)$.

Table 12. *Effect of Market Orientation on Competitive Advantage*

Variable	B	Std. Error	t-value	p-value	Decision on H ₀	Interpretation
Constant	2.076	.273	7.602	<.001	-	-
Market Orientation	.535	.061	8.707	<.001	Reject	Significant
<i>Model Summary:</i> $R = .571$; $R^2 = .326$						
<i>Regression Model:</i> $F = 75.804$; $p < .001$						

The author suggests that micro and small-scale restaurants should prioritize market orientation and understand their customers' needs, preferences, and behaviors to tailor their products and services, accordingly, helping them differentiate themselves from competitors and achieve sustained competitive advantage. These results suggest that micro and small-scale restaurants should focus on market orientation by thoroughly understanding customers' needs, preferences, and behaviors, enabling them to tailor products and services for differentiation and sustained competitive advantage. This aligns with recent research by Kurniawan and Nuringsih (2023), which reported that market orientation has a significant and positive influence on competitive advantage among F&B MSMEs in Jakarta following the pandemic. Similarly, Harjadi, Fatmasari, and Nurhasanah (2020) demonstrated that market orientation had a positive and meaningful impact on competitive advantage within West Java food SMEs.

Product Innovation on Competitive Advantage

As presented in Table 13, product innovation and competitive advantage exhibit a significant correlation, as indicated by an *R*-value of .677. However, only 45.9% of the variance in competitive advantage is explained by product innovation. The regression model, with an *F*-value of 132.973 and $p < .001$, confirms its effectiveness in predicting competitive advantage. Additionally, the positive effect of product innovation on competitive advantage is evident from $B = .588$ and $p < .001$, meaning that every unit increase in product innovation results in a 0.588-unit increase in competitive advantage.

Table 13. *Effect of Product Innovation on Competitive Advantage*

Variable	B	Std. Error	t-value	p-value	Decision on H ₀	Interpretation
Constant	1.846	.226	8.153	< .001	-	-
Product Innovation	.588	.051	11.531	< .001	Reject	Significant
<i>Model Summary:</i> $R = .677$; $R^2 = .326$						

Regression Model: $F = 132.973$; $p < .001$

These findings suggest that product innovation plays a crucial role in enhancing the competitive advantage of small-scale restaurants, similar to market orientation. Prioritizing continuous product improvement can contribute to a stronger market position. However, other factors must also be considered to achieve sustainable competitive success. This aligns with a study by Hajadi et al. (2020), which highlights the importance of product development in gaining a competitive edge, particularly in the food sector.

3.5 Effects on Business Performance

Market Orientation on Business Performance

As shown in Table 14, market orientation and business performance are positively correlated with a correlation coefficient of $R = .472$. However, only 22.3% of the total variation in business performance can be explained by market orientation. Furthermore, the regression model significantly predicts business performance, with an F -value of 45.116 and $p < .001$, indicating that the model is a good fit for the data. Moreover, market orientation has a significant positive effect on competitive business performance, as indicated by $B = .484$ and $p < .001$. The following equation can be used to predict business performance (BP) from market orientation (MO): $BP = 2.337 + 0.484(MO)$.

Table 14. Effect of Market Orientation on Business Performance

Variable	B	Std. Error	t-value	p-value	Decision on H_0	Interpretation
Constant	2.337	.320	7.303	< .001	-	-
Market Orientation	.484	.072	6.717	< .001	Reject	Significant
<i>Model Summary:</i> $R = .472$; $R^2 = .223$						
<i>Regression Model:</i> $F = 45.116$; $p < .001$						

This means that for every one-unit increase in market orientation, there is a corresponding 0.484-unit increase in business performance. These results indicate a significant and positive relationship between market orientation and business performance. This suggests that when small-scale restaurants enhance their marketing innovation in terms of market orientation, their business performance also improves. These findings are consistent with those of Sathana et al. (2021), who found that innovative marketing strategies have a positive impact on the business performance of MSMEs, particularly in terms of internal processes and financial outcomes. Similarly, the study by Abdulsamad et al. (2021) reported that components of market orientation—specifically customer orientation, competitor orientation, and inter-functional coordination—significantly and positively affect the organizational performance of food and beverage SMEs in Yemen.

Product Innovation on Business Performance

As shown in Table 15, product innovation and business performance are positively correlated with a correlation coefficient of $R = 0.535$. However, only 28.7% of the total variation in business performance can be explained by product innovation. Furthermore, the regression model provides a significant prediction of business performance, with an F -value of 63.097 and $p < .001$, indicating a good fit for the data. Moreover, product innovation has a significant positive effect on business performance, as indicated by $B = .508$ and $p < .001$. The following equation can be used to predict business performance (BP) from product innovation (PI): $BP = 2.235 + .508(PI)$. This means that for every one-unit increase in product innovation, there is a corresponding .508-unit increase in business performance.

Table 15. Effect of Product Innovation on Business Performance

Variable	B	Std. Error	t-value	p-value	Decision on H_0	Interpretation
Constant	2.235	.284	7.876	<.001	-	-
Product Innovation	.508	.064	7.943	<.001	Reject	Significant
<i>Model Summary:</i> $R = .535$; $R^2 = .287$						
<i>Regression Model:</i> $F = 63.097$; $p < .001$						

Based on the results presented, a significant and positive relationship exists between product innovation and business performance. This means that when micro and small-scale restaurants increase marketing innovation in terms of product innovation, their business performance will also improve. In the study, the highest-ranked

indicators of product innovation center on developing high-quality products and continuously improving the quality of core products, indicating that respondents focus most on product quality when innovating.

These findings align with those of Ahmad Khan, Shar, and Junejo (2023), who discovered a significant positive relationship between product innovation and firm performance in SMEs, emphasizing the strategic importance of quality-oriented innovation in overcoming market challenges. Additionally, Aland, Menahen Taneo, and Widyaningrum (2022) reported that enhancements to existing product quality drive performance gains, underscoring a preference for incremental innovation among the food sectors. In light of these insights, micro and small-scale restaurants should prioritize product quality when innovating, utilizing customer-aligned improvements to enhance performance and sharpen their competitive positioning. Similarly, Khan et al. (2022) found in their study that product innovation has a significant impact on the performance of SMEs, which is why the study encourages managers and owners of SMEs to invest effort in enhancing product innovation to improve their performance. In the study, some of the cited indicators of product innovation are also focused on developing quality products, improving existing products, and so on.

3.6 Mediation Analysis: Competitive Advantage as a Mediator

Effect of Market Orientation on Business Performance

As shown in Table 16, the independent variable market orientation has a significant effect on the mediating variable competitive advantage, as indicated by $p < .001$. Moreover, the mediator, competitive advantage, also has a significant effect on the dependent variable, business performance, as indicated by $p < .001$. However, now that competitive advantage is included in the analysis, market orientation has no significant effect on business performance, as indicated by a p -value of .082. These results indicate that competitive advantage fully mediates the total effect of market orientation on business performance, suggesting that the apparent effect of market orientation on business performance was mediated by competitive advantage. This result was also indicated by the Sobel test value of 6.163 and $p < .001$.

Table 16. Mediation of Competitive Advantage on the Effect of Market Orientation on Business Performance

Path	B	Std. Error	p-value	Decision on H_o	Interpretation
Market Orientation → Competitive Advantage	.535	.061	<.001	Reject	Significant
Competitive Advantage → Business Performance	.667	.077	<.001	Reject	Significant
Market Orientation → Business Performance	.127	.072	.082	Fail to Reject	Not Significant
Path	Sobel Test	Std. Error	p-value	Decision on H_o	Interpretation
Market Orientation → Competitive Advantage → Business Performance	6.163	.058	<.001	Reject	Significant

Moreover, this explains how competitive advantage mediates the relationship between market orientation and business performance. Market orientation is also found to have a significant impact on competitive advantage, and competitive advantage, in turn, has a significant impact on business performance. However, when competitive advantage is included in the analysis, market orientation is found not to have a direct significant effect on business performance because competitive advantage acts as a mediator. In relation, these results also align with the findings in Puspaningrum (2020), which found that competitive advantage mediates the effect of market orientation on the marketing performance of SMEs. Furthermore, market orientation is demonstrated to have a significant impact on competitive advantage, and competitive advantage is shown to have a substantial effect on marketing performance. Nonetheless, the effect of market orientation on marketing performance remains observable even when competitive advantage is removed as a mediator. This finding is similar to the current study's results, which show that market orientation has a direct and significant effect on business performance. Once competitive advantage is included in the analysis, there is no longer a direct effect, as competitive advantage now fully mediates the relationship between market orientation and the performance of small-scale restaurants.

Effect of Product Innovation on Business Performance

As revealed in Table 17, the independent variable product innovation has a significant effect on the mediating variable competitive advantage, as indicated by $p < .001$. Moreover, the mediator, competitive advantage, also has a significant effect on the dependent variable, business performance, as indicated by $p < .001$. However, now that

competitive advantage is included in the analysis, product innovation has no significant effect on business performance, as indicated by a *p-value* of .086. In comparison, Table 20 shows that product innovation has a significant effect on business performance, as the analysis does not account for competitive advantage. This means that competitive advantage fully mediates the total effect of product innovation on business performance, indicating that the apparent effect of product innovation on business performance was solely due to the mediation of competitive advantage. This result was also indicated by the Sobel test value of 6.280 and $p < .001$.

Table 17. *Mediation of Competitive Advantage on the Effect of Product Innovation on Business Performance*

Path	B	Std. Error	p-value	Decision on H_o	Interpretation
Product Innovation → Competitive Advantage	.588	.051	<.001	Reject	Significant
Competitive Advantage → Business Performance	.644	.086	<.001	Reject	Significant
Product Innovation → Business Performance	.129	.075	.086	Fail to Reject	Not Significant
Path	Sobel Test	Std. Error	p-value	Decision on H_o	Interpretation
Product Innovation → Competitive Advantage → Business Performance	6.280	.060	<.001	Reject	Significant

As indicated in the results above, competitive advantage mediates the relationship between product innovation and business performance. Product innovation is also found to impact competitiveness significantly, and competitive advantage, in turn, has a substantial effect on business performance. However, when competitive advantage is included in the analysis, product innovation is found not to have a direct significant effect on business performance because competitive advantage acts as a mediator.

Similar to these results, the findings of Dahana et al. (2021) demonstrated that competitive advantage also serves as a mediating variable in the relationship between product innovation and the performance of small and medium-sized industries. Additionally, the study found that despite competitive advantage acting as a mediator, product innovation is also found to have a direct positive effect on the performance of small and medium industries. As observed in the current study, competitive advantage, as noted in Dahana et al. (2021), continues to play a mediating role in the significant and positive relationship between product innovation and performance. Likewise, the study of Fatonah and Haryanto (2021) revealed findings that further confirmed the mediation role of competitive advantage in the relationship between product innovation and the performance of SMEs. Moreover, similar to the findings of the current study, Fatonah and Haryanto (2021) found that product innovation has a positive and significant influence on market performance. However, once subjected to analysis for mediation, competitive advantage is shown to have a mediating role. This means that to achieve superior market performance, micro and small restaurants must first develop their product innovation, which leads to achieving a competitive advantage and boosting their performance.

In micro and small restaurants, the link between product innovation, competitive advantage, and business performance is crucial for long-term success. New menu items, enhanced dining experiences, and operational improvements can positively impact performance, but their effectiveness is heightened when these innovations create a competitive edge. Achieving this advantage through strategies such as cost leadership or differentiation enables restaurants to leverage innovations effectively against their competitors. Therefore, protecting unique recipes, building a strong brand identity, optimizing operations, and prioritizing exceptional customer service are essential for sustained growth in a competitive landscape.

3.7 Matrix of the Significant Findings

Table 18 presents the matrix of significant findings resulting from the integration of qualitative and quantitative results.

Table 18. *Matrix of the Significant Findings*

Explored Areas	Key Findings	Implications
Market Orientation	Emphasis on customer feedback and satisfaction. Limited focus on benchmarking and competitor reaction.	Micro and small-scale restaurants should prioritize understanding and meeting customer needs overreacting to competitors and aligning strategies with customer preferences to enhance market success.

Product Innovation	Strong focus on maintaining good product quality and core offerings. Limited attention to adopting new technology and rapidly developing new menu items based on customer feedback.	Micro and small-scale restaurants should ensure consistent quality in existing products while also considering opportunities for innovation to meet evolving customer preferences and maintain competitiveness.
Competitive Advantage	Non-substitutability is perceived as the most significant, followed by value and rarity. Trust-based relationships and service quality are crucial.	Micro and small-scale restaurants focus on offering unique products and building strong customer relationships to differentiate from competitors, thus enhancing their competitive position in the market.
Financial Performance	Sales growth and employee satisfaction are prioritized. Profitability and managing liabilities are considered less crucial.	Micro and small-scale restaurants must balance revenue growth with financial stability, emphasizing prudent budgeting and maintaining strong supplier relationships to ensure long-term success.
Employee Satisfaction	Training and empowerment lead to high levels of employee satisfaction.	Investing in employee development and creating a positive work environment fosters loyalty, productivity, and customer service excellence, ultimately enhancing overall business performance.
Marketing Innovation	Innovative marketing strategies positively impact competitiveness, customer loyalty, and business growth.	Micro and small-scale restaurants should leverage innovative marketing approaches to reach and engage customers effectively, driving revenue growth and market share expansion.
Competitive Advantage	Serves as a mediator influencing customer retention, acquisition, and overall business expansion.	Differentiating factors creating value for customers is critical for sustaining competitive advantage and driving business success, enabling businesses to grow and thrive in a competitive market.
Integration of Results	Customer orientation, competitor understanding, and quality strategies are crucial for success.	Integrating insights from both quantitative and qualitative research provides a comprehensive understanding of factors driving success in the food service industry, guiding strategic decision-making.

The results show that effective customer engagement is pivotal for fostering loyalty and driving repeat business. Personalizing the dining experience by utilizing reservation data and customer profiles enables restaurants to offer tailored greetings and service, thereby enhancing customer satisfaction and increasing the likelihood of return visits (Chowbus, 2023). Additionally, implementing loyalty programs incentivizes repeat patronage and can accelerate the frequency of guest visits (Toast, 2023). Engaging with customers through surveys, social media interactions, and direct conversations provides valuable feedback, enabling continuous improvement and innovation while maintaining the establishment's unique identity (Menuviel, 2023).

Robust financial management is crucial for the sustainability of small restaurants. Developing a comprehensive budget that accounts for both fixed and variable expenses helps track income and control costs (Restaurant Management UK, 2023). Implementing cost-saving measures, such as menu engineering and efficient inventory management, can significantly reduce food and labor expenses (Restaurant Management UK, 2023). Regular analysis of financial data enables informed decision-making, ensuring a healthy bottom line and facilitating strategic planning for growth (NetSuite, 2023).

The adoption of technology can streamline operations and enhance customer convenience. Integrating online ordering systems and mobile apps caters to the growing demand for convenience and can tap into a broader market segment (Upmenu, 2023). However, it is essential to assess the associated costs to ensure they contribute positively to the bottom line. Additionally, leveraging data analytics can provide insights into customer preferences and operational efficiency, aiding in personalized marketing and resource optimization (The Times, 2023).

Embracing sustainable practices not only appeals to environmentally conscious consumers but also differentiates restaurants in a competitive market. Implementing measures such as reducing food waste, sourcing ingredients locally, and offering plant-based menu options can resonate with customers and reflect a commitment to responsible business practices (Upmenu, 2023). These initiatives can strengthen community ties and enhance the establishment's reputation, contributing to long-term success.

Market orientation among small restaurants often emphasizes customer feedback and satisfaction while paying limited attention to competitor benchmarking (Chowbus, 2023). This indicates that micro and small-scale

restaurants should prioritize understanding and meeting customer needs over reacting to competitors to enhance market success. Additionally, maintaining product quality is a key focus, though there is less emphasis on adopting new technologies or developing innovative menu items in response to consumer trends (Toast, 2023). To remain competitive, small restaurants must strike a balance between preserving their core offerings and introducing innovative products to cater to evolving customer preferences.

Competitive advantage is often driven by non-substitutability, value, and trust-based relationships with customers. Strong service quality and unique offerings help small restaurants differentiate themselves in the market (NetSuite, 2023). Furthermore, employee satisfaction plays a crucial role in achieving a competitive advantage, as training and empowerment contribute to higher employee morale, which in turn leads to better customer service and operational efficiency (Restaurant Management UK, 2023). Moreover, financial performance in small restaurants typically prioritizes sales growth and employee satisfaction over profitability and liability management. To ensure long-term success, micro and small-scale restaurants must adopt prudent financial planning strategies, such as effective budgeting and fostering strong supplier relationships (NetSuite, 2023). Additionally, innovative marketing strategies can significantly impact competitiveness, customer loyalty, and business growth. By leveraging digital marketing tools, small restaurants can expand their market reach and increase revenue (Upmenu, 2023).

The integration of customer orientation, competitor understanding, and quality strategies is critical for sustained success in the food service industry. A comprehensive approach that combines qualitative and quantitative insights can guide strategic decision-making, helping micro and small-scale restaurants thrive in a competitive environment. By focusing on these areas, small restaurants can ensure adaptability, resilience, and sustained growth. In light of these key findings, a business manual was created.

4.0 Conclusion

Balayan is characterized by a significant number of micro and small-scale restaurants, primarily composed of businesses that have been operating for five years or less, and most of which employ between one and ten workers. These establishments prioritize customer satisfaction and regular communication for feedback, emphasizing the importance of developing trust-based relationships with employees and tailoring food services to meet customer needs. Rather than focusing on product innovation through entirely new offerings, respondents emphasized the importance of enhancing existing core products to improve the overall customer experience.

The findings indicate that while the operational performance of these restaurants generally surpasses their financial performance, marketing innovation—encompassing both market orientation and product innovation—plays a crucial role in enhancing competitive advantage and business performance. For these establishments to thrive, it is essential to prioritize customer satisfaction and memorable experiences, along with a strong focus on brand building and competitor orientation. Ultimately, the insights provided serve as a valuable guide for micro and small-scale restaurants, offering a business manual that aims to attract more customers, maintain a competitive edge, and achieve long-term success. To enhance our understanding of micro and small-scale restaurant performance and innovation, several key areas are recommended for future research. One crucial aspect to explore is the impact of digital marketing strategies, particularly through the use of social media platforms, online food delivery applications, and customer relationship management systems. Investigating how these tools influence customer engagement and business growth is vital, as they are increasingly essential for small businesses striving to attract and retain customers in a competitive digital landscape.

Additionally, examining external market factors such as economic conditions, tourism trends, technological advancements, and government policies will help clarify how they affect the sustainability and strategic direction of small food establishments. Understanding evolving customer behaviors and expectations, particularly the importance of personalized services and experiential dining, is also beneficial for fostering customer loyalty. Moreover, future research could focus on service innovation practices that enhance customer value while maintaining core offerings. Examples of such innovations include contactless transactions and digital ordering systems, which have gained prominence in today's market. Investigating the entrepreneurial mindset and skills

development among restaurant owners and staff provides further insights into how human capital contributes to innovation and adaptability within this sector.

Sustainability practices, including the use of locally sourced ingredients, should also be studied in terms of customer perceptions, cost-effectiveness, and brand positioning, as these factors are increasingly important to modern consumers. Lastly, evaluating the role of collaborative networks and community partnerships in fostering the growth and resilience of small-scale restaurants can offer valuable lessons for their future development. Overall, these suggested areas present significant opportunities to build upon existing studies, providing deeper insights that can inform policymaking, entrepreneurship, and business development within the food service sector.

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The study has been conducted solely by the author, with no contributions from any other individuals. However, the author has her adviser, who provided guidance and support throughout her journey.

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7.0 Conflict of Interests

The author declares that there is no conflict of interest associated with the publication of this paper.

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