

ABSTRACT

UMKM (Micro, Small, and Medium Enterprises) play a crucial role in the economic growth of the Yogyakarta Special Region (DIY), especially in the leisure industry. Approximately 57.2% of UMKM in DIY rely on the tourism sector to grow their businesses. However, the high level of competition in the leisure sector creates a need to examine the impact of business strategy on competitive advantage, considering performance and innovation as mediating variables. The research method employed a quantitative descriptive approach. Sampling was conducted using purposive sampling, and data were collected through surveys by distributing questionnaires to owners of UMKM leisure businesses in DIY. The study involved 158 UMKM leisure businesses in DIY as samples. Data analysis was conducted using SmartPLS, involving the measurement of the outer model, inner model, and hypothesis testing.

The results show that the business strategy variable significantly influences the business performance, innovation, and competitive advantage variables. It was also found that the business performance variable mediates the relationship between business strategy and competitive advantage, while the innovation variable also mediates this relationship. This study provides a deeper understanding of the influence of business strategy on the competitive advantage of UMKM leisure businesses, considering the roles of performance and innovation.

The results of this research can serve as a foundation for UMKM in developing effective and sustainable business strategies to face intense competition in the leisure industry in DIY. These findings emphasize the importance of enhancing the evaluation of business strategies as well as performance and innovation capabilities to strengthen the competitive advantage of UMKM in the leisure industry.

Keywords: *business strategy; competitive advantage; performance; innovation; leisure SMEs*