

## **ABSTRACT**

*This research was conducted to analyzing the influence of marketing capabilities and product innovation on competitive advantage and its implications for business performance. Based on the data from during the year 2013 - 2015, showed a decline of business performance which is experienced by wood handicrafts industries SMEs in Gianyar Regency of Bali Province, where small enterprise amounted to 55% of Small and Medium Enterprise (SME) of wood handicrafts industries.*

*The sample of this research is small enterprise of wood handicrafts industry in Gianyar regency of Bali Province as many as 112 respondents. The data were collected by using questionnaires and direct interviews to business owners of wood handicrafts in Gianyar Regency of Bali Province. This research developed a theoretical model by proposing five hypotheses to be tested using structural equation modeling as an analytical tool assisted by AMOS 23 software.*

*The results of data processing by using SEM for the theoretical models have met the Goodness of Fit as follows: Value Chi Square =115,296 ;  $df = 98$ ;  $p = 5\%$ ; Probability = 0,112; GFI = 0,889; AGFI = 0.846; TLI = 0,972; CFI = 0,978; RMSEA = 0.040. The results show that the model is feasible to use. The results of this study indicate that the business performance of the organization improves along with excellent competitive advantage, marketing capabilities and product innovation.*

**Keywords : Marketing Capabilities, Product Innovation, Competitive Advantage, Business Performance**