

## ABSTRACT

The study was conducted with the aim of analyzing business performance based on the aspect of business competition of SMEs in Lasem Batik Industry in Rembang Regency. The problem of this research is: what efforts can be done to improve business performance of SMEs by optimizing Competitive Advantage through company internal resources, entrepreneurship orientation, and environmental adaptability ?. The population of this study is the Owner / Manager of SMEs Lasem Batik in Rembang District, so that the respondents obtained by 120 people. The use of analysis tools in the form of Structural Equation Modeling (SEM) in AMOS 24 Program. The test results show, from 7 hypotheses, there are 5 hypotheses accepted.

Internal Resource (H1) has positive but not significant influence to Competitive Advantage, with regression coefficient value equal to **0,125**, Internal Resource (H2) has positive and significant influence to Business Performance through Competitive Advantage, with regression coefficient value equal to **0,240**. Orientation of Entrepreneurship (H3) has a positive and significant influence on competitive advantage, with coefficient value of **0.493**, Orientation of Entrepreneurship (H4) has a positive and significant impact on Business Performance through Competitive Advantage with regression coefficient value of **0.208**. Environmental Adaptability (H5) has a positive and significant influence on Competitive Advantage with regression coefficient value of **0.389**. Environmental Adaptability (H6) has a positive but not significant influence on Business Performance through with the value of regression coefficient of **0.093**. Competitive Advantage (H7) has a positive and significant influence on Organizational Performance, with regression coefficient value of **0.420**.

Based on the results of research, it can be concluded that the biggest factor affecting Business Performance through Competitive Advantage is the factor of Orientation Entrepreneurship it can be concluded that SME owners prioritize policy on Orientation of Entrepreneurship on SMEs Lasem Batik.

***Keywords: Internal Resources, Entrepreneurship Orientation, Environmental Adaptability, Competitive Advantage, Business Performance.***