

ABSTRACT

The batik industry in Central Java faces the challenge of improving its competitiveness while reducing the environmental impacts of its production processes. This study examines the effects of Organizational Capability, Green Absorptive Capacity, and Resource Integration Capability on Sustainable Competitive Advantage, with Eco-Innovation and Value Co-Creation Advantages serving as mediating variables. This study employed an explanatory quantitative approach with a cross-sectional design. Data were collected through questionnaires from 220 micro-, small-, and medium-scale batik craftspeople in Semarang, Solo, Pekalongan, Banyumas, and the northern coastal region of Central Java using purposive sampling. The data were analyzed using AMOS-based Structural Equation Modeling, while the significance of the indirect effects was examined using the Sobel test. The results demonstrate that Organizational Capability, Green Absorptive Capacity, and Resource Integration Capability each have positive and significant effects on Eco-Innovation and Value Co-Creation Advantages. Eco-Innovation does not have a significant effect on Sustainable Competitive Advantage, whereas Value Co-Creation Advantages has a positive and significant effect on Sustainable Competitive Advantage. Thus, seven of the eight proposed hypotheses receive empirical support. The Sobel test results indicate that Eco-Innovation does not mediate the effects of the three capabilities on Sustainable Competitive Advantage. In contrast, Value Co-Creation Advantages mediates the effects of all three capabilities. Value Co-Creation Advantages fully mediates the effects of Organizational Capability and Green Absorptive Capacity on Sustainable Competitive Advantage and partially mediates the effect of Resource Integration Capability on Sustainable Competitive Advantage. These findings highlight value co-creation with customers as a more decisive mechanism for transforming organizational capabilities into sustainable competitive advantage than Eco-Innovation.

Keywords: *Organizational Capability, Green Absorptive Capacity, Resource Integration Capability, Eco-Innovation, Value Co-Creation Advantages, Sustainable Competitive Advantage.*