

DECENTRALIZATION TO ACHIEVE REGIONAL INDEPENDENCE WITH COMPETITIVE ADVANTAGE AS A MODERATION

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Received : 22 December 2024

Published : 28 February 2025

Revised : 04 January 2025

DOI : <https://doi.org/10.54443/ijebas.v5i1.2631>

Accepted : 31 January 2025

Publish Link : <https://radjapublika.com/index.php/IJEBAS>

Abstract

This study aims to analyze the influence of decentralization, competitive advantage on the level of regional independence in the Lhokseumawe City government, and measure the magnitude of the interaction between decentralization and competitive advantage on the level of regional independence in the Lhokseumawe City government. Decentralization has aspects of strong and quality resource mechanisms, to management strategies including being superior in competing. Local governments must have the right method to be able to compete, so as to fulfill aspects of healthy and sustainable competitive advantage. Referring to competitive advantage, local governments must determine the right strategy, appropriate and guarantee local governments to appear "different" from other regions. Through this, the government will be able to guarantee the sustainability and welfare of the community in the long term. This study uses Moderated Regression Analysis (MRA) with data processing using SEM-PLS. Determination of the sample using Purposive Sampling of all apparatuses in the Lhokseumawe City Regional Work Unit with the number of selected samples being 122 apparatuses. The results of the study found that decentralization and competitive advantage had a significant effect on the level of regional independence. While competitive advantage has succeeded in becoming a quasi-moderation function, which means that the better the decentralization supported by competitive advantage, the higher the level of regional independence. Thus, the value of Regional Original Income (PAD) will be higher as an indicator of the expected level of independence.

Keywords: *Decentralization, regional independence levels, and competitive advantage*

INTRODUCTION

Regional independence is the main indicator of the success of regional governments in implementing a decentralization system. Decentralization is defined as the process of transferring resources, power, and responsibility from the central government to regional governments, although conceptually with various aspects it is not easy to measure. Until mid-2023, regional fiscal independence throughout Indonesia is still low, following limited regional revenues. This condition will not change if the regions are not yet able to properly understand the efforts made to achieve the target of success. In addition, regional governments must also have other strengths to find a superior competitive strategy (competitive advantage) compared to other regions. Management strategies must continue to focus on exploring mechanisms, resources and capabilities that facilitate the development of specific aspects of competitive advantage.

Competitive advantage is the heart of a company's performance in the same market competition, where in the long term it must expand and achieve a great level of prosperity and surpass competitors (Porter, Michael E., 2008). How to achieve competitive advantage through two things, namely low-cost strategy and product differentiation. Through a low-cost strategy, local governments can create programs that produce output with very efficient resource utilization, so that they can be "sold" at a lower price than other regions. While product differentiation focuses more on how regions must be able to create differences or uniqueness that are born from the program. Tidung Island, which is a coastal area and located in Jakarta, is able to produce crafts made from shells and is a tourist attraction and is able to increase the PAD value of the Jakarta City government (Reiza Miftah Wirakusuma., 2014). In addition, an added value has also been found for the Surakarta City government, where the creative economy of the culinary sector has helped the community, received full support and a very significant role from various stakeholders (Muzakar Isa., 2016). Previous research clearly shows that to create competitive

DECENTRALIZATION TO ACHIEVE REGIONAL INDEPENDENCE WITH COMPETITIVE ADVANTAGE AS A MODERATION

Agustina Br Surbakti et al

advantage must start from the seriousness of the local government which is then followed by community action to support the policy. Based on the explanation, this study was conducted to test the influence of decentralization, competitive advantage on the level of regional independence in the Lhokseumawe City government, and to measure the magnitude of the interaction between decentralization and competitive advantage on the level of regional independence in the Lhokseumawe City government.

LITERATURE REVIEW

Decentralization is defined as the process of transferring resources, power, and responsibility from the central government to local governments, although conceptually with various aspects it is not easy to measure (Koo, Jun & Kim, Byong Jun., 2018). According to Kis-Katos & Sjahrir: (2017) in Cho, IG (2018) that decentralization requires administrative decentralization or decentralization of authority, financial decentralization and political decentralization. This understanding must be interpreted that local governments must be ready with various regional problems starting from the delegation of authority from the center, to how to act in understanding the existence of political authority that can encourage regions to become more developed. The fact is that decentralization will not be able to be realized properly if it does not have dimensions that are well integrated with each other which include economic, administrative, and political dimensions (Morozov, Boris. (2016). Therefore, local governments must be ready with various anticipations of efforts to achieve maximum implementation of decentralization.

Competitive Advantage according to Hili et.al (2017) in Dixit, S., Singh, Shiwangi., Dhir, Sanjay., and Dhir, Swati. (2021) competitive advantage is a strategy or capability to achieve at least monetary benefits over competitors in the same business. Therefore, competitive strategy is a business strategy that focuses on improving the competitive position of a company's products and services in a particular industry or market segment served by the company and addressing the problem of how the company and its competitors can compete in business and industry. Meanwhile, according to Sigalas, C. (2013) competitors are very important to study in order to create an effective marketing strategy. A company needs to identify the strategies, goals, strengths, weaknesses and reaction patterns of its competitors.

So it can be concluded from several existing theories that competitive strategy is connecting the company with its environment. Although the relevant environment is very broad, including social forces as well as economic forces, the main aspect of the company's environment is the industry in which the company competes. The industry structure has a strong influence in determining the rules of the competitive game as well as the strategies potentially available to the company, so the key lies in the different abilities of the companies concerned to cope with it.

Regional Independence Level according to Zulkarnaini, Halimatussa'diyah, Kheriah and Anhar Firdaus. (2020) through smart and quality programs, local governments can determine the future of the region systematically and measurably to be accountable to the community. However, most local governments are not yet aware of this problem so they need to understand further the things that must be done to achieve this level of independence. The level of regional independence should be an implementation of the Regional Autonomy Law which can be measured through "situational relationships" with the central government. There are four relationships between local governments and the central government according to Paul Hersey and Kenneth Blanchard in Abdul Halim. (2004) shows the following patterns: 1. Instructive relationship pattern, the role of the central government is more dominant than the independence of the local government (regions that are unable to implement regional autonomy). 2. Consultative relationship pattern, central government intervention has begun to decrease, because the regions are considered slightly more capable of implementing autonomy. 3. Participatory relationship pattern, the role of the central government is decreasing, considering that the region concerned has a level of independence approaching being able to carry out autonomy affairs. 4. The pattern of delegative relations, central government intervention no longer exists because the regions are truly capable and independent in carrying out regional autonomy affairs.

METHOD

This study uses a survey method using descriptive verification which aims to present a structured, factual and accurate picture and examine the relationship between variables with statistical tests. The target population in this study were all SKPDs under the Lhokseumawe City government. The respondent criteria for this study were at least holding the position of Head of Section, and being involved in budget preparation, and/or the finance department selected using purposive sampling criteria. The final sample used in this study was 122 respondents.

DECENTRALIZATION TO ACHIEVE REGIONAL INDEPENDENCE WITH COMPETITIVE ADVANTAGE AS A MODERATION

Agustina Br Surbakti et al

The answers from respondents in this study were measured by measuring the overall indicators above using an ordinal scale according to each variable using the Likert scale technique which is an ordinal scale between 1 and 5. The data model in this study was processed using Partial Least Square (PLS). The data analysis method used in this study is descriptive analysis and hypothesis testing using the structural equation model (SEM).

RESULTS AND DISCUSSION

Response Rate

Table. 1 Details of Questionnaire Returns (Respond Rate)

Respondents	Questionnaires Distributed	Return Questionnaire	Response Rate	Information
A total of 35 SKPDs of the Lhokseumawe City Government	122 Questionnaire Sheet	114 Questionnaire Sheet	93%	3 sheets not filled in, 4 sheets incomplete and 1 sheet damaged.

Based on Table 1, it is obtained information that the number of respondents in this study that can be used as input data to be processed is 93% from 35 SKPDs. Thus, the number of questionnaires that cannot be processed is 7%, so that the process of generalizing conclusions can be continued, in accordance with the recommendation that the generalization process can be carried out with a larger sample size above 30%.

Descriptive Analysis

In this study, descriptive analysis will be presented in the form of categorization based on the average score of the respondents' answers.

Table 2 Categorization of Average Respondents' Answer Scores

Score Interval	Information
1.00 – 1.80	Very Bad (STB) indicates a variable condition that is very bad or in an assessment
1.81 – 2.60	Not Good (TB) indicates a variable condition that is not good or not good in an assessment.
2.61 – 3.40	Good Enough (CB) indicates the condition of a variable that is good enough or quite good in an assessment.
3.41 – 4.20	Good (B) indicates a good or good condition of the variable in an assessment.
4.20 – 5.00	Very Good (SB) indicates a very good or excellent condition of the variable in an assessment.

Source: Results of categorization calculations (Data processed; 2024)

Respondents' Responses Regarding Decentralization

Table 3 Recapitulation of Average Scores of Respondents' Answers Regarding Decentralization in the Lhokseumawe City Government

No.	Statement	Total Score	Mean
X1.01	Is there any delegation of authority and responsibility in your office in making financial decisions (for example: replacement and procurement of office equipment)?	516	4.53
X1.02	Is there any delegation of authority and responsibility in your office in making decisions regarding daily operations/routine operations (eg: purchasing office stationery, purchasing fuel)?	507	4.45
X1.03	Is there any delegation of authority and responsibility in your office in making decisions regarding training and development of office staff & necessary budgets?	505	4.43
X1.04	Is there any delegation of authority and responsibility in your office in making decisions related to personnel/allocation of human resources (eg: employee promotion and employee dismissal)?	499	4.38
Average = Sum of Scores / (n x p)		2027	4.45

Source: Processed research data (2024)

DECENTRALIZATION TO ACHIEVE REGIONAL INDEPENDENCE WITH COMPETITIVE ADVANTAGE AS A MODERATION

Agustina Br Surbakti et al

From Table 3, it is known that the average score achieved by respondents regarding decentralization was 4.45.

Respondents' Responses Regarding Competitive Advantage

Table 4 Recapitulation of Average Scores of Respondents' Answers Regarding Competitive Advantage in the Lhokseumawe City Government

No.	Statement	Total Score	Mean
X2.01	The government must choose one product that can be used as an icon in Lhokseumawe City.	516	4.53
X2.02	This product is a product that is in great demand by the public.	504	4.42
X2.03	The product must be able to be used as a characteristic of Lhokseumawe City (for example as a regional souvenir)	505	4.43
X2.04	The product selection is more appropriately directed towards Aceh's "Timphan" culinary product.	504	4.42
X2.05	Timphan products are not available in other regions and are packaged as regional specialty products.	506	4.44
X2.06	Timphan products must be modified in terms of taste and shape so that they can be made more contemporary.	485	4.25
X2.07	Local governments must support the procurement of raw materials for products so that they can be sold at low prices.	523	4.59
X2.08	The price of the product to be sold must be cheaper than other similar products.	510	4.47
X2.09	Local governments must assist in product marketing to speed up the introduction process throughout the region.	502	4.40
X2.10	Local governments must plan budgets to support product development.	515	4.52
X2.11	Local governments must supervise product development	500	4.39
Average = Sum of Scores / (n x p)		5570	4.44

Source: Processed research data (2024)

From Table 4 above, it is known that the average score achieved by respondents regarding competitive advantage was 4.44.

Respondents' Responses Regarding the Level of Regional Independence

Table 5 Recapitulation of Average Scores of Respondents' Answers Regarding the Level of Regional Independence in the Lhokseumawe City Government

No.	Statement	Total Score	Mean
Y.01	The local government is adequate in understanding the current implementation of regional autonomy	517	4.54
Y.02	The regional government, through its autonomy, has implemented various maximum efforts through programs that can help improve the quality of the region.	505	4.43
Y.03	Programs designed by local governments are able to increase regional income.	508	4.46
Y.04	The budget used for the implementation of regional programs has been realized optimally	502	4.40
Y.05	Regional governments are no longer dependent on the central government, especially in meeting regional needs.	507	4.45
Y.06	Regional governments have regional income greater than central government funding receipts	487	4.27
Average = Sum of Scores / (n x p)		3026	4.42

Source: Processed research data (2024)

DECENTRALIZATION TO ACHIEVE REGIONAL INDEPENDENCE WITH COMPETITIVE ADVANTAGE AS A MODERATION

Agustina Br Surbakti et al

From Table 5 above, it is known that the average score achieved by respondents regarding competitive advantage was 4.42.

Partial Least Square

The calculation results of the entire model using Smart PLS 3.29 can be seen in Figure 1 below:

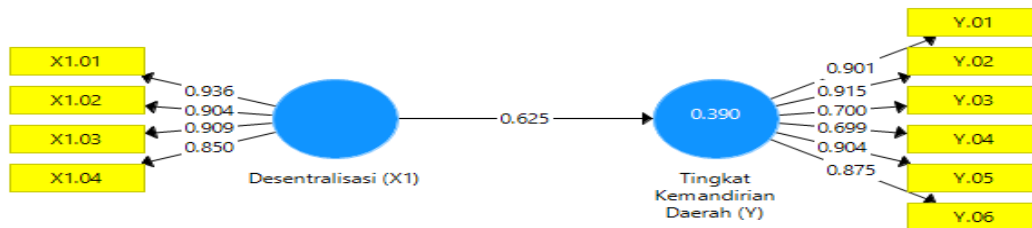


Figure 1 Research Model Path Diagram

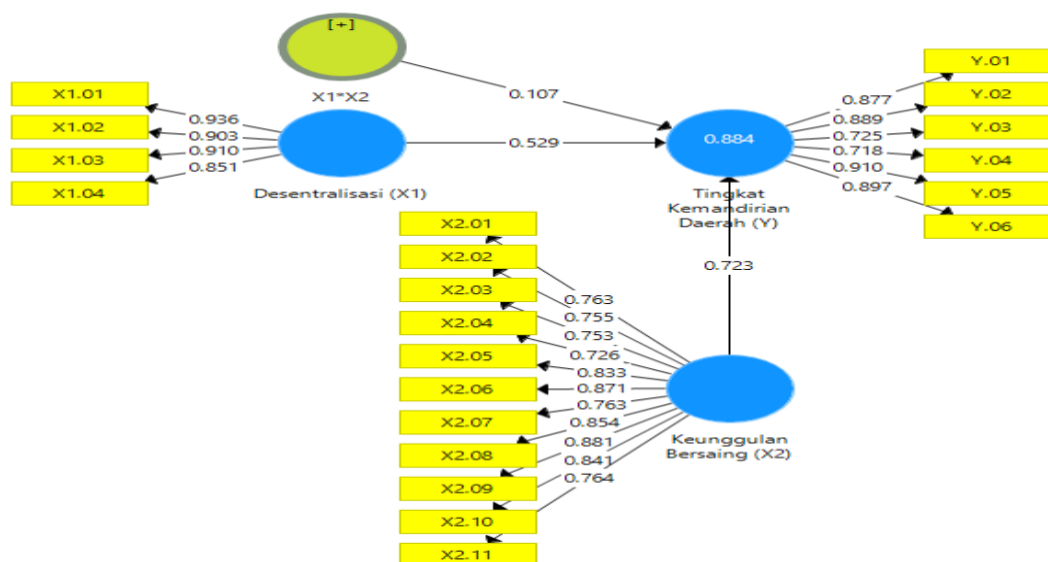


Figure 2 Research Model Path Diagram (Moderation)

Validity Test

Convergent Validity

Table 6 AVE Values of Research Variables

	Average Variance Extracted (AVE)
Decentralization (X1)	0.811
Competitive Advantage (X2)	0.643
Regional Independence Level (Y)	0.705

Source: Data processing results with Smart PLS (2024)

Based on the results of data processing using the Smart PLS program, the results show that all variables have an AVE value above 0.5 with the highest AVE value of 0.811 belonging to the Decentralization variable (X1), while the lowest value of 0.643 belongs to the Competitive Advantage variable (X2).

Table 7 Research Indicator Loading Factor Values

Loading Factor

DECENTRALIZATION TO ACHIEVE REGIONAL INDEPENDENCE WITH COMPETITIVE ADVANTAGE AS A MODERATION

Agustina Br Surbakti et al

X1.01 ← Decentralization (X1)	0.936
X1.02 ← Decentralization (X1)	0.903
X1.03 ← Decentralization (X1)	0.910
X1.04 ← Decentralization (X1)	0.851
X2.01 ← Competitive Advantage (X2)	0.763
X2.02 ← Competitive Advantage (X2)	0.755
X2.03 ← Competitive Advantage (X2)	0.753
X2.04 ← Competitive Advantage (X2)	0.726
X2.05 ← Competitive Advantage (X2)	0.833
X2.06 ← Competitive Advantage (X2)	0.871
X2.07 ← Competitive Advantage (X2)	0.763
X2.08 ← Competitive Advantage (X2)	0.854
X2.09 ← Competitive Advantage (X2)	0.881
X2.10 ← Competitive Advantage (X2)	0.841
X2.11 ← Competitive Advantage (X2)	0.764
Y.01 ← Level of Regional Independence (Y)	0.877
Y.02 ← Level of Regional Independence (Y)	0.889
Y.03 ← Level of Regional Independence (Y)	0.725
Y.04 ← Level of Regional Independence (Y)	0.718
Y.05 ← Level of Regional Independence (Y)	0.910
Y.06 ← Level of Regional Independence (Y)	0.897

Source: Data processing results with Smart PLS (2024)

Furthermore, from the calculation results obtained a loading factor value greater than 0.7, it can be concluded that all indicators forming the construct are declared valid and have good ability in explaining the variables that will be formed, so that the prerequisites for convergent validity have been met.

Discriminant Validity

Table 8 Cross Loading Measurement Results

	X1	X2	Y
X1.01	0.936	0.236	0.640
X1.02	0.903	0.149	0.539
X1.03	0.910	0.030	0.465
X1.04	0.851	0.024	0.480
X2.01	0.424	0.763	0.778
X2.02	0.186	0.755	0.645
X2.03	0.093	0.753	0.607
X2.04	0.014	0.726	0.526
X2.05	0.034	0.833	0.613
X2.06	-0.026	0.871	0.616
X2.07	0.022	0.763	0.591
X2.08	0.020	0.854	0.633
X2.09	0.108	0.881	0.640
X2.10	0.100	0.841	0.672
X2.11	0.108	0.764	0.564
Y.01	0.622	0.650	0.877
Y.02	0.710	0.596	0.889
Y.03	0.321	0.612	0.725
Y.04	0.369	0.626	0.718
Y.05	0.536	0.718	0.910
Y.06	0.401	0.775	0.897

Source: Data processing results with Smart PLS (2024)

DECENTRALIZATION TO ACHIEVE REGIONAL INDEPENDENCE WITH COMPETITIVE ADVANTAGE AS A MODERATION

Agustina Br Surbakti et al

Based on the results of the Cross-Loadings test, it can be seen that the loading factor value for each construct measurement indicator (colored numbers) is greater than the loading factor for other latent variables, so it can be concluded that all latent variables have adequate discriminant validity.

Table 9 Fornell-Larcker Criterion

	X1*X2	X1	X2	Y
Moderating Effect	1,000			
Decentralization (X1)	-0.224	0.900		
Competitive Advantage (X2)	-0.047	0.134	0.802	
Regional Independence Level (Y)	-0.027	0.598	0.788	0.840

Source: Data processing results with Smart PLS (2024)

Furthermore, to strengthen the results, the Fornell-Larcker Criterion test was conducted. From the table above, it can be seen that all AVE roots (bold values) of each construct are greater than their correlation values, so that the discriminant validity requirements in this model have been met.

Table 10 Results of HTMT (Heterotrait–Monotrait Ratio of The Correlations) Measurement

	X1*X2	X1	X2	Y
Moderating Effect				
Decentralization (X1)	0.220			
Competitive Advantage (X2)	0.130	0.164		
Regional Independence Level (Y)	0.191	0.633	0.846	

Source: Data processing results with Smart PLS (2024)

Heterotrait-Monotrait Ratio (HTMT) which is an estimate of the true correlation between two constructs if they were measured perfectly. Good discriminant validity is indicated by an HTMT value below 0.90. From the table above, it can be seen that the HTMT value for the entire model is less than 0.90, so it can be concluded that all latent variables have adequate discriminant validity.

Reliability Test

Table 11 Construct Reliability

	Cronbach's Alpha	Composite Reliability
Decentralization (X1)	0.922	0.945
Competitive Advantage (X2)	0.944	0.952
Regional Independence Level (Y)	0.914	0.934

Source: Data processing results with Smart PLS (2024)

Based on the results presented in Table 11 above, it can be concluded that all indicators forming the construct are reliable or in other words, all manifest variables have been proven to have accuracy, consistency and precision in measuring their constructs because they have Cronchbach's alpha values and Composite reliability values greater than 0.7 (critical value).

R-Square

Table 12 R Square Test Results

Model	R Square	R Square Adjusted
Before Moderation X1 → Y	0.390	0.385

DECENTRALIZATION TO ACHIEVE REGIONAL INDEPENDENCE WITH COMPETITIVE ADVANTAGE AS A MODERATION

Agustina Br Surbakti et al

After Moderation	X1, X2, X1*X2 → Y	0.884	0.880
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Source: Data processing results with Smart PLS (2024)

In this study, Decentralization (X1) contributed 39% to the Level of Regional Independence (Y) and the remaining 61% was the contribution of other factors outside the research model studied.

Furthermore, Decentralization (X1), Competitive Advantage (X2) and the interaction between the two contribute an influence of 88.4% to the Level of Regional Independence (Y) while the remaining 11.6% is the amount of influence contributed by other factors outside the research model studied. The PLS model in this study has an R Square value greater than 0.67 which indicates the model has a good level of prediction accuracy (substantial).

Hypothesis Testing

Table 13 Summary of Hypothesis Testing Results

Model	Original Sample (O)	P Values	Decision
H1	X1 → Y	0.625	H1 Accepted
H2	X2 → Y	0.723	H2 Accepted
H3	X1*X2 → Y	0.107	H3 Accepted

Source: Data processing results with Smart PLS (2024)

The interpretation for Table IV.13 above is as follows:

Hypothesis I

Ho1 : Decentralization (X1) does not have a significant influence on Regional Independence Level (Y).

Ha1 : Decentralization (X1) has a significant influence on the Level of Regional Independence (Y).

The results of the study obtained a path coefficient of 0.625 and a positive value with a p-value of 0.000 <0.05 (a) then at a confidence level of 95% it can be decided to accept Ha and reject Ho which means that Decentralization (X1) has a significant influence on the Level of Regional Independence (Y), meaning that the better the decentralization will have an impact on the better level of regional independence, conversely poor decentralization can result in poor levels of regional independence.

Hypothesis II

Ho2 : Competitive Advantage (X2) does not have a significant influence on the Level of Regional Independence (Y).

Ha2 : Competitive Advantage (X2) has a significant influence on the Level of Regional Independence (Y).

The results of the study obtained a path coefficient of 0.723 and a positive value with a p-value of 0.000 <0.05 (a) then at a confidence level of 95% it can be decided to accept Ha and reject Ho which means that Competitive Advantage (X2) has a significant influence on the Level of Regional Independence (Y), meaning that the better the competitive advantage will have an impact on the better level of regional independence, conversely poor competitive advantage can result in poor levels of regional independence.

Hypothesis III

Ho3 : Decentralization (X1) moderated by Competitive Advantage (X2) does not have a significant influence on the Level of Regional Independence (Y).

Ha3 : Decentralization (X1) moderated by Competitive Advantage (X2) has a significant influence on the Level of Regional Independence (Y).

The results of the study obtained a path coefficient of 0.107 and a positive value with a p-value of 0.004 <0.05 (a) then at a confidence level of 95% it can be decided to accept Ha and reject Ho which means that Decentralization (X1) moderated by Competitive Advantage (X2) has a significant influence on the Level of Regional Independence (Y), meaning that the better the decentralization and supported by competitive advantage will have an impact on the better level of regional independence. Thus it can be concluded that competitive advantage has successfully carried out its function as a moderating variable with a quasi-moderation type that is able to strengthen the relationship between decentralization and the level of regional independence.

DISCUSSION

In general, the results of the study concerning decentralization, competitive advantage and the level of regional independence have provided positive results, meaning that all the variables studied explain proportional

DECENTRALIZATION TO ACHIEVE REGIONAL INDEPENDENCE WITH COMPETITIVE ADVANTAGE AS A MODERATION

Agustina Br Surbakti **et al**

results with increasingly better results and have a positive influence. This condition provides a signal that the Lhokseumawe City government has a better work program design to realize more optimistic regional government performance.

If we look at the research results, the results of the hypothesis testing on the decentralization variable have shown a positive P Value of 62.5%. This value illustrates that the level of understanding of local governments regarding decentralization has improved, although it is still not high or reaching above 70%. However, the local government of Lhokseumawe City has had a fairly good work program design to achieve the value of regional independence, as stated in the Lhokseumawe City Government Work Program based on Qanun Number 18 of 2024 concerning the Lhokseumawe City Government Work Plan for 2025.

If we look at the above, it can be concluded that there is a significant increase in the area of local government authority which is a manifestation of the decentralization system. Local governments are increasingly aware that in order to achieve a prosperous society, namely through economic growth that reflects regional independence in the end. Therefore, although not very high, the decentralization system which is the right and obligation of the local government has been implemented quite well, and this is proven by the increasing value of the Original Regional Income (PAD) of Lhokseumawe City from IDR 68,212,506,871 in 2022 to IDR 70,167,263,361 in 2023 (Source: Report on the Study of the Potential for Original Regional Income of Lhokseumawe City in 2023). This condition very clearly provides an illustration that the Lhokseumawe City government increasingly has a positive work plan or program and is heading towards a better level of regional independence.

The Role of Competitive Advantage of Lhokseumawe City Government

From the results of the research that has been conducted, the Lhokseumawe City government is still not able to grow the value of excellence for the region. This is proven by the fact that there has not been found a special feature or characteristic of Lhokseumawe City compared to other regions, for example Bireuen Regency with the empowerment of Kue Nagasari for the addition of the community and regional economy. However, the positive value found from the research results is only 10.7% which is the moderation value of the competitive advantage strategy against the level of regional independence. The positive findings indicate that the regional government has begun to have a sufficient foundation to develop the region towards an independent region, but has not been able to realize a good level of independence in the short term. This will clearly be a challenge for the regional government to think more technically and how to implement it appropriately in the region.

The results of the study that offer uniqueness through culinary "timphan" or traditional food are indeed not enough to encourage more developed programs for the local government. This indicates that the local government is still not good enough to understand the competitive advantage strategy that can drive higher PAD values. The results of the study also noted that the local government of Lhokseumawe City is still considering the right object to find regional advantages. However, it must be realized that the level of public knowledge is also the most important factor in developing economic values that must grow every year. Furthermore, the local government must also have a creative economic development program that is more focused and prioritized for the region to realize a higher level of regional independence.

CONCLUSION

Based on the results of the analysis and discussion that have been carried out, the study concluded that the efforts of the Lhokseumawe City government to increase the level of regional independence have been better with the efforts to find sources of increasing regional income through the creation of competitive advantages. The focus of regional competitive advantages from the culinary side of "timphan" has been developed as part of the regional differentiation side. Decentralization has a significant influence on the level of regional independence. Competitive advantages also have a significant influence on the level of regional independence. Competitive advantages can strengthen the relationship between decentralization and the level of regional independence, meaning that the better the decentralization supported by competitive advantages, the more it will increase the level of regional independence and Competitive advantages have succeeded in acting as quasi moderation, meaning that they are able to strengthen decentralization.

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