

Analysis of Advantage Competitive Factors and the Impaction Improving Business Performance of SME in Central Java

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Abstract:

This study aims to determine the effects of Intangible Assets, Strategic Orientation and Innovation Orientation on Competitive Advantages that have an impact on the performance of SMEs in Central Java. The method of this study was explanatory survey method with a type of decompression-verification study from primary data obtained from various SME groups with a target of 200 SMEs in Central Java that were selected on a quota basis and non-probability sampling from several types of SME groups and using PLS. SEM in analyzing the data of the book. The results of this study indicate that Intangible Assets with Path coefficient (β) = 0.364, P value <0.001 ($\alpha = 0.05$), Strategic Orientation with Path coefficient (β) = 0.269 P value <0.001 ($\alpha = 0.05$), and Innovation Orientation with Path coefficient (β) = 0.123 P value <0.038 ($\alpha = 0.05$), have a positive effect on Competitive Advantage with coefficient (β) = 0.475, P value <0.001 ($\alpha = 0.05$) which implies on the performance of SMEs.

Keywords: Competitive Advantage, Business Performance, SMEs.

INTRODUCTION

1. The Background Of The Study

Small and medium enterprises (SMEs) are one of the drivers of a growing economy, even as 'backbones' in Indonesia, because they account for around 60% of GDP (Gross Domestic Product) and also provide employment opportunities for our society (Mutmainah, D, 2018).

The development of MSMEs in Central Java is quite encouraging. Based on data that in the first quarter of 2018 there were 136,207 SMEs in Central Java where 46,809 mdm in the non-agricultural production sectors, 22,738 in the agricultural sectors, 50,169 in the trade sectors and 16,491 in the service sectors, and 933,989 people were employed. The total turnover of MSME players in Central Java reached more than 50 billions(Maharani, E. and Saputra, A. 2018).

In the last decade, the development of the business environment has been very dynamic. This

condition gives impact in every company, both large, medium and small companies. Technology changes and rapid product variations are two factors that greatly influence business development, so often the superior strategies chosen before are no longer sufficient. Therefore the selection and determination of new strategies is needed for more competitive companies.³⁾

The ability to manage and adapt well will create a strategy that is oriented to competitive advantage (Nitya,. 2013). Therefore, batik SMEs in Central Java can maintain and improve their business performance.

Competitive advantage is a form of strategy to help companies maintain sustainability (Meutia. 2013). This opinion is supported by Ferdinandwho stated that in a competitive market, the company's ability to produce financial performance is very beneficial for the level of competitive advantage. To

perpetuate its existention, the company must also be sustainable (Ferdinand, Augusty, 2003) .

Competitive advantage is a unique position to grow and be directly involved with competitors. To gain excellence, in this case SMEs need to carry out business strategies, be creative, innovative, and produce empowerment of intangible assets (intangible assets).

Based on the background study above, a Study on Building Competitiveness is needed to improve SME Business Performance in Central Java which analyzes the factors that influence the advantages that must be owned by SMEs that have an impact on improving the performance of SMEs.

2. The Aims of The Study

The aims of the study are :

1. To analyze the effect of Intangible Assets, Strategic Orientation, and Innovation Orientation on the Advantages of Competing SMEs in Central Java.
2. To analyze competing differences in SME business performance in Central Java.

LITERATURE REVIEW

1. Small and Medium Enterprises (SMEs)

The definition of SMEs (Abduh, T, 2018):

- a. Micro business is a productive business owned by individuals and / or individual business entities that meet the criteria: the criteria for assets are Rp50 million, the criteria for maximum turnover is Rp300 millions.
- b. Small-scale businesses are productive economic companies that are run by themselves, carried out by individuals or business entities that are subsidiaries or non-branches that are controlled, controlled or become part of, directly and indirectly from medium-sized businesses or large businesses that fulfill written assets Rp. 50 Million - Rp. 500 Millions, Code Turnover: Rp. 300 millions - Rp. 2.5 Billions Rupiah.

- c. Small businesses are productive economic enterprises carried out by individuals or business entities that are open as subsidiaries or non-branches that are owned, controlled or become a direct or indirect part of large businesses that receive assets of Rp. 500 Millions - Rp. 10 Billions, Code Turnover: Rp. 2.5 Billions - Rp. 50 billions.

2. Business Performance

SME business performance is defined as the level of achievement of SMEs seen from sales growth, customer growth, and market coverage compared to competitors (Morgan, N.A, 2012). Business performance from the growth in the number of sales increased rapidly; has a growth in sales volume that is able to exceed expectations; customer growth; has sales growth in the last three years; Economic development allows brightness; and do not have obstacles in running a business.

3. Competitive Advantage

The concept of competitive advantage, according to Porter¹⁾, can not be understood by looking at the company as a whole, but must be from the origin of competitive advantage that is a variety of different activities carried out by the company in designing, producing, marketing, delivering and supporting its products. Value chain analysis is more appropriate to test competitive advantage than value added (selling price minus the cost of purchasing raw materials), because this analysis can know the value of all activities, so that the origin or source of competitive advantage can be known (YuniIstanto, 2010).

Positional excellence is reflected in excellence in the field of innovation products that are in accordance with consumer criteria; strive to adjust consumer needs compared to competitors; give consumers the benefits of the product; have products that are successful in entering the market; products on the market are faster than competitors;

the right time strategy for entering products on the market; success in designing product uniqueness; success in making different products compared to competitors; uniqueness of the product becomes competitiveness; have a product success that provides more benefits than competitors; success in issuing ideas that benefit consumers; having useful products exceeds consumer expectations (YuniIstanto, 2010 and Barusman, Andala Rama Putra and Tina MB Virgawenda, 2019)).

4. Intangible Assets

Intangible assets are non-tangible/intangible assets that provide benefits. According to experts who are members of WebFinance, Inc., intangible assets are long-term resources owned by all entities but not physically visible. *"Intangible assets are the long-term resources of an entity, but have no physical existence"* (Massaro, M. and Garlatti, A., 2015).

You can be exemplified as follows: (1) Copyright, such as in the form of a book; (2) People who own the copyright of the songs created; (3) machine design from factories that can generate profits for the company (patent); (4) drugs from pharmaceutical companies, for a certain period of time can generate large profits for the company (patent); (5) individuals / companies want / want to buy assets with a value higher than the book value (Goodwill); (6) Trademarks which are the right of the company to market the products they produce and sell.

5. Strategic Orientation

Understanding Strategy is a tool to achieve goals. In its development, the concept of strategy continues to grow. This can be demonstrated by the differences in the concept of strategy over the past 30 years. The development of the last few years can be seen as follows: Rangkuti10) stated that: "Strategy is a very important tool for achieving competitive advantage".

Definition of strategy:

Rangkutidefines that: "Strategy is an action that is incremental (always increasing) and sustainable and is based on the point of view of what the customer expects in the future. To determine a competitive strategy, companies must know their position in the industry. For the largest companies, or market leaders, survival strategies are certainly more appropriate. For challenger companies (market challengers), attack strategies are more appropriate. As for market followers (market followers), the market follower strategy is more appropriate. Likewise for a better market, the right one is a better market strategy (Rangkuty, Freddy, 2009)).

METHODS.

1. Types Of Research

The type of research was explanatory research which used a quantitative approach. According to Sugiyono, research according to the level of explanation is research that intends to explain the position of the variables studied and the relationship between one variable with another variable (Sugiyono. 2014)

2. Population and Research Sample

2.1 Population

According to Sugiyono population is generalization area consisting of objects / subjects that have certain qualities and characteristics determined by the researcher to be studied and then conclusions drawn (Sugiyono. 2014). The population in this study is the SME community in Central Java. Because the population in this study is very large in number, which is more than 100 thousands, a sample is taken for this study.

2.2. Sample

According to Sugiyono sample is part of the number and characteristics of the population (Sugiyono. 2014). It is recommended that the appropriate sample size ranges from 100-200 respondents (Hair, et al., 2010)

The population characteristics for this research cannot be known with certainty, so the

authors chose the sampling technique to be used is the Non Probability Sampling technique, which is a sampling technique by not providing equal opportunities for each element or member of the population to be selected as a sample.

Based on the primary data taken during May - August 2018 respondents obtained answers and then tabulated the data (attachment 4). From the tabulation of the data it can be seen the following things:

RESULTS AND DISCUSSION

1. Reporting Research Result.

1.1. Identity/Overview of Respondents

The general description of respondents can be seen in the table below:

Table1. Identity/Overview of Respondents

Description	Quantity	Percentage
Number of Samples	200	100%
Gender :		
Male	121	60,5
Female	79	39,5
Age :		
<= 30 y.o	29	14,5
31 – 40y.o	71	35,5
41 – 50 y.o	58	29
>50 y.o	42	21
Level of Education:		
SD	22	11
SLTP	26	13
SLTA	93	46,5
PT	59	29,5
Length of Work:		
< 10y.o	121	60,5
11 - 20 y.o	46	23
21 – 30 y.o	17	8,5
>30 y.o	15	7,5
Website & Email UKM :		
Have a Website	19	9,5
Have an Email	53	26,5
Various of UKM Products:		
Food-drink	63	31,5
Craft	24	12
Others	113	56,5

Product Market Reach :		
Local	85	42,5
National	100	50
International	15	7,5
Spread Region of UKM :		
Kars. Semarang	43	21,5
Kars. Pati	32	16
Kars. Pekalongan	35	17,5
Kars. Surakarta	30	15
Kars. Kedu	30	15
Kars. Banyumas	30	15

Source: Primary data processed, 2018

1.2. Descriptive Analysis of Respondents

Descriptive data shows a general description of the respondent's answer to the question or statement contained in the questionnaire and respondent's response. Based on the results of responses from 200 respondents about the research variables, the researcher will describe in detail the respondents' answers grouped in descriptive statistics.

The answer range fills in the question dimensions of each variable studied, determined by using threebox method criteria. (Ferdinand, 2006).Based on the research conducted and in order to facilitate the interpretation, the answer range is converted to unity 100. For this condition, the answer range will start from 15 to 100, where the range occurs at 85. Then the range that occurs is divided by 3 and will produce a range of 28, 33 which will be used as the basis for interpretation of index values, namely:

- Index value 15,00–43,33=*weak interpretation*
- Index value 43,34 – 71,67 = *medium interpretation*
- Index value 71,68 – 100 = *high interpretation*

From the table above, it can be explained that **the index in all research variables shows a high interpretation**, because all indexes are greater than 71.68.

2. Data Analysis

Data processing techniques using the SEM method based on Partial Least Square (PLS) require two stages to assess the Fit Model of a research model (Ghozali, 2006). These steps are as follows:

2.1. Outer Model / Measurement model

The outer model is intended to evaluate how the relationship between indicators and the variables they measure. In this model, three parameters are used, namely convergent validity, disk validity and reliability.

Test of Convergent Validity

In testing convergent validity using criteria (Sholihin, 2013) :

1. Loading factor > 0,7 indicator used
Loading factor: 0,4s/d0,7indicator considered
Loading factor <0,4indicator deleted / not used
2. P value < 0,05

The results of the analysis using SEM-PLS 3.0 obtained the value of loading factor and P value as in the following table:

Table3.Outer Loading (Convergen Validity)

Item / Indikator	Model awal		Setelahmodifikasi	
	Loading Faktor	P value	Loading Faktor	P value
TC.1	0.736	<0.001	0.736	<0.001
TC.2	0.768	<0.001	0.768	<0.001
TC.3	0.631	<0.001	0.631	<0.001
TC.4	0.735	<0.001	0.735	<0.001
OC.1	0.536	<0.001	0.536	<0.001
OC.2	0.651	<0.001	0.651	<0.001
OC.3	0.72	<0.001	0.72	<0.001
OC.4	0.755	<0.001	0.755	<0.001
OC.5	0.677	<0.001	0.677	<0.001
OC.6	0.733	<0.001	0.733	<0.001
RC.1	0.807	<0.001	0.807	<0.001
RC.2	0.752	<0.001	0.752	<0.001
RC.3	0.83	<0.001	0.83	<0.001
RC.4	0.775	<0.001	0.775	<0.001
RC.5	0.632	<0.001	0.632	<0.001
OPL.1	0.819	<0.001	0.819	<0.001
OPL.2	0.836	<0.001	0.836	<0.001
OPL.3	0.834	<0.001	0.834	<0.001
OPL.4	0.839	<0.001	0.839	<0.001
OPS.1	0.893	<0.001	0.893	<0.001
OPS.2	0.872	<0.001	0.872	<0.001
OPS.3	0.912	<0.001	0.912	<0.001
OPS.4	0.859	<0.001	0.859	<0.001
OT.1	0.919	<0.001	0.919	<0.001
OT.2	0.93	<0.001	0.93	<0.001
OT.3	0.914	<0.001	0.914	<0.001
OB.1	0.848	<0.001	0.848	<0.001
OB.2	0.853	<0.001	0.853	<0.001
OB.3	0.896	<0.001	0.896	<0.001
INOV.1	0.793	<0.001	0.793	<0.001
INOV.2	0.46	<0.001	0.46	<0.001
INOV.3	0.738	<0.001	0.738	<0.001
INOV.4	0.612	<0.001	0.612	<0.001
INOV.5	0.713	<0.001	0.713	<0.001
KB.1	0.497	<0.001	0.497	<0.001
KB.2	0.691	<0.001	0.718	<0.001
KB.3	0.612	<0.001	0.642	<0.001
KB.4	0.59	<0.001	0.595	<0.001
KB.5	0.758	<0.001	0.767	<0.001
KB.6	0.691	<0.001	0.701	<0.001

KB.7	0.629	<0.001	0.631	<0.001
KB.8	0.429	<0.001	0.429	<0.001
KBIS.1	0.922	<0.001	0.922	<0.001
KBIS.2	0.932	<0.001	0.932	<0.001
KBIS.3	0.929	<0.001	0.929	<0.001
KBIS.4	0.851	<0.001	0.851	<0.001
KBIS.5	0.921	<0.001	0.921	<0.001

Source: Primary data processed, 2018

Based on the criteria and results in the table loading these factors indicate that all 47 indicators / instrument items used in this study are included in the valid category.

Test the Validity of Discrimination

In the discriminant validity test using criteria (Sholihin, 2013), the validity test is intended to test whether the indicators used are sufficient enough to contribute to R².

The criteria used in this validity test are:

AVE square root value > correlation value between variables or,

Correlation values with red > other correlation values are in one column

The results of the analysis using SEM-PLS 3.0 obtained the AVE square root value as in the following table:

Correlations among I vs. with sq. rts. Of AVEs

	T.CAP	ORG CAP	REL CAP	ORI PLG	ORI PSG	ORI TEK	ORI BY	INT ASE	ORI STR	ORI INO	KU BRSG	KNJ BIS
T.CAP	0.719	0.423	0.405	0.452	0.213	0.325	0.325	0.735	0.454	0.44	0.483	0.195
ORG CAP	0.423	0.682	0.58	0.358	0.378	0.503	0.453	0.842	0.589	0.476	0.501	0.46
REL CAP	0.405	0.58	0.763	0.376	0.388	0.401	0.502	0.833	0.585	0.48	0.499	0.556
ORI PLG	0.452	0.358	0.376	0.832	0.283	0.219	0.42	0.487	0.658	0.473	0.524	0.416
ORI PSG	0.213	0.378	0.388	0.283	0.884	0.296	0.45	0.411	0.714	0.373	0.431	0.288
ORI TEK	0.325	0.503	0.401	0.219	0.296	0.921	0.406	0.513	0.656	0.561	0.38	0.346
ORI BY	0.325	0.453	0.502	0.42	0.45	0.406	0.866	0.534	0.823	0.451	0.37	0.452
INT ASE	0.735	0.842	0.833	0.487	0.411	0.513	0.534	0.805	0.678	0.578	0.613	0.511
ORI STR	0.454	0.589	0.585	0.658	0.714	0.656	0.823	0.678	0.716	0.642	0.588	0.526
ORI INO	0.44	0.476	0.48	0.473	0.373	0.561	0.451	0.578	0.642	0.674	0.494	0.487
KU BRSG	0.483	0.501	0.499	0.524	0.431	0.38	0.37	0.613	0.588	0.494	0.678	0.465
KNJ BIS	0.195	0.46	0.556	0.416	0.288	0.346	0.452	0.511	0.526	0.487	0.465	0.912

Based on the criteria and results in the table above, it shows that all indicators used to measure variables meet the valid discriminant criteria.

Test Constructional Reliability

The criteria used in the reliability test are (Sholihin, 2013) :

1. Reliability composite coefficient > 0.7

2. Cronbach's alpha coefficient > 0.7

The results of the analysis using SEM-PLS 3.0 obtained the composite reliability value and alpha cronbach's coefficient as in the following table:

Composite reliability coefficients

T.CAP	ORG	REL	ORI	ORI	ORI	ORI	INT	ORI	ORI	KU	KNJ
-------	-----	-----	-----	-----	-----	-----	-----	-----	-----	----	-----

	CAP	CAP	PLG	PSG	TEK	BY	ASE	STR	INO	BRSG	BIS
0.81	0.838	0.873	0.9	0.935	0.944	0.9	0.846	0.807	0.801	0.835	0.961

Cronbach's alpha coefficients

T.CAP	ORG CAP	REL CAP	ORI PLG	ORI PSG	ORI TEK	ORI BY	INT ASE	ORI STR	ORI INO	KU BRSG	KNJ BIS
0.687	0.767	0.817	0.852	0.907	0.91	0.833	0.726	0.679	0.688	0.763	0.949

Based on the criteria and results in the table above, it shows that all indicators used to measure variables meet reliable criteria.

2.2. Inner Model (Model Structural)

The structural model is carried out to examine the relationship / influence between latent constructs and assess the level of the relationship. some tests for structural models include: model suitability testing and hypothesis testing.

Model Confirmity Test

In the suitability test the models are used indices which include: Average path coefficient (APC), Average adjusted R-squared (AARS) and Average block VIF (AVIF).

The results of analysis using SEM-PLS 3.0 obtained the Average path coefficient (APC) value, Average adjusted R-squared (AARS) and Average block VIF (AVIF) as follows:

Model fit and quality indices

Average path coefficient (APC)=0.308, $P < 0.001$

Average adjusted R-squared (AARS)=0.328, $P < 0.001$

Average block VIF (AVIF)=1.964, acceptable if ≤ 5 , ideally ≤ 3.3

The results of the analysis show that the model in this study is **appropriate**.

Hypothesis Testing

The hypothesis in this study are:

1. Intangible Assets have a positive effect on competitive advantage
2. Innovation orientation has a positive effect on competitive advantage

3. Strategy orientation has a positive effect on competitive advantage
4. Competitive advantages have a positive effect on Business Performance

Analysis using SEM-PLS 3.0 obtained the following results:

Figure 1.Path Diagram (parameter Without Value)

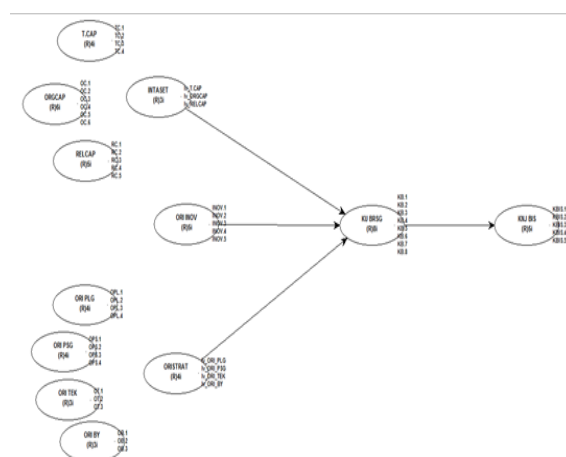
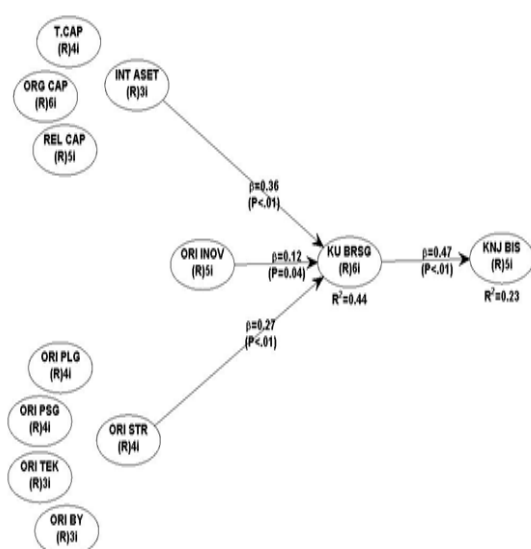


Figure2.SEM Analysis Completed Diagram (with parameter values)



Path coefficients, P Value & Effect Size

Koefisien	Variabel Independent	Variabel Dependent	
		KU BRSG	KNJ BIS
Koefisienjalur (β)	INT ASET	0.364	
	ORI STR	0.269	
	ORI INO	0.123	
	KU BRSG		0.475
P value	INT ASET	<0.001	
	ORI STR	<0.001	
	ORI INO	0.038	
	KU BRSG		<0.001
Effect Size	INT ASET	0.224	
	ORI STR	0.159	
	ORI INO	0.061	
	KU BRSG		0.225

Based on the table above, can be explained as follows:

1st Hypothesis Testing: Intangible Assets have a positive effect on competitive advantage

Obtained values of indices:

Path coefficient (β) = 0.364

P value < 0.001 ($\alpha=0,05$)

Effect Size (ES) = 0.224

- ES < 0.02: no effect
- 0.02 < ES < 0.15: level of influence is weak

- 0.15 < ES < 0.35: level of influence is medium

- ES > 0.35: level of influence is strong

These results indicate that Intangible Asset has a **significant positive** effect on the advantage of competing with $\beta = 0.364$ and the level of **medium** influence (effect size: 0.224).

2nd Hypothesis Testing: Innovation orientation has a positive effect on competitive advantage.

Obtained values of indices:

Path coefficient (β) = 0.123

P value < 0.038 ($\alpha=0,05$)

Effect Size (ES) = 0.061

These results indicate that Intangible Assets have a **significant positive** effect on competitive advantage with $\beta = 0.123$ and the level of influence is **weak** (effect size: 0.061)

3rd Hypothesis Testing: Orientasi Strategi berpengaruh positif terhadap Keunggulan bersaing

Obtained values of indices:

Path coefficient (β) = 0.269

P value < 0.001 ($\alpha=0,05$)

Effect Size (ES) = 0.159

These results show that strategy orientation has a **significant positive** effect on competitive advantage

with $\beta = 0.269$ and the level of influence is **medium**(effect size: 0.159)

4thHypothesis

Testing:

KeunggulanbersaingberpengaruhpositifterhadapKinerjabisnis

Obtained values of indices:

Path coefficient(β) = 0.475

P value <0.001 ($\alpha=0,05$)

Effect Size (ES)= 0.225

These results indicate that competitive advantage has a **significant positive** effect on Business Performance with $\beta = 0.364$ and the level of **medium** influence (effect size: 0.225)

2.3. Equation of Multiple Regression

Based on the diagram above the regression function can be derived as follows:

$$\text{➤ } Y_1 = 0.36 X_1 + 0.12 X_2 + 0.27 X_3, \text{ with } R^2 = 0.44$$

$$\text{➤ } Y_2 = 0.47 Y_1, \text{ with } R^2 = 0.23$$

Keterangan :

- ❑ KNJ BIS (Y_2) : KinerjaBisnis, ORI
- INO (X_2) : OrientasiInovasi
- ❑ KU BRSG (Y_1) : Keunggulanbersaing, ORI
- STR (X_3) : Orientasistrategi
- ❑ INT ASET (X_1) : Intangible asset

The two regression functions above can be interpreted as follows:

- The higher the competitive advantage, the higher the level of business performance ($\beta = 0.47$)
- Competitive advantage contributes 23% to variations in business performance ($R^2 = 0.23$)
- The greater the intangible asset, the stronger the level of competitive advantage ($\beta = 0.36$)
- The higher the level of innovation, the stronger the level of competitive advantage ($\beta = 0.12$)
- The higher the strategy orientation, the stronger the level of competitive advantage ($\beta = 0.27$)

- Intangible Asset, Innovation Orientation and Strategy Orientation contributed 44% to variations in Competitive Advantages, and 66% were influenced by variables outside the model ($R^2 = 0.44$)

5. CONCLUSIONS

This study aims to analyze the effect of Intangible Assets, Strategic Orientation and Innovation Orientation on Competitive Advantages that have an impact on SME Performance. To analyze the relationship between these variables, this study uses Partial Least Square (PLS). Based on the analysis and discussion in the previous section, conclusions can be drawn as follows:

1. The results of the first hypothesis test: Path coefficient (β) = 0.364, P value <0.001 ($\alpha = 0.05$), indicating the existence of a direct and positive relationship between Intangible Assets and Competitive Advantages of SMEs. This means that the better the Intangible Assets will increase the Competitive Advantage of SMEs.
2. The second hypothesis test results: Path coefficient (β) = 0.123 P value <0.038 ($\alpha = 0.05$), indicating the existence of a direct and positive relationship between Innovation Orientation and Competitive Competitiveness of UKM. This means that the Innovation Orientation owned by SMEs will increase the Competitive Advantage of SMEs.
3. The results of the third hypothesis test: Path coefficient (β) = 0.269 P value <0.001 ($\alpha = 0.05$), indicating the existence of a direct and positive relationship between Strategic Orientation and Competitive Advantage. This means that the Strategic Orientation owned by SMEs will increase Competitive Advantages of SMEs.
4. The results of the fourth hypothesis test: Path coefficient (β) = 0.475, P value <0.001 ($\alpha = 0.05$), indicating a significant relationship between Competitive Advantage and SME Performance. This means that high competitive

advantage of SMEs will improve the performance of SMEs.

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