

# MSME Innovation and Value Chain Performance through Competitive Advantage

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The fashion industry has recently become a lucrative industry in Indonesia. Its growth is constantly increasing, in contrast to the product fashion made by MicroSmall Medium Enterprises (MSMEs) in Indonesia. They are experiencing a trend of decreasing demand. Also, the sheer number of competing products from developed countries whose prices are lower and more fashionable in terms of function and appearance makes consumers prefer mass-produced products. One proof is the fashion centre in the city of Bandung. It has been decreasing in demand for the last three years. Declining public purchasing power is one cause of the decrease in demand for MSME products; it has been felt by most MSME entrepreneurs, from 2016 until now. This is consistent with the results of Statistics Indonesia (Badan Pusat Statistik, BPS) research. In 2017, 40% of the population was under pressure or crisis. This ensured that low purchasing power, innovation strategies, and product value are needed, to be able to compete with cheap but high-quality products in the market, to remain competitive. The research question is whether increasing product value and innovation will improve the business performance of fashion designers in the city of Bandung. Data is processed using Partial Least Square, on 99 MSME samples taken from consumer fashion houses in the Bandung area. The results illustrate that 99 MSMEs can improve their business performance, by escalating innovation and value chain management.

**Key words:** *Innovation, competitive advantages, MSME, value chain, fashion industry, performance.*

## Introduction

Initially, fashion trends in Indonesia tended to imitate western styles both in the materials used and in the design. Young people in Indonesia are generally more comfortable with clothes that are simple and seem relaxed, especially for daily activities such as going to campus or just playing with friends. Indonesian fashion is driven by several factors namely the mass media, the world of entertainment, the world of business, and the internet. The type of fashion that is the growing fastest is the t-shirt, because t-shirts change their models faster and are also the products mostly bought by the public. Bandung is known for its FO (Factory Outlets), its DO (Distribution Outlets) and its clothing lines that have good quality and are famous overseas. Therefore Bandung is a shopping destination, with good fashions for local and foreign tourists. The clothing line is arguably the clothing manufacturer that produces all of their own products with their own labels on the products they create, for FO or through different distributions that have roles as distributors (Prajogo et al., 2008). The products offered by the clothing line in Bandung are arguably very diverse. Clothing lines in Bandung can sell a variety of items, from shirts to shoes with same brand or label, but it is not uncommon for the lines to focus on one fashion item such as shoes, shirts, hats or other items (Prajogo et al., 2008). There is a wide range in the price offered. The price can vary greatly, depending on the brand or the material used by the manufacturer. The high quality of fashion products at Bandung is also famous. This is inseparable from the support of third parties which help the clothing line business in Bandung, like screen printing and shoe craftsmen in Cibaduyut, and many other locations that become supporting vendors for clothing line businesses. The following are examples of local clothing lines in Bandung.

There are ten developing creative industries in Bandung, one of which is the fashion industry; it contributes 43.71% of GDP (Prajogo et al., 2008). The fashion industry is rapidly being compared to other creative industries, because in recent years fashion is a business that many have made a field of business. for the businessman. In the development of fashion products the city of Bandung is never left behind. The availability of textile product shopping facilities, as well as ready-made clothing in large quantities, creates the fashion city as one of the images of the city of Bandung. On 2017 data from BPS, in Bandung City there are 1,237 MicroSmall Medium Enterprises (MSMEs) and it is still growing rapidly until now. Increasing the number of business actors in the MSME sector will certainly affect competition in business, especially in similar businesses. One MSME effort to improve competitiveness and performance is implementing value chain and innovation through quality, design and packaging (Tosida et al., 2017; 2018; 2019).

MSMEs in the Bandung fashion industry are starting to realise that, to provide cheap products, quality and fast, internal improvements manufacturing and service companies are not enough. The participation of suppliers, transportation companies and distributor networks

is needed. Awareness of the existence of cheap, fast and good quality products gave birth to a new concept in the 1990s; Supply Chain Management (SCM). The network for which the company is jointly working creates and delivers a product. The network is called the end users supply chain or just 'the supply chain'. Networked companies include suppliers, factories, distributors, stores or retailers, as well as company supporters such as logistics services (Barney & Clark, 2007; Darroch & McNaughton, 2002). The Supply Chain Management approach is integrated with a spirit of collaboration. Reinforcing the need for the power of competitiveness will give a competitive advantage and presence, to industry. To improve competitiveness in a creative industry, a company needs management, both internally and externally. The relationship between suppliers, the customer, and the company itself, must well managed. Issues include those of suppliers who are partly responsible for product quality, good and long-term relationship with suppliers and customers, as well as managing distribution order products from upstream to downstream on time, to get to the end user (Birkinshaw & Mol, 2006; Drucker, 1985; Xu & Qingrui, 2006). Implementation and supply chain management practices for the supply of goods and services is the very thing needed for the creative industry sector, in order to improve the competitiveness of industries which will impact on business performance.

## Literature Study

### *Competitive Advantage*

Competitive advantage, according to (Gupta & MacDaniel, 2002), is a company's ability to achieve economic profit above that won by competitors in the same market. Companies with competitive advantage always have the ability to understand changes in market structure, and are able to choose effective marketing strategies. Competitive strategies are intended to maintain profitability and position that lasts when facing competition. Competitive advantage develops from value that companies can create for customers or buyers. Niosi & Innes (1997) use competitive measurement dimension advantages in their research, include using delivery dependability, product innovation, and time-to-market. Castro et al. (2011) said: 'Competition is the core of success or failure of firms. Competition is the core of a company's success or failure. There are two sides caused by competition, namely the successful side because it encourages companies to be more dynamic and compete in producing products and provide the best service for their markets, so that competition is seen as a motivating opportunity. While the other side is failure because it will weaken companies that are static, afraid of competition and unable to produce quality products, so competition is a threat to the company. According to Miller & Blais (1993) competitiveness is a function of operation that is not only oriented internally but also exists externally, namely responding proactively to the target market. The dimensions of a company's competitiveness, as stated by Malaviya &

Wadhwa (2005) by quoting O'Brien & Maracas (2009), consist of cost, quality, delivery time, and flexibility.

### ***Business Performance***

Performance is a work ability indicated by the work. Gupta & MacDaniel (2002) put forward the notion of performance as follows: 'Performance is: (1) the process or manner of performing, (2) a notable action or achievement, (3) the performing of a player or other entertainment'. Company performance is something produced by a company within a certain period with reference to standards set. Company performance should be a measurable result and describe an empirical condition. Companies of various sizes are agreed upon. Business performance refers to how well a company is oriented to the market and its financial goals. Effective performance appraisal systems should contain performance indicators, namely: (1) pay attention to every organisational activity and emphasise the customers' perspective, (2) assess each activity using performance measurement tools that certify customers, (3) pay attention to all aspects of performance activities which comprehensively influence customers, and (4) provide information in the form of feedback to help organisation members recognise problems and opportunities, to make improvements. Performance assessment contains tasks of measuring various organisational level activities, that generate feedback information for carry out organisational improvement. Repair organisation implies improvement in organisational management which includes: (a) planning improvements, (b) process improvements, and (c) improvements in evaluation. Corporate performance assessment can be measured financially, and non-financially. A financial measure finds out the results of actions and financial measures done in the past. This is supplemented by non-financial measures about customer satisfaction and cost effectiveness business / internal processes and productivity. After the management is carried out, a business is expected to improve its business performance.

### ***Value Chain***

A value chain is a model. It consists of either a collection of activities or specific business activities that occur within a company to design, produce, market, ship and support a product. Value chains can create value and competitive advantage for the company. The analysis is based on efficiency and effectiveness. The value chain consists of a set of main and supporting activities. In the general value chain, supporting activities consist of company infrastructure, management of human resources, technological development and efforts to obtain it. The main activity consists of inbound logistics, operations, outbound logistics, marketing and sales as well service. Each step taken in a segment will have an overall impact process. So it can be said that all segments are interdependent (Liyanage et al., 1999).

### ***Value Chain - Porter***

The Value Chain of Castro et al. (2011) is the model used to help analyse specific activities that can create organisational value and competitive advantage. These activities are divided into two types, namely: Main Activities and (Primary Activities)

- **Inbound logistics**, is the activity or activities linked by receiving, storing and distributing inputs / raw materials, such as handling raw materials, warehousing, inventory control, vehicle schedules and returns to supplier.
- **Operational**, is an activity associated with changing inputs or raw materials into final products, such as machining, packaging, assembly, equipment maintenance, testing, printing and other related matters by operating or production processes.
- **Outbound logistics**, is an activity associated with the collection, storage and distribution of products to buyers, such as warehousing finished products, material handling, shipping operations, order processes and scheduling.
- **Marketing and sales** (Marketing and Sales), is an activity persuading or attracting buyers, such as advertising, promotions, salespeople, quota and price.

Castro et al. (2011) presents a useful model for better understanding competitiveness. It relates to Porter who identified four determinants necessary to create and sustain firm competitiveness. These are: 1) Factor conditions: The factor condition includes human resources, physical resources, knowledge resources, capital resources and infrastructure. 2) Demand conditions: Porter stressed the importance of the home market: the home market gives local firms a clearer or earlier picture of buyer needs than foreign rivals can have (p.86). 3) Co-localised and support industries: This gives the advantages of cheap inputs, better co-ordination between steps in the value chain, and access to innovation and upgrading (p.101). 4) Firm strategy, structure and rivalry: Nations or districts can have advantages by having clearer goals, being better organised and by being more competitive due to competition in the home market (p.107).

### ***Value Chain Approach to MicroSmall Medium Enterprise Development***

The value chain approach is fast emerging as a tool for small enterprise development (Tosida et al., 2016a). The focus of interventions is on creating an inclusive value chain system. Inclusive business models or chains are those who do not leave behind small holders (Prajogo et al., 2008). A similar view is expressed by Pastakia and Oza (2011). They consider inclusive value chains, as a market-based arrangement that provides an opportunity to generate livelihoods for the poor, through creating value by production and delivery of quality products and services to the end user/customer. According to O'Brien & Maracas (2009), inclusiveness comes from the type of value identification, value creation and value

capture but more importantly, from sharing value with small holders or smaller links in the chain.

### ***Innovation***

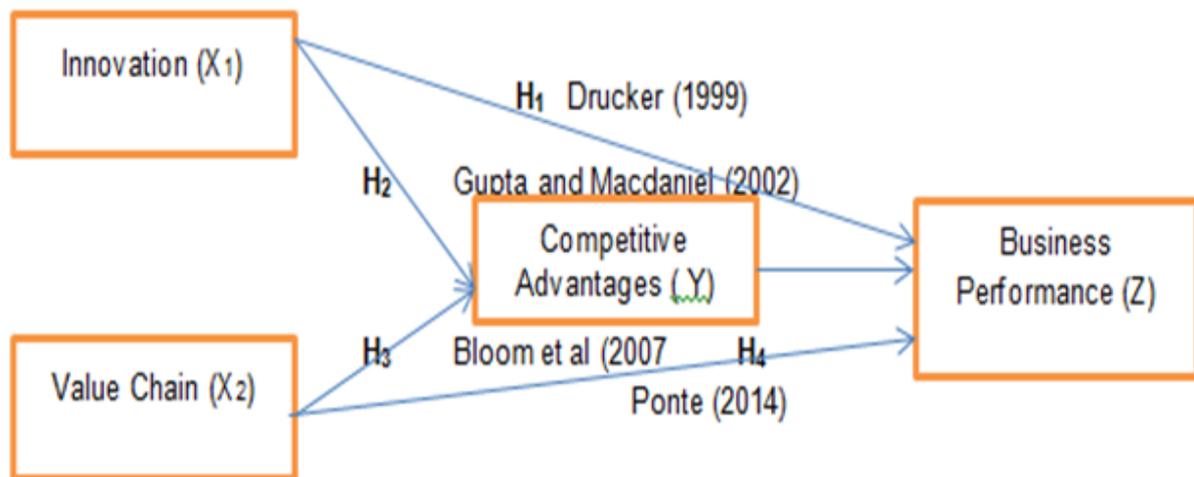
Innovation is generally recognised as key to financial improvement, since it conceivably prompts both efficiency and focused increases (Malaviya & Wadhwa, 2005). There are a few meanings of ‘development’. As per Drucker (1985), development is the business or mechanical use of something new another item, processor strategy for a generation; another market or wellsprings of supply; a new type of business or monetary association. The European Commission characterises development as the recharging and expansion of the scope of items and administrations what's more, the related markets; the foundation of new techniques of generation, supply and appropriation; the presentation of changes in the board, work association, and the working conditions and aptitudes of the work power. In basic terms, advancement includes the use of new thoughts. Advancement is a term that may allude to a process, property, or final product. There is a distinction between advancement and creation. Innovation should not be likened to creation; a development may not really lead on to improvement. This differentiation is clarified by Birkinshaw & Mol (2006), when they note that: ‘innovation is a thought, a sketch or model for another or improved gadget, item, procedure or framework’, though ‘advancement in the financial sense is cultivated as it were with the primary business exchange including the new item, procedure, framework or gadget’. Advancement has been defined variously: ‘Innovation has been reliably characterised as the appropriation of thought or conduct that is new to the association’ (Malaviya & Wadhwa, 2005). Thus, development does not only result from R&D; it is a multi-dimensional procedure, with various sources, more often than not originating from complex collaborations among people, association and an institutional setting.

### ***Research Framework***

Recent studies of micro and small enterprise value chains confirm that firm-level upgrading is key to an inclusive development strategy, one that increases the participation, contribution, and benefits of small enterprise in value chains (Prajogo et al., 2008). Authors conclude that upgrading creates opportunities for small enterprises, when lead firms begin to specialise away from production. Several factors are associated with enterprise innovation and upgrading. Upgrading is facilitated by encouraging strong vertical linkages to buyers, by fostering effective horizontal relationships among the producers, and by improving producers’ access to information about costs and benefits throughout the value chain (Birkinshaw & Mol, 2006). A recent study by Prajogo et al. (2008) shows chain governance, the type of value chain drivers, and the quality of domestic regulation as the main factors for upgrading. By innovating, organisations react to dynamic market changes and create or

maintain their competitiveness. It can be said that "Innovation is an almost obligatory survival strategy" (Gupta & MacDaniel, 2002). The organisation that successfully created a competitive advantage is a company that is able to create innovation and creativity through an effective and planned innovation process (Gupta and Macdaniel, 2002). Therefore, new strategies are needed for creating and producing new products, or for making improvements (tangible or intangible) by increasing creative abilities from company employees or organisational members. With the development of innovation in terms of focused macro research by experts, two different approaches have emerged, regarding the concept of innovation put forward as the company approach to creating innovation. The first approach is "innovation as a process"; innovation is defined with more emphasis on innovation in organisations, and social processes that produce innovation as individual creativity, organisational culture, environmental conditions (environment context), and socioeconomic factors (social and economic factors) (Xu et al, 2009; Castro et al,2011).

**Figure 1.** Research Framework



**Based on the framework chart above, a hypothesis can be drawn as follows:**

- H<sub>1</sub>:** There is an achievement in using innovation for Business Performance
- H<sub>2</sub>:** There is an achievement of using innovation for Business Performance, through Competitive Advantage
- H<sub>3</sub>:** There is an achievement of using value chain for Business Performance, through Competitive Advantage
- H<sub>4</sub>:** There is an achievement of using value chain for Business Performance

## Methodology

The populations in this study were all MSMEs in the Bandung fashion sector; as many as 724 MSMEs (West Java Development Data and Analysis Center. Development Data Book of 2013, Bandung); (*Pusat Data dan Analisis Pembangunan Jawa Barat. Buku Data Pembangunan Tahun 2013. Bandung; 2013*). The sampling method was to use calculating sample size, employing Slovin technique with alpha 5%, so that the research sample is 99 MSMEs. This is descriptive explorative research, with a quantitative approach, using path analysis of data. Data collection was collected through a questionnaire. A list of statements was used. Research instruments were directed according to the variables used in the research model, with the following equation:

$$Y = a + b_1X_1 \quad (1)$$

$$Z = a + b_2X_2 \quad (2)$$

$$Y = a + b_3X_3 \quad (3)$$

$$Z = a + b_4X_4 \quad (4)$$

## Results and Discussion

The Innovation variable ( $X_1$ ) and Value Chain ( $X_2$ ) have an indirect relationship to the Performance variable ( $Z$ ), through the Competitiveness variable ( $Y$ ) or the total effect of variable  $X_{1,2}$  on variable  $Z$  indirectly is  $b_4$  ( $b_1 \times b_3$ ) and  $b_5$  ( $b_2 \times b_3$ ). The regression coefficient of each variable can be seen in Table 1:

**Table 1:** Regression Coefficient Value

Model	Unstandardised Coefficients		t	Sig.
	B	Std. Error		
Innovation → Performance ( $b_1$ )	0.467	0.090	4.764	0.000
Value Chain → Performance ( $b_2$ )	0.795	0.103	3.785	0.000
Competitiveness → Performance ( $b_3$ )	0.576	0.075	6.035	0.000

**Source:** Data processed by researchers, 2019

From Table 1 above, it can be concluded that:

- The direct effect of  $X_1 \rightarrow Z = b_1 = 0.467$
- The direct effect of  $X_2 \rightarrow Z = b_2 = 0.795$
- The direct effect of  $Y \rightarrow Z = b_3 = 0.576$
- Indirect effect  $X_1 \rightarrow Y \rightarrow Z = b_4 = b_1 \times b_3 = 0.467 \times 0.576 = 0.264$
- Indirect effect  $X_2 \rightarrow Y \rightarrow Z = b_5 = b_2 \times b_3 = 0.795 \times 0.576 = 0.457$

The first hypothesis ( $H_1$ ) states that the probability value (Sig.) Relationship of the Innovation to Performance is smaller than the significance level of 5% (0.05). So, the null hypothesis

(H<sub>0</sub>) is rejected and the alternative hypothesis (H<sub>a</sub>) is accepted. That is, the relationship between the Innovation has a positive and significant effect on Performance with a regression coefficient of 0.467. The results of this research are in line with the research conducted by Birkinshaw & Mol (2006), Malaviya & Wadhwa (2005), Miller & Blais (1993), and Xu et al (2006). This shows that the Innovation has a positive and significant effect on Performance. The remarks in the first segment clarify that while the writing we have inspected does not enable us to recognise segments as far as MSME's R&D power nor even the level of development, there absolutely is generous research proof that quantities of MSMEs in an assortment of divisions do take part in imaginative exercises; and that these exercises are probably going to be a significant determinant of their prosperity (See Gupta & MacDaniel, 2002; Tosida et al., 2016.b).

The fourth hypothesis (H<sub>4</sub>) states that the probability value (Sig.) Relationship of the Value Chain to Performance is 0.000 smaller than the significance level of 5% (0.05). So, the null hypothesis (H<sub>0</sub>) is rejected and the alternative hypothesis (H<sub>a</sub>) is accepted. That is, the relationship between the Value Chain has a positive and significant effect on Performance with a regression coefficient of 0.795. The results of this hypothesis are in line with the research conducted by Prajogo et al. (2008) which shows that the Value Chain has a positive and significant effect on Performance.

## **Conclusion**

Certainly, precisely based, calculated examinations contributed by a few creators have added incredibly to the comprehension of the connection between advancement and MSME's execution (See for instance Birkinshaw & Mol, 2006; Malaviya & Wadhwa, 2005; Miller & Blais, 1993; and Xu et al., 2006). But be that as it may, in a large number of the exact and auxiliary examinations audited here, the diagnostic treatment of advancement inside the MSME's setting is disappointing hypothetically and methodologically. These investigations for the most part do not embark to quantify completely, and afterward to interface, imaginative information sources (watched either legitimately or as a substitute) to creative yields, nor investigate whether the imaginative exertion has had a quantifiable sway on firm execution (yield, work, sends out, advertise share and so on). This accords with the opinion of Gupta & MacDaniel (2002 and Tosida et al. (2016b), that performance can be achieved in many ways, including development of product innovation, technical superiority, product quality and reliability, comprehensive customer service, and unique competitive capabilities. Additionally, the innovation has been extensively considered as having a vital role in verifying a supportable upper hand. Innovation can be characterised as anything new or novel about the manner in which an organisation works or the items it produces (Prajogo et al., 2008). Thus, innovation includes advances in the products, production processes, management systems, organisational structures, and strategies developed by a firm.



Accomplishing competitive advantages starts with a push to create further authoritative mastery in playing out certain intensely basic chain worth exercises, purposely endeavouring to outfit those abilities that fortify the company's technique and aggressiveness (Prajogo et al., 2008). It can be concluded that the activities in the value chain are key in achieving competitive advantage.



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