Determinants of Creative Product Performance, Competitiveness, and Well-Being of Small and Medium Enterprises in Denpasar

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This research aims to study factors which affect the SME's performance, competitiveness, and well-being in Bali. Data was collected from non-behavioural observation, structured interview, and in-depth interview with a sample of 126 SMEs in Denpasar. Data analysis techniques with descriptive statistics and structural model equations using Partial Least Square were used. Three main findings are: (1) Quality of human resources and mounting product requirements have a positive and significant effect on product performance, product competitiveness and well-being; (2) ICT does not have any direct significant impact on competitiveness, but becomes significant through product performance as a mediator; (3) Local wisdom moderates the effects of product performance on competitiveness. The author concluded that the most important factors affecting the Bali SMEs' competitiveness are local wisdom generated from skilful human resources and mounting product requirements. SMEs should utilise ICT more for marketing, as well as actively participate in Governmental development programs to achieve better performance, competitiveness, and well-being.

Key words: *Creative Industry, Performance, Competitiveness, Well-being, Small and Medium Industries.*

Introduction

Improving community welfare is one of the main objectives of a development process in all countries, including Indonesia. Small and Medium Enterprises (SMEs) have contributed

significantly to the development of the Indonesian economy through export, trade, and supporting employment growth sectors. The shift from the agricultural era to industrialisation, followed by the information age, which was accompanied by many discoveries in the field of information and communication technology (ICT), has led human civilisation into an arena of new social relations that had never before been imagined (Fitriati, 2015). This economic era not only emphasises the process of creation and transactions, but also utilises the synergy of mindset to produce an output that has good quality, high selling value, and unique aesthetic value. The creative economy is then driven by the industrial sector called the Creative Industry.

The Indonesian government continues to encourage the development of creative industry (Introduction and Direction of the Development of the Indonesian Creative Economy 2025, Ministry of Trade of the Republic of Indonesia). The government believes creative industry is capable of improving the economy, has competitive value, and has the potential to develop future industries. The Indonesian Ministry of Small and Medium Enterprise encourages the contribution of the creative industry to the national economy through the empowerment and strengthening of creative Small and Medium Industries (SMEs). Lukmandono et al. (2015) state that the problems faced in stimulating the competitiveness of the creative industry are the unpreparedness of industry players to face global competition, lack of access to information sources (markets, technology, and design), and low technological competency. Knowing the position of Indonesia's competitiveness in the international world, the position of regional competitiveness can be observed, in this case the competitiveness of Bali Province as one of the most contributing provinces to the country's foreign exchange through cultural tourism and export.

Denpasar City is the capital of Bali Province, and the centre of business activities. It is also known as one of the popular tourist destinations for both domestic and foreign tourists. Regarding Denpasar City as a trade and industrial centre, pre-observations have been conducted in the Official SMEs Centre of Denpasar City and Bali Province to gather data regarding the general picture and the realisation of exports in Denpasar City. The realisation of exports from SMEs is one measure to assess the potential and the competitiveness of an area (Lopez-Acevedo and Robertson, 2016). It was found that handicrafts always contribute to the highest export income, as can be seen in Table 1. This indicates the huge potential of creative SMEs to contribute to national economy.

Table 1: Export value of SMEs in Denpasar Per Commodity 2014-2018 (in thousand USD)

Commodity	Export Value					Total per Commodity
	2014	2015	2016	2017	2018	
Handicraft	173 661	154 959	156 677	177 589	166 113	1 143 140
Industry	112 805	110 098	108 708	92 706	107 243	745 990
Agriculture	108 222	111 338	71 626	152 674	219 875	874 073
Plantation	881	427	455	667	298	3 135
Others	1 050	1 513	1 850	3 093	2 055	16 549
Total	396 619	378 335	339 317	426 730	495 585	2 782 887

Source: Department of Industry and Commerce of Denpasar City, 2019

SMEs face constraints such as limited access to capital, markets, and information on resources and technology, which act as a barrier to competitiveness and performance (Sri Susilo, 2010). Previous studies have stated that to improve competitiveness, an excellent product performance is required. Variables used in previous studies were various, and sometimes the results conflicted. In general, the indicators deemed significant to product performance are: quality of human resources, information and communication technology (ICT), and product quality control (represented by mounting product requirements) (Nuraini et al., 2016; Nicolescu, 2009; Wignaraja, 2012; Harvie et al., 2010). SMEs in Bali have an advantage in terms of uniqueness (value derived from the local culture and wisdom), and global exposure on that value. However, the data shows that this potential is not managed properly yet, which results in unstable fluctuations in export income. This is a gap that should be studied further, considering the unique cultural essence in the handicraft products of Bali SMEs, which is one of competitive value according to grand theories such as Porter and Resource Based View theory. This study aims to fill this research gap and analyse the determinants of creative product performance, competitiveness, and well-being of SMEs, specifically in Denpasar, Bali.

Research Methods

The city of Denpasar was chosen as the location of the study because, based on preliminary observations in the field, the SMEs in the city of Denpasar in an effort to improve product competitiveness and prosperity, met the criteria for research. The time required was six months. In this study, the entire population of SMEs in the city of Denpasar, which includes musical instruments, plaits, bamboo, padas, furniture, wood, ceramics, leather, candles, metals, paintings, silver, rattan, terracotta, bones, spas, and others make up a total of 126 SMEs. The total population per 2018 according to data from the Bali Provincial Industry and Trade Office and the Denpasar City Industry and Trade Office is 126 units, so the number of the sample is equal to the population. To obtain the data needed in research, the authors used a number of data collection methods, namely through non-behavioural observation, structured

interviews, and in-depth interviews. This research uses structural equation analysis (SEM) with alternative Partial Least Square PLS (component-based SEM). There were seven variables analysed: 1) Quality of human resources (HR quality), 2) ICT, 3) Mounting product requirement (MPR), 4) Local wisdom, 5) Product performance, 6) Competitiveness, and 7) Well-being. Indicators used for each variable are listed in the tables below:

Table 2: Indicators for HR quality

Indicators for Measured Variable	Operational Definition
Knowledgeable HR (X1.1)	SME's HR have adequate educational background to perform production efficiently
Skilful HR (X1.2)	SME's HR have relevant skills in processing production efficiently
Trained HR (X1.3)	SME's HR have received relevant hands-on training in performing production process
Competent HR (X1.4)	SME's HR are competent in performing production efficiently

Source: Dong-Sung Cho (2000), Porter (2004)

Table 3: Indicators for ICT

Indicators for Measured Variable	Operational Definition
Technology utilisation (X2.1)	ICT is used properly in managing the SMEs
Technology to improve value (value-added) (X2.2)	ICT utilised in SMEs improves value (value-added)
Quick access technology (X2.3)	ICT utilised in SMEs enables quick access of information

Source: Cakmak and Tas (2012)

Table 4: Indicators for MPR

Indicators for Measured Variable	Operational Definition
Procedure (X3.1)	Production process is in accordance with the procedure regulations
Quality control (X3.2)	Production process are overseen by a quality control institute to ensure consistency
Safety (X3.3)	Production process is done with careful safety considerations for all stakeholders
Reliability (X3.4)	Production process is reliable to produce qualified good suitable to the price

Source: Feigenbaum (2000)

Table 5: Indicators for Local Wisdom

Indicators for Measured Variable	Operational Definition
Unique (X4.1)	Product has unique character that represents local wisdom
Communication bridge (meaningful) (X4.2)	Product is able to provide meaningful information about the origin of product as a means of communication bridge
Local culture concept (X4.3)	Concept of the product is generated from local culture and tradition
Balance with environemt and religious value (X4.4)	Production process always ensures the balance with environment and religious value

Source: Nasiwan dkk (2013)

Table 6: Indicators for Product Performance

Indicators for Measured Variable	Operational Definition
Performance (Y1.1)	SME's product is long-lasting
Conformance to specifications (Y1.2)	SME's product has specifications suitable to consumer's expectation without defects
Aesthetics (Y1.3)	SME's product has an aesthetic appearance
Perceived quality (Y1.4)	SME's product has an excellent impression based on suitability with price, reputation, and origin

Source: Kotler (2004)

Table 7: Indicators for Product Competitiveness

Indicators for Measured Variable	Operational Definition
Attractive product appearance and packaging (Y2.1)	Product has attractive appearance and packaging
Variative types of product (Y2.2)	Product has many variations, so the consumer has lots of options
Standardised product (Y2.3)	Products are standardised
Product is interesting (Y2.4)	Products catch the consumer's interest for continuous purchase

Source: Porter (2004), Barney (2001), Dong-Sung Cho (2000), Hao Ma (2000)

Table 8: Indicators for Well-being of SME's Entrepreneurs

Indicators for Measured Variable	Operational Definition
Food Expenditure (Y3.1)	Respondents are able to ensure food quality consumed by their families from SMEs revenue
Education Expenditure (Y3.2)	Respondents are able to fulfil their families' educational need from SMEs revenue
Health Expenditure (Y3.3)	Respondents are able to ensure their families' health quality and are able to seek curative treatment during emergency from SMEs revenue

Source: Todaro dan Smith (2006)

Results and Discussion

Validity and Reliability Test

The instruments used in this study were a set of 26 question items, analysed using SPSS software with $r_{calculated}$ coefficient. All 26 items were found to be valid with $r_{calculated}$ value greater than the $r_{critical}$ value. For the reliability test, a comparison of Cronbach's Alpha coefficient was used. All 26 items were found to have Cronbach's Alpha coefficient greater than 0.60. This result means all 26 items passed the reliability test to measure this study variable. Evaluations were also done on the outer model using SmartPLS 3.0. software, as well as the inner model using R-Square (R^2), Predictive Relevance (Q^2), and Goodness of Fit (GoF) Index. Both models were shown to be valid, reliable, and accurate.

Direct and Indirect Influence Test

Direct and indirect influence were evaluated based on the p-value ($p < 0.05$) of relations between latent constructs. A p-value less than 0.05 indicates that the latent construct is significant, whether directly or indirectly. Evaluations were done using SmartPLS 3.0. software. The output is shown in Figure 1, Tables 9 and 10.

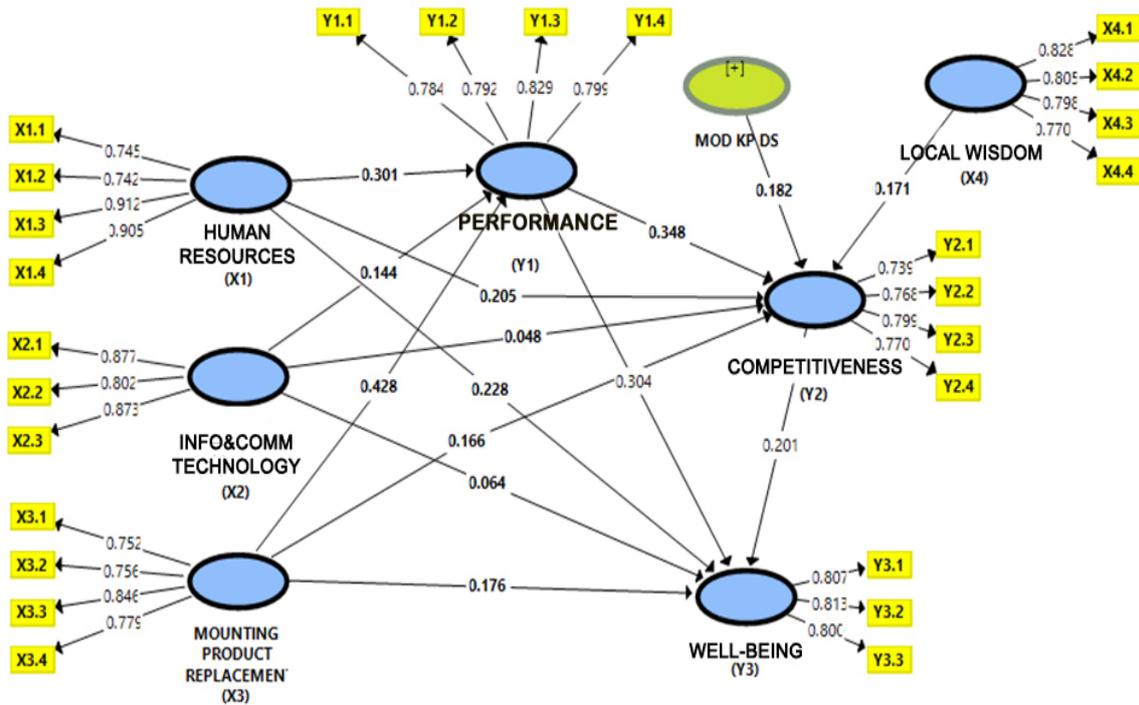**Figure 1.** Relations of latent construct (p < 0.05) analyzed using SmartPLS 3.0

Table 9: Direct Influence Test of Variables

Direct Influence	Original Sample	Standard Deviation	T Statistics	P Values	Hypothesis Testing
X1 -> Y1	0.301	0.092	3.271	0.001	Significant
X2 -> Y1	0.144	0.078	1.858	0.032	Significant
X3 -> Y1	0.428	0.086	5.010	0.000	Significant
X1 -> Y2	0.205	0.087	2.348	0.010	Significant
X2 -> Y2	0.048	0.078	0.612	0.271	Insignificant
X3 -> Y2	0.166	0.087	1.914	0.028	Significant
X4 -> Y2	0.171	0.090	1.900	0.029	Significant
Y1 -> Y2	0.348	0.094	3.707	0.000	Significant
X1 -> Y3	0.228	0.099	2.296	0.011	Significant
X2 -> Y3	0.064	0.077	0.833	0.203	Insignificant
X3 -> Y3	0.176	0.099	1.781	0.038	Significant
Y1 -> Y3	0.304	0.107	2.842	0.002	Significant
Y2 -> Y3	0.201	0.116	1.737	0.042	Significant
MOD_X4* Y1 -> Y2	0.182	0.092	1.974	0.024	Significant

Table 10: Indirect Influence Test of Variables

Indirect Influence	Original Sample	Standard Deviation	T Statistics	P Values	Hypothesis Testing
X1 -> Y1 -> Y2	0.105	0.044	2.364	0.009	Significant
X2 -> Y1 -> Y2	0.050	0.030	1.684	0.046	Significant
X3 -> Y1 -> Y2	0.149	0.053	2.803	0.003	Significant
X1 -> Y1 -> Y3	0.091	0.044	2.078	0.019	Significant
X2 -> Y1 -> Y3	0.044	0.029	1.514	0.065	Insignificant
X3 -> Y1 -> Y3	0.130	0.057	2.270	0.012	Significant
X1 -> Y1 -> Y2 -> Y3	0.021	0.014	1.466	0.072	Insignificant
X2 -> Y1 -> Y2 -> Y3	0.01	0.008	1.336	0.091	Insignificant
X3 -> Y1 -> Y2 -> Y3	0.03	0.019	1.569	0.059	Insignificant

Interpretation of Findings

As shown in Figure 1, Tables 9 and 10, most variables were found to be significant, in accordance with previous empirical studies and grand theories. HR quality, ICT, and MPR had a positive and significant effect on product performance of creative SMEs in Denpasar, Bali. Out of all three variables, MPR had the greatest impact. HR quality, ICT, and MPR had notable influence in achieving product performance components, namely: performance, conformance to specifications, aesthetics, and perceived quality. Collaboration of all three variables effectively improved product performance and should be implemented as a strategic management plan in an effort to develop creative SMEs further. SMEs capable of recruiting and training talented HR, utilising ICT effectively, and ensuring consistent product quality through MPR would succeed in creating a long-lasting product with the specifications and functions corresponding to the customer's expectations, whilst also comprising aesthetical value and exclusive impression (Kotler and Armstrong, 2005; Khalique et al., 2013; Macerinskiene and Survilaite, 2011; Maldeni and Jayasena, 2009; Adietya et al., 2016; Bremanti et al., 2018; Rajindra et al., 2018; Purwaningsih and Kusuma, 2015).

Variables that positively and significantly affect product competitiveness of creative SMEs in Denpasar were HR quality, MPR, local wisdom, and product performance, with product performance as the greatest influencing variable to product competitiveness. Interestingly, the analysis showed that ICT did not generate a meaningful impact on product competitiveness although the relationship was positive, which conflicted with most previous empirical studies and theories (Adietya et al., 2016; Cakmak and Tas, 2012; Apulu and Latham, 2011; Maldeni and Jayasena, 2009; Adietya et al., 2016; Basry and Sari, 2018). This phenomenon was caused by the unique characteristics of Bali creative SMEs, which resulted in a possible gap with previous studies. ICT utilisation, specifically in context of creative SMEs in Denpasar, did not contribute much because production and processing were mostly done by hand. Products with unique characteristics and cultural aesthetic value, carefully crafted by skilled HR could not be duplicated by machine. Previous studies also stated that the SMEs' competence to employ ICT was still low, this is due to limited knowledge of the workers and because a lot of products created by SMEs were customised products rich with the essence of local wisdom and incorporating aesthetic value in the products (Irawan, 2018; Fitriani, 2019; Pavic et al., 2007; Yu, 2006). This study also found that 62.7 percent SMEs craftsman in Denpasar did not have a higher education (college degree), because what was perceived as most important was not formal degree or even knowledge, but hands-on skill. Most SMEs' craftsmen that participated in the study only utilised ICT minimally in the form of social media such as WhatsApp or Facebook to text with customers. In this context, it was found that local wisdom comprised in creative SMEs products were the selling point that improved competitiveness of SMEs rather than technology. However, it is important to note that although utilisation of advanced technology or machinery is not yet possible in the production sector of the creative SMEs industry, ICT has important implications in marketing and customer management of a creative SME's product.

As for the SMEs' well-being, this study found that HR quality, MPR, product performance, and competitiveness had a positive and significant impact, with product performance as the most significant factor. ICT was found to have a positive but insignificant effect on the SME's well-being. The reasoning is like those for competitiveness as stated in previous paragraph. ICT implementation was minimal, and thus did not give much influence on the SME's well-being. This study also found that product performance mediated the influence of HR quality, ICT, and MPR on product competitiveness in SMEs. Interestingly, although ICT did not have a significant direct influence on product competitiveness, when mediated by product performance, ICT became significant. ICT could be utilised to increase product performance efficiency, specifically to open communication access to customers and new market, assist SMEs craftsman to access relevant information, promote SMEs product digitally, as well as encourage customer's engagement digitally. Better product performance produces better product. Superior products would eventually improve competitiveness (Basry

and Sari, 2018; Ratnamurni and Irawan, 2018). However, ICT did not generate a significant influence on the SMEs' well-being even through product performance as mediator.

Product competitiveness did not mediate HR quality, ICT, nor MPR influence on SMEs' well-being. The only variable it mediated to SMEs well-being was product performance. This indicated that product performance and product competitiveness had a "circling effect" in which excellent product performance and competent product competitiveness bolster one another synergistically and continuously. This synergy will result in an increase in both domestic and export sales, which eventually affect all the components of well-being (food expenditure, education expenditure, and health expenditure) (Todaro and Smith, 2006; Fahrudin, 2012). Product performance can encourage the competitiveness of these products including products that conform to certain specifications of consumers will make these products will always be in demand by consumers.

This study also highlights the influence of local wisdom on product performance to product competitiveness of creative SMEs in Denpasar. Presence of local wisdom in the handcrafted products of creative SMEs enforce aspects of product performance, namely: conformance to specifications (by creating a customised product in accordance to specific details requested by the artsy customer), aesthetics (unique and aesthetical value which cannot be imitated), and perceived quality (improving the worth and quality of product generated by aesthetic value in addition to the functional value). Local wisdom is an important element that supports product competitiveness of SMEs. The unique and exceptional essence of the creative SMEs product extracted from Bali local culture wisdom, with each product carefully crafted, mean the products are one-of-a-kind. According to RBV theory, inimitable products are highly competitive products. Focus on competent HR and support from Government should be implemented to ensure success of SMEs competitive ability, as stated in modified Porter Diamond model by Dong Sung Cho (Jeronimo et al., 2019; Nasiwan et al., 2013; Sedyawati, 2006; Dong Sung Cho, 2000).

Limitations

This research has limitations that need further study by subsequent researchers. Limitations contained in this study are that this study uses variables with a limited number of indicators. The variables include information and communication technology, and welfare, each of which consists of three indicators. Information and communication technology and welfare are analysed using indicators commonly used in research. The next researcher needs to review other indicators that make up information and communication technology variables and welfare. Research in the field was carried out using five aspects that affect product competitiveness and welfare of SMEs (quality of human resources, information and communication technology, mounting product requirements, local wisdom, and product

performance). Further study is needed in terms of how the role of government affects product competitiveness and welfare

Conclusions

This study concluded that the most important factors affecting the creative SMEs' competitiveness in Denpasar are local wisdom generated from skilful human resources and mounting product requirements. Local wisdom reinforces the impact of product performance on product competitiveness by creating more value in all product performance aspects, as well as by imbuing a unique character into the product. Local wisdom could only be incorporated into the products by talented human resources. Eventually, high competitiveness derived from the local wisdom would result in greater well-being of SMEs' entrepreneurs. We suggest local government put active support into ensuring the continuity of skilful and culturally competent new generations of craftsmen. SMEs should also utilise ICT more for marketing, as well as actively participate in governmental development programs to achieve better performance, competitiveness, and well-being.

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Biography

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