

# The Effect Of Innovation Strategy On Competitive Advantage In Creative Industry (Case Study Of Msmes In The Field Of Handicrafts In The City Of Surabaya)

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Article Info	ABSTRACT
<b>Keywords:</b> competitive strategy, innovation, linear regression, SME	Abstract is Creative industry is one of sector that has rapid development in Indonesia, especially in Surabaya. The part of this sector that tends to decrease every year or have smallest development level is Handycrafts. Although the number of businessman in this part is less than in food and beverage part, the competition between them is also fierce. The businessman should be the one who can decide the proper competitive strategy to survive in this competition. The other way to do to win the competition is applying innovation strategy towards the product so that it can be different from our competitor products and attract more customers. This research determined the relationship between innovation strategy and competitive advantage in the SME handicraft business in Surabaya. Linear regression will be used for determine this relationship.
This is an open access article under the <a href="#">CC BY-NC</a> license 	<b>Corresponding Author:</b> Mohammad Afrizal Miradji Accounting Study Program, Faculty of Economics, PGRI Adi Buana University Surabaya <a href="mailto:riyantoagung606@gmail.com">riyantoagung606@gmail.com</a>

## INTRODUCTION

The creative industry is one of the business fields that is in great demand by Indonesian society today. The Indonesian Ministry of Trade defines the creative industry as an industry that originates from the use of individual creativity, skills and talents to create welfare and employment by exploiting the creative power and inventiveness of these individuals. This business field is in great demand because it has a considerable market and profits. Based on data from the Indonesian Ministry of Industry in 2016, this industry has contributed Rp 642,000,000,000,000.00 or 7.05% of total gross domestic product (GDP) Indonesia.

Micro, small and medium enterprises (MSMEs) include parties involved in the creative industry. Based on the Indonesian banking development institution and Bank Indonesia (BI), identifying the characteristics of small businesses are the types of commodities produced are fixed, the location is not moving, has carried out financial administration, has a business license, and has resources experienced in entrepreneurship. Meanwhile, medium enterprises have better organizational conditions because they already have labor organizations, implement accounting systems well, and have access to sources of banking funds.

Surabaya City became one of the cities at Indonesia that has a fairly rapid development for SMEs in the field of creative industries. According to data from Service KUMKM and Perindag City Surabaya in 2016, the number of SMEs in the city of Surabaya became 5,365 businesses or an increase of 21,323% from 2010. Many SMEs in Surabaya City make business actors have to think of the best strategy that will be applied to their business in order to survive from their competitors.

Competitive strategy is one strategy that can be used by business actors in facing competition. This strategy can generally be interpreted as a process by which companies build and develop various strategic resources that have the potential to generate competitive advantages. This advantage has two roles, namely as a tool to produce performance and as a tool to neutralize assets and competitive competencies owned by competitors.

One of the things that can be done by SME business actors is to innovate. Charan et al. (2008) stated that innovation not only drives profit growth, but also increases various capabilities such as the ability to enter the market and attract customers. This innovation strategy still does not seem to be implemented in SMEs with handicraft business types. This can be seen from the number of SMEs in the field which decreases every year, quite far different from the type of food, beverage, and fashion business. Based on data from the KUMKM and Perindag Surabaya City offices, it was recorded that the number of SMEs in the creative industry type only increased by 170 from 2010 to 2017, while SMEs with food and beverage and fashion types were at 676 and 329.

Some research states the existence of relationship between competitive advantage and innovation. Martim de Conto et al. (2016), per effort that Have a competitive advantage and must have the ability to think creatively and innovatively. The results of the study support the results of previous research, that companies without creativity and innovation will not compete and survive in an era of increasingly sharp competition (Larsen et al., 2007). In addition, Gronhaug and Kaufmann in Han et al. (1998) state that innovation is becoming increasingly important as a means of survival, not just growth in the face of environmental uncertainty and increasing business competition conditions. Studies conducted by Hurley et al. (1998) also concluded that firms with high innovation ability will be more successful in responding to their environment and developing new capabilities that lead to competitive advantage and superior performance. The results of the research of Muthami Kising et al. (2016) also show that organizational innovation, product innovation, administrative innovation, and process innovation play an important role in the sustainable competitive advantage of universities in Kenya.

Based on some of the research above, it can be concluded that innovation has an influence on competitive advantage. So it is necessary to conduct research to determine the influence of innovation strategies on competitive advantage for the case of small and medium enterprises in the field of handicraft creative industries in the city of Surabaya.

## METHODS

The total population of MSMEs in the creative industry in the handicraft sector in Surabaya City registered in Perindag Surabaya City is 187. The author will only take a small part of the population considering the large population of handicraft MSMEs in the city of Surabaya. The sampling technique used in this study is nonprobability sampling by sampling using quota sampling. Quota sampling according to Indrawati (2015) is the collection of sample members in convenience from a limited population with the number of samples predetermined in advance. The samples taken are: MSMEs Field Craft hand (handycraft) in Surabaya City and the number of samples set is 51 MSMEs, with 153 respondents. Of the total MSMEs in the handicraft sector, there are 187. According to Sekaran (2011), as a general rule sample sizes between 30 and 500 can be effective depending on the type of sampling design used and the research question studied.

### Operational Variables

The variables used in this study consist of independent *variables*, namely innovation, and dependent variables, namely competitive advantages. All indicators, both on the innovation variable and on the competitive advantage variable, are measured on an ordinal scale.

### Data Analysis

Before data analysis is carried out, validity and reliability tests must first be carried out on the research measuring instruments used in this study. The classical assumption test is carried out in the early stages of data analysis. This is done as a requirement for the collected data to qualify for linear regression analysis. Testing is carried out by means of a normality test to find out whether the data is normally distributed or not. Data is said to be normally distributed if the data spreads around diagonal lines or a histogram graph formed from the data shows a normal distribution pattern. The linearity test is used to confirm whether the linear properties between two theoretically identified variables correspond or not to the results of observations that have been made. Testing in this study using

Test for Linearity with a significance level of 0.05. Two variables are said to have a linear relationship if the significance (*linearity*) is less than 0.05. The next initial test is the heteroscedasticity test which aims to test whether in the regression model there is a residual variance inequality or an observation to another observation is fixed, then called homoscedasticity or heteroscedasticity occurs.

Descriptive analysis techniques used in this study include frequency distribution, mean and standard deviation. Frequency refers to the number of times a phenomenon occurs, where the cumulative percentage and percentage of the number of occurrences can be calculated easily (Sekaran, 2003). The mean, also known as the average, is used to give a general idea of the data without overwhelming a person with unnecessary data. While standard deviation is a measure for interval scale data and ratios that provide an index of distribution, distribution or variability in the data. A standard deviation of no more than 20% of the mean indicates a low variation.

A simple linear regression analysis is performed after the results of the initial test state that the data used meets the requirements for linear regression. According to Sunyoto (2011), regression analysis is an analysis that measures the influence between independent variables on dependent variables. If this effect measurement involves one independent variable (X) and a bound variable (Y), it is called simple linear regression analysis. This analysis is used to measure changes in dependent variables based on changes in changes in independent variables.

One indicator that must be considered from linear regression is the value of the coefficient of determination which is 0 to 1. A small value indicates that the ability of the independent variables to influence the dependent variable is very limited. A value close to one means that the independent variables provide almost all the information needed to predict the independent variable. Hypothesis testing is carried out for conclusions. The F statistical test and the t-student statistical test are carried out at this stage. In this study, the authors used a 5%  $\geq$  or a 95% confidence level. If the significance  $< 0.05$  then  $H_0$  is rejected, and if the significance  $> 0.05$  then  $H_0$  is not enough evidence to reject  $H_0$ .

Kategori	Frekuensi Persentase (%)	
Jenis Kelamin		
Pria	57	37
Wanita	96	63
Usia		
20-35 tahun	81	53
36-50 tahun	51	33
51-65 tahun	21	*Email korespondensi: Agung Riyanto
Pendidikan		
Terakhir	42	27
SMA/Sederajat		
D1/D2/D3	18	12
D4/S1	87	57
S2/S3	6	4
Jumlah Karyawan		
1-5 orang	93	60
6-10 orang	42	27
11-20 orang	18	13
Lama Berdirinya		
Usaha	93	60
1-5 tahun		
6-10 tahun	36	24
11-20 tahun	6	4

Kategori	Frekuensi Persentase (%)	
> 20 tahun	18	12
Omzet per Tahun		
Rp 50-300 juta	81	53
Rp 300-2.500 juta	63	41
Rp 2.500-50.000 juta	9	6

## RESULTS

Spread questionnaire conducted to 51 handicraft organizations (MSMEs) in the city of Surabaya, and 153 as respondents consisting of business actors (managers / owners / employees). The complete demographics of respondents can be seen in table 1.

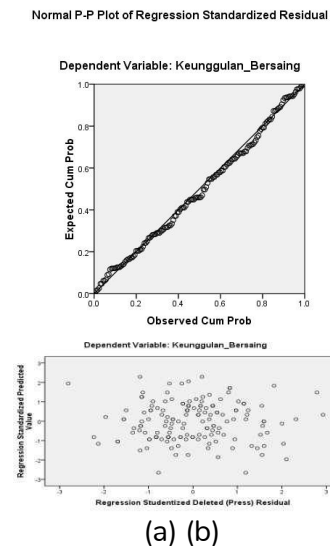
### Validity and Reliability Testing

This measurement of validity and reliability was tested on all respondents, namely 153 respondents, both for innovation strategy variables and competitive advantage. Based on the results of processing using SPSS, 17 statements were declared valid, because in the corrected item-total correlation column, it showed a number of  $\geq 0.300$ . Next is the validity test of variable Y or competitive advantage shows that as many as 13 statements are declared valid, because in the corrected item-total correlation column, it shows a number of  $\geq 0.300$ .

The reliability results for the innovation variable can be seen from Cronbach's alpha which shows a result of 0.867. Value It is more than 0.600, so that the innovation strategy indicator can be said to be reliable or has good reliability. The result of Cronbach's alpha for the competitive advantage variable is 0.829, the value is greater than 0.600, so that the indicators of competitive advantage have a fairly high reliability or it can be said that the variable indicators of competitive advantage have good reliability.

### Initial Testing

Test Normalitas that used in this study is by the normal Probability plot (P-Plot) graph method. The results of the normality test between innovation strategy variables and competitive advantage can be seen in figure 4.



**Figure 3** (a) Normal *probability plot graph*, (b) *Scatterplot* heteroscedasticity test

The result of the normal curve P-Plot above proves that the points on the graph are close together and follow the diagonal line. The dots (data scatter) approach or concentrate around the test leading to the upper right corner. No data is located far from the data distribution line. This means that the distribution of data forms a normal distribution. Therefore, it can be concluded that the regression model between innovation strategy and competitive advantage in this study is normally distributed. As for the results of the heteroscedasticity test can be seen in figure 4(b). The scatterplot curve above shows that all points do not form a pattern and spread above and below the number 0 on the Y axis.

Line testing in this study was carried out by comparing the average of the two variables. In this test, the two variables are said to have a linear relationship if they have a significance (linearity) of less than 0.05. In this study, it can be seen that the linearity of innovation strategy variables and competitive advantage is 0.000. Thus, it is evident that the relationship between the variable pairs of innovation strategy and competitive advantage satisfies the assumption of linearity. It also illustrates that the increase in value of one variable is followed by the increase in value of another variable.

### **Descriptive Analysis of Innovation Strategy**

The innovation strategy of handicraft MSMEs is in the high category when referring to the average interval value for each indicator. Based on the results of SPSS, the innovation variable dimension has a mean value of 3.41 which means the innovation strategy produced by MSME business actors

Handicrafts in Surabaya City are classified as "High". The dimension that has the largest mean is Leadership Orientation 3.51 which is classified as high. While the dimension that has the lowest mean is Source of Innovation, which is 3.29 which is classified as "High Enough". The dimension of the investment level is also included in the "High Enough" category of 3.28. The standard deviation value of this variable is below 20% of the average,



which is 14.9%, which indicates that respondents' answers have a low or average level of variation in the same.

### Descriptive Analysis of Competitive Advantage

Based on the results of the mean analysis using SPSS, in general, the competitive advantage has a mean of 3.55. This figure shows that the competitive advantage of handicraft MSMEs in the city of Surabaya is included in the "High" category. The dimension with the highest mean value is the Quality dimension which is 3.66 and is included in the "High" category. While the dimension with the lowest mean is the Cost dimension or 3.3, which is included in the "High Enough" category. Overall, the standard deviation value in the investment level dimension is 0.41354 or 11.6%. This means that respondents have a low variety of answers.

### Correlation Analysis

The method used for correlation analysis between innovation strategy variables and competitive advantage in this study is the Pearson correlation. The output results of this analysis are shown in table 2. The correlation value between the innovation strategy variable and competitive advantage is 0.734. This number is in the interval 0.60-0.799 which means that innovation strategies with competitive advantage have a strong positive relationship. The pearson correlation value in the table above shows a positive value, then the relationship between innovation strategy and competitive advantage is unidirectional, which means that if the innovation strategy increases it will be followed by an increase in competitive advantage. To find out whether the relationship between innovation strategy (x) and competitive advantage (y) is significant or not, a significance test can be carried out with a hypothesis test. The significance value of the correlation between innovation strategies and competitive advantage shows 0.000. The level of significance can be used to test whether the correlation number obtained is really significant and can be used to explain the relationship between the two variables. According to Sugiyama (2008), if the sig <0.05 then the correlation is significant. Conversely, the correlation is not significant if the sig is >0.05. So, it can be concluded that innovation has a good relationship. Significant with competitive advantage.

\*\* . Correlation is significant at the 0.01 level (2-tailed).

		Strategi Inovasi	Keunggulan Bersaing
Strategi Inovasi	Pearson	1	.734**
	Correlation		
	Sig. (2-tailed)		.000
	N	153	153
Keunggulan Bersaing	Pearson	.734**	1
	Correlation		
	Sig. (2-tailed)	.000	
	N	153	153

\*\* . Correlation is significant at the 0.01 level (2-tailed).

1.0

Model	Unstandar dized Coefficients		Standar dized Coefficients	t	Sig.	Collinea rity Statistic s	
	B	Std. Error	Beta			Percentage (%)	Gender : Male
57	37	Woman 9		63	Age 20-35 years		
36-50 years	51	33	51-65 years	21	14	Last	42 00

a. Dependent Variable: Keunggulan\_Bersaing

**Linear Regression Analysis**

Linear regression analysis is used to predict how the value of innovation strategies will change if the value of competitive advantage in handicraft MSMEs in Surabaya City is increased or decreased. The results of linear regression analysis can be seen in table 3. Based on the table, it can be known that the constant (a) is 19.903 with a regression coefficient (b) of 0.453. A constant of 19.903 can be interpreted if the innovation is valued (X = 0) then the competitive advantage achieved is only 19.903. The innovation strategy has a linear regression coefficient value of 0.453. This means that every addition of one number of innovation strategies with a positive coefficient, the competitive advantage will increase by 0.453.

The result of the coefficient of determination between innovation strategies and competitive advantage shows a value of 0.538, as shown in table 4. Thus, innovation is able to affect competitive advantage by 53.8%. While the remaining 46.2% was influenced by other factors not explained in this study.

.000

D1/D2/D3		18	12	D4/S1				
27	Squa re	Squa re	Error of the Estim ate	4	Number of Employees 1-5 people	93	60	6-10 people F
42	27	11-20 people	18	13	Duration of	93	60	6-10 years

152

36	24	11-20 years	6	4	> 20 years
Square					
18	12	Annual turnover	81	53	IDR 300-2,500 million
Residual Total	41	Rp	9		
		4393.059	152		



## Uji Hipotesis

### -F Test

The calculated F value can be seen in the regression and the F table view is obtained through significance.  $\alpha : 0.05$  with  $df1 : k$  and  $df2 : N-1-K$ . From table 5 it can be seen that the calculated F value is 175.907. Meanwhile, with  $df1: 1$  and  $df2: 153-1-1 = 151$ , then obtained F table 3.90. Thus, the calculated F value is greater than the F value of the table. Then the regression model in this study is acceptable. It can be concluded that  $H_0$  was rejected and  $H_1$  was accepted. This shows the significant influence between innovation strategies on competitive advantage.

### Test -t

Based on the results of the -t test that can be seen in table 6, a calculated t value of 9.908 is obtained, while for the table t with a significance of  $\alpha: 0.05$ , and df is 152 Obtained t table as big as 1,65. Based on these data, the calculated t value is greater than that of the table t, and it can be concluded that  $H_1$  is accepted and  $H_0$  is rejected. This also shows the positive and significant influence of innovation strategies with competitive advantages in handicraft MSMEs in the city of Surabaya. The probability value shown in the table shows a number smaller than 0.000, which is 0.05. Thus, regression models can be used to predict the competitive advantage of handicraft MSMEs in the city of Surabaya.

	.000	
Model	t	
(Constant)	9.908	.000
Strategi Inovasi	13.263	.000

## CONCLUSION

Based on the results of data collection and processing, and discussions that have been carried out, it can be concluded that the innovation strategy of handicraft MSMEs in the city of Surabaya is included in the high category, which is measured through four dimensions, namely leadership orientation, type of innovation, source of innovation, and level of investment. The leadership orientation dimension has the highest mean, while the dimension that has the lowest mean is the level of investment. The indicator with the highest mean that is in the high category is in the innovation type dimension indicated by the indicator of companies producing products with various types / designs. While the indicator with the lowest mean is indicated by the statement of the company using technological means of production in running a business, which is included in the dimension of the type of innovation. The competitive advantage of handicraft MSMEs in the city of Surabaya is in the high category, which is measured by four dimensions, namely cost, flexibility, delivery, and quality. The dimension that has the highest mean is the Quality dimension. While the dimension that has the lowest mean is the Cost dimension. This shows that handicraft MSMEs in the city of Surabaya are aware of the importance of quality. The indicator with the lowest mean value that is in the fairly high category is found in the flexibility dimension indicated by the MSME adjustment indicator in existing technology. While the indicator with the highest mean value

in the high category is in the quality dimension indicated by service quality indicators that are always being improved. The results of this study show a positive and strong relationship between innovation strategy variables and competitive advantages. The magnitude of the influence of innovation strategies on competitive advantage in handicraft MSMEs in the city of Surabaya is 53.8%. The remaining 46.2 percent were influenced by other factors not described in the study. Innovation also significantly affects competitive advantage. Suggestions that can be given for future research are expected to use other independent variables such as total quality management practices, ERP system implementation, Branding, Company Resources, Management Capabilities, Moral Awareness, or knowledge transfer.

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