# Analysis of the Factors that Influence the Competitive Advantage of SMEs in the City of Bandung

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#### Abstract

This study intends to examine how product innovation and market orientation affect competitive advantage. The focus of this study is on SMEs producing textiles in Bandung. The phrasing of the research question is how market orientation and product innovation impact competitive advantage both separately and concurrently. 50 questionnaires were given using the quota sampling technique to SMEs in the textile industry in Bandung for the purpose of this study. Descriptive and verification research methodologies were employed as the research methodology in this study. Multiple linear regression was employed in the data analysis process. The Statistical Package for Social Science (SPSS) version 22.0 is the data analysis program used. The data analysis results demonstrate that the study hypothesis is verifiable. The finding is that market focus and product innovation significantly and favorably affect competitive advantage. Competitive advantage is positively and significantly impacted by market orientation and positively and significantly impacted by product innovation.

Keywords: Market Orientation; Product Innovation; Competitive Advantage.

#### 1. Introduction

Globalization demonstrates the growing interdependence of various governments, producers, suppliers, and consumers across national economic boundaries. With more businesses building their commercial identities abroad, borders between domestic and foreign markets become meaningless (Alnawas, 2019; Pinheiro, 2021). Current global trends include globalization and the creation of small and medium-sized businesses with a worldwide focus (Aydin, 2020). The expansion of SMEs into the global market is a significant development because SMEs have the potential to fuel the expansion of market product innovation (Marion, 2021). However, many SMEs lack the competencies, market strength, and resources of multinational corporations since their enterprises are small. Due to these issues, they struggle to compete on a worldwide scale (Bresciani, 2021). Data on export value indicates a rise in 2011 totaling US\$ 45,717,516,590, but a decline in subsequent years until US\$ 161,671,358,423 in 2014. Data on import value indicate a growth from 2010 to 2012, then a fall from that year to 2014 When the import value from the data above is compared to the export value from 2012 to 2014, it can be seen that import value is higher. This demonstrates the ineffectiveness of Indonesian business people non exporting commodities. Global competition is undoubtedly a challenge for business actors in Indonesia, especially SMEs, and it is not good for the competitive environment there (Foucart, 2021; M. Zhang, 2021). The approval from the ASEAN Economic Community (AEC) or the ASEAN Economic Community (AEC), which will be held at the end of 2015, is another challenge that SMEs in Indonesia must deal with. This forces all economic actors to be more aggressive in managing the businesses they manage in order to win free competition. Regional economic integration of the type known as the AEC is anticipated to be completed in 2015. With this success, ASEAN will become a unified market and production base with free movement of commodities, services, investment, skilled labor, and capital. As a result of the movement of goods and production components, the ASEAN region is anticipated to become more secure, competitive, and experience equitable economic growth as well as a decline in poverty rates and socioeconomic disparities (S. Chen, 2021)

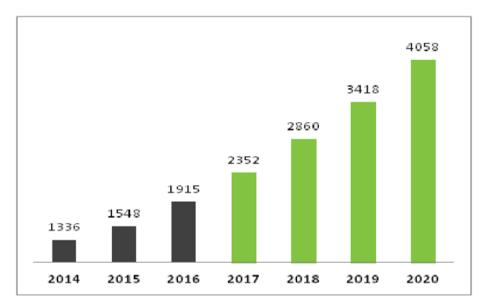
The number of SMEs in Indonesia, which has been increasing annually, will also boost their competitiveness on a national scale. The information on the growth of SMEs in Indonesia is as follows:

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**Figure. 1.** Development of SMEs in Indonesia **Source:** www.biz.kompas.com

The considerable expansion of SMEs in Indonesia and particularly the current global trade have an impact on the SMEs producing textiles in the city of Bandung. One of Indonesia's export goods is textile product made by small and medium-sized enterprises, which may be found throughout the country, especially in Bandung. The SMEs that convert fabric materials into ready-to-wear clothing are the ones being discussed here as producing textile products. These qualities closely resemble those of the Distribution Outlet (Distro) business, which transforms fabric into apparel like T-shirts, shirts, collar shirts, etc. at practically every distribution in the city of Bandung. A distribution center in the city of Bandung is located at Jalan Dalem Kaum No. 54, also known as Plaza Parahyangan, which has 450 traders in one structure (www.plazaparahyangan.com/profile.htm).

Due to its capacity for 450 distributions and strategic placement on Bandung's main square, Plaza Parahyangan is well-suited to the titles of "Distribution Center in Bandung City" and "Icon of Bandung City Distribution. The SME's products or distributions in Bandung are in high demand by local, domestic, and international consumers because the people of Bandung are known for being creative. Every SME that produces textiles aspires to increase its market abroad, which means that textiles as an export good may have the chance to compete in foreign markets.

According to information gleaned from interviews with various business players, the decline was caused by Bandung's textile product SMEs paying less attention to or being less active in studying their target market in terms of market desirability and competition moves (Falahat, 2020; Xie, 2020). Because the business being conducted involves small to medium-sized firms, this problem is exacerbated by machine technology that is not as advanced as machine technology of overseas competitors, which impacts the quality and quantity of production (Schubert, 2020; Song, 2020). Due to the absence of rules that assist their operations and the government's inaction in giving information to enterprises, textile product SMEs in Bandung City find it challenging to speculate abroad.

SMEs, particularly those in Bandung that produce textiles, must choose the best approach for their business in order to get a competitive edge. Market orientation and product innovation are two criteria that, according to prior research, can have a major impact on competitive advantage (Henri, 2020; Markovic, 2020; F. Zhang, 2020). According to Supranoto's research, entrepreneurial orientation, product innovation, and market orientation all have a positive and significant impact on a company's ability to compete. This study investigates how markets are oriented and how products are innovated for competitive advantage based on explanations from facts and ideas already in use. The following formulations of the research's is, first how impact from orientation of market in the advantage of competitive of SMEs textile product in Bandung, second how influence from innovation of product in the competitive advantage of textile product SMEs in Bandung. Finally, how impact from orientation of market and innovation of product in the advantage of competitive textile product SMEs in Bandung.

#### 2. Literature Review

### 2.1. Concept Market Orientation

According to Wu, (2019), market orientation consists of three behavioral components: competitor orientation, client orientation, and interfunctional coordination. In contrast, the functional of coordination is based on customer and competitor information and consists of a coordinated business venture. The orientation of the customer and the orientation of the competitor include all activities undertaken to gather information about customers and rivals in the target market and disseminate it throughout the business (Morgan, 2019; Wahyono, 2021). Additionally, it is stated that customer orientation is defined as having a thorough awareness of the purchasing of the target market in order to consistently provide good value for customers. Understanding all buyer value chains, both as they exist today and as they expand in the future, is part of the meaning here (Auld, 2020; García-Villaverde, 2020). The technique of looking up consumer information can be used to achieve this goal (Nakos, 2019). With the use of this information, the selling company can identify its current and future target clients as well as potential customers. Customer orientation, competition orientation, and market information are a few variables that are used to measure off-market orientation (Dabrowski, 2019). Customer orientation refers to a company's capacity to understand the needs and desires of its clients. The company's ability to manage the techniques used by its rivals is referred to as its competitor orientation. A company's search for information regarding the state of the industrial market is known as gathering market information (Bhattarai, 2019)

#### 2.2. Product Innovation

Innovation, according to Aydin, (2020), is the management of all processes involved in the development of ideas, technology, manufacturing, and marketing of products, manufacturing processes, and new (or improved) machinery. Meanwhile, innovation is a competitive advantage strategy from businesses that work together to generate a more effective edge in their industry, according to Awan, (2021) in order for the company to dominate both the old market and the new market, this strategy must be planned to generate a continual competitive advantage. Product innovation, technological innovation, and cultural innovation are some metrics used to assess product innovation. The company's innovation culture is the innovation culture that currently prevails there. Innovation in the production process is known as technical innovation. Product innovation refers to a company's capacity to manufacture goods in accordance with consumer preferences (Andersén, 2021; Caloghirou, 2021; Khan, 2021)

#### 2.3. Competitive Advantage

Styagraha Pratono, (2019) asserts that a company's ability to compete is based on its capacity to provide customers with advantages over rivals by providing items with more value. (Udriyah, 2019) asserts that implementing strategies that make use of a variety of firm resources results in competitive advantage. Uniqueness of the product, product quality, and competitive pricing are a few of the metrics used to assess a competitive advantage (Hossain, 2022; Nuryakin, 2018). Uniqueness of product refers to a company's product that mixes creative value with customer preferences. The design quality of a company's products determines the product's quality. In the meantime, a company's capacity to adjust the price of its products to the market's average price is referred to as price competitiveness (Azeem, 2021; Clauss, 2021; Zameer, 2021)

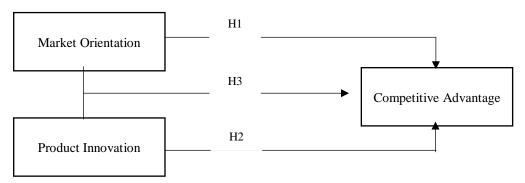


Figure 2. Conceptual framework

#### 3. Methods

Researchers employ descriptors and methods for validation. This study tries to gather information regarding the facts and connections associated to the phenomenon under study in a methodical, factual, and correct manner. in order to form a conclusion. Sekaran (2019) defines verification as study carried out on a particular population or sample with the intention of testing the predetermined hypothesis. The population of this study consists of textile product SMEs that were in and around Bandung and possessed the necessary traits to become responders. The sample is part of the size and composition of the population. A sample size of 30 to 500 people is sufficient for investigation (Sekaran, 2019). To conduct this research, the writer uses quota sampling. The process of selecting a sample from a population that has certain characteristics to the appropriate number. The researcher's criteria for taking this quota sample are included in the criteria for SMEs, textile product producers and located in the Bandung area as many as 101 SME owners respondents. Multiple linear regression analysis will be the analytical approach used in this study. Several statistical tools and techniques, including the Statistical Package for Social Science (SPSS) version 22.0, were used in this study. Validity and reliability tests, traditional summary tests, regression model tests (F tests), and t tests are some examples of statistical tools and procedures included below.

#### 4. Results

### 4.1. Validity Test and Reliability Test

Based on the distribution of questionnaires consisting of market orientation, product innovation and competitive advantage variables, the average value on the validity test is above 0.3. If the standard validity value obtained is more than 0.3, then the question can be said to be valid so that it can be carried out at a later stage. The reliability test is as follows in Table 1.

 Table 1. Reliability test

Variable	Reliability value	r-critics	Information
Market Orientation	0.647	0.6	Reliable
Product innovation	0.741	0.6	Reliable
Competitive advantage	0.784	0.6	Reliable

The results of calculations with the SPSS 25 program, the values obtained were 0.922, 0.839 and 0.785, it means that Cronbach's Alpha > 0.6, thus it can be told that all statement items for variables X1, X2 and Y can be told to be reliable.

### 4.2. Normality and Multicollinearity Test

Normality test is a test carried out with the aim of assessing the distribution of data on a group of variables whether the distribution of the data is normally distributed or not. The results of the normality test are as follows in Table 2.

Table 2. One-Sample Kolmogorov-Smirnov test

Unstandard	Unstandardiz ed Residual		
	101		
Mean	0.0000000		
Std. Deviation	1.95572908		
Absolute	0.059		
Positive	0.059		
Negative	-0.058		
	0.059		
	0.200		
	Mean Std. Deviation Absolute Positive		

a. Test distribution is Normal

# b. Calculated from data

Based on the table 2, it can be seen that the value of Asymp. Sig (2-tailed) is 0.200. Due to the Asymp value. Sig (2-tailed) is greater than the specified significance level (0.200 > 0.05), it can be concluded that the unstandardized

residual data has a normal distribution. The results of the multicollinearity test showed that the three independent variables, namely work climate, perceived supervisor support, and perceived organizational support, had a tolerance value of 0.541; 0.594 and 0.807 with a VIF value of 1.848, respectively; 1,683 and 1,239. These results can be interpreted that there is no multicollinearity between the independent variables and meets the requirements of the classical assumption of multicollinearity because the tolerance is greater than 0.10, while the VIF is less than 10.00.

#### 4.3. Multiple Linear Regression Analysis

Multiple regression analysis is used to determine how much influence market orientation and product innovation have on competitive advantage in SMEs in Bandung. The test results are as follows in Table 3.

Table 3. Multiple Linear Regression Model Analysis

#### Coefficients<sup>a</sup> Unstandardized Standardized Correlations Coefficients Coefficients Model. Sig. t В Std. Beta Zero-**Partial** Part Error order .030 (Constant) .558 .471 1.186 X1 .514 .157 .426 3.273 .002 .609 .431 .355 X2 2.542 .342 .134 .331 .014 .566 .348 .276

# a. Dependent Variable: Competitive Advantage

- a) First coefficient = 0.514, t value is 3.273 by taking the α significance level of 5%, then value of t table or t0.05, 47 = 1.678, so that because t count is greater than t table then reject Ho in other words Market Orientation have an effect on Advantage of Competitive on 0.514.
- b) Second coefficient = 0.342, obtained t value of 2.542 by taking the  $\alpha$  significance level of 5%, then value of t table or t0.05, 47 = 1.678, so that because t count is greater than t table then reject Ho in other words Product Innovation has an effect on Advantage of Competitive on 0.342.

## 4.4. Model Test (F test)

Table 4. Model Test

							Cha	ange Stati	stics
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change
1	.668ª	.447	.423	.60238	.447	18.966	2	47	.000

a. Predictors: (Constant), Market Orientation, Product Innovation

Based on SPSS calculations, the calculated F value is 18.966. Where the criteria for Ho's rejection, if F count is biger than F table or  $F_0 > F_{\alpha,\,n-3}$ , by taking the  $\alpha$  significance level of 5%, then from the F distribution table, the F table value for  $F_{0.05,1.47}$  is obtained for 3.20. Or by looking at the sig F value of 0.000, which means that  $\alpha$  less than 5% still shows significant. Because 18.966 is greater than 3.20 and sig F is 0,000, then H0 is rejected. This means that it could be concluded that there is a linear relationship between indicators from orientation of market and product innovation on advantage of competitive.

### 4.5. Coefficient of Determination Test (Adjusted R Square)

According to Ghozali (2012: 97), the determinant coefficient (R2) is a tool to measure how far the model's ability to explain the variation of the dependent variable.

From the results of the table 5, the coefficient of determination is 0.675, which means that the influence of the three independent variables on the dependent variable is 67.5%, meaning that it can be said to be quite high. Meanwhile, 32.5% or the rest is influenced by other variables not examined in this study.

b. Dependent Variable: Competitive Advantage

**Tabel 5.** Test the coefficient of determination

Model	R	R Square
1	.784ª	.675

Predictors: (Constant), Product innovation, Market orientation

Dependent Variable: Competitive advantage

#### 5. Discussion

# 5.1. The Effect of Market Orientation on Competitive Advantage

The results showing that there is a significant influence between market orientation and competitive advantage. Regression equation has a positive coefficient direction. The positive effect is shows that relationship between orientation of market and advantage of competitive is undirectional. If the market orientation is getting preferable, the advantage of competitive will be higher. Its corporate culture emphasizing the importance of the company to take notice to the market (orientation of market) such as focusing on customers and providing services in accordance with consumer expectations will direct to strengthening the company competitive advantage. The results of this research is same with the theory that put forward by Bhattarai, (2019); Dabrowski, (2019) which defines that orientation of market as the most effective culture of organizational in creating excellent value for buyers and performance in business. In line with this, Sett, (2018) states that one of the factors affecting competitive advantage is market orientation. Other researchers who support the results of this study were conducted by Kurniawan, (2021) who stated that there was significant influence on orientation of market variables on advantage of competitive. Same with the outcome of this study, research conducted by Akman, (2019) also revealed that there was a significant influence on the market orientation variable in the competitive advantage variable.

#### 5.2. The Effect of Product Innovation on Competitive Advantage

Results from research on innovation of product in advantage of competitive show a significant effect. The regression equation have a positive coefficient direction. The positive influence show that the relationship between innovation of product and advantage of competitive is unidirectional (Andersén, 2021). If the innovation of product is getting better, the advantage of competitive will be higher. Companies must create new products by innovating their products both in terms of shape, motive and quality of the materials used in order to have more value in the eyes of customers. The outcome of this study are in line with the theory put forward by (Foucart, 2021; M. Zhang, 2021)which states that product innovation is important way to companies for adapt to market and excel in competition so that the company can survive for a long time. In line with this, M. Chen, (2021) states that one of the factors that influence competitive advantage is product innovation. The outcome of this research are also supported by the outcome of previous research conducted by Galimberti, (2021), which states that innovation of product has an effect on advantage of competitive. Research conducted by Ogbeibu, (2020) also revealed that there was a significant effect on the product innovation variable in the variable of competitive advantage.

# 5.3. The Effect of Market Orientation and Product Innovation on Competitive Advantage

Based on the results of simultaneous hypothesis testing or the f-test that has been carried out, it can be concluded that the two variables consisting of market orientation and product innovation simultaneously influence the competitive advantage of SMEs in the city of Bandung. In the ANOVA analysis, the conclusion that can be obtained is that the three variables have a positive effect. So it can be concluded that the results of the study indicate that there is compatibility between the results obtained with the theory that has been put forward in the literature review and previous studies that simultaneously these three variables have a positive influence.

#### 6. Conclusions

The results of research that has been done, namely the impact from orientation of market and innovation of product in the advantage of competitive of textile product SMEs in Bandung, the following conclusions are:

- 1. There is influence from orientation of market in the advantage of competitive on textile product SMEs in Bandung.
- 2. There is effect from innovation of product in the competitive advantage on textile product SMEs in Bandung.

3. There is influence from orientation of market and innovation of product in the advantage of competitive on textile product SMEs in Bandung.

Author provides suggestions that are expected to be useful for textile product SMEs in the city of Bandung is product SMEs in the city of Bandung should be more active in looking for innovative ideas, this is aimed at increasing the advantage of competitive on textile product SMEs in the city of Bandung. Product SMEs in the city of Bandung should really appreciate innovation based on research results, this is aimed at increasing the advantage of competitive on textile product SMEs in the city of Bandung.

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