Product Innovation Toward Msme'S Market Performance On Creative Industry

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Abstract. The creativity of the products produced is an added value to compete for MSMEs. This study aims to describe a resource-based view, using quantitative methods, a sample consisting of 100 MSME respondents. Data was analyzed using smartPLS 4.0. The results show that innovation capability has a significant effect on competitive advantage, dynamic capability and market performance. The ability to innovate products that follow the latest trends affects sales performance. Competitive advantage and dynamic capabilities affect market performance. The success of MSMEs is characterized by the adaptability of the changing environment and can secure the potential for product creation. The limitations of this research have not looked at the importance of technology, for future research can develop digital marketing skills. The application of digital marketing is believed to be a strategic tool that can improve the performance of MSMEs faster.

Keywords: *innovation capability, dynamic capability, competitive advantage, market performance.*

1. Introduction

In the current era of globalization, which is characterized by highly competitive market competition and changes in the business environment that must be supported by innovation capabilities in order to further improve market performance. In both developed and developing countries, policy makers In both developed and developing countries, policymakers have facilitated and thought about developing innovation capabilities for MSMEs to create new jobs and reduce unemployment, both at the local and central government levels [1]. The threat of recession in Indonesia can be faced by stabilizing the national economy by paying special attention to national MSMEs. From transaction activities, MSMEs managed to contribute 90% according to monitoring from the Ministry of Finance and have more than 50% in contributing to creating jobs worldwide [2].

Products are developed by various means of supporting innovation capabilities such as equipment and technology that suits the needs of MSMEs, assistance from mentors who are experienced in the field, and increasing new knowledge with business visits to other

ICEBE 2023, September 13-14, Bandar Lampung, Indonesia

DOI 10.4108/eai.13-9-2023.2341395

companies [3]. Attention has focused on small companies because they have greatly stimulated economic growth and reduced unemployment, especially in developing countries with low incomes [1]. The large contribution of MSMEs in stabilizing and creating jobs must be accompanied by developing several aspects, including innovation capabilities, dynamic capabilities and competitive advantages to maximize market performance.

The first framework in this study is lifted from the theory of view the resource-based view (RBV) theory [4]. This theory is used to develop key resources to maximize firm value. With resource-based viewpoint (RBV) [5]. This means that RBV provides clues with products that are rare and cannot be imitated can generate and maintain competitive advantage for maximum market performance results.

According to research [1], The ability to innovate has a positive and significant influence on marketing performance in MSMEs. and this assumption has support for the studies [1] that have previously been conducted. Therefore, MSME managers/owners should be more focused and diligent in investing to analyze innovation capabilities especially in the field of product development, marketing programs, process innovation, and new organizational innovation, and will be useful in improving marketing performance. It needs something unique and innovative to be difficult to replicate and coupled with resource-based theory to maintain competitive advantage [4]. Traditional sources of competitive advantage, such as technology and financial capital, do not guarantee competitive efficiency. It can be replicated with relative ease [4].

2. Literature Review and Hypothesis

Therefore, research in believes that the level of innovation capability in an organization is an important determinant of market performance. As such, the following hypothesis is proposed:

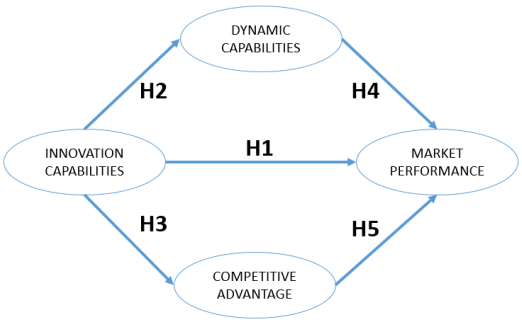

Figure 1. Conceptual Model

2.1 Innovation Capabilities and Market Performanca

Innovation Ability [6]is defined as the creation of new ideas and concepts that have the aim of increasing revenue, efficiency, competitive product introduction and management performance [7]. In recent years, innovation has increased in theoretical and empirical interest, the concept of marketing innovation can take many forms, e.g. successful new products, more creative marketing programs, performance of new and improved sales techniques [7].

H_1 : Innovation capability has a positive and significant effect on market performance [4]

2.2 Innovation Capabilities and Dynamic Capabilities

Multiple innovations commonly called ambidextrous innovations that have the ability to effectively meet targets [8]. Strategic efforts to develop marketing skills result from the ability to advance new technologies and refine current product market innovations [8]. Identifying Innovative performance is considered to be able to identify market opportunities as it arises from gaps in various potentially profitable aspects of the market through new methods of developing new products [9].

H_2 : Innovation capability has a positive and significant effect on the dynamic capabilities

2.3 Innovation Capabilities and Competitive Advantage

Superior position from other competitors in a company can be caused by competitive advantage. [10] . Companies should pay attention to build unique strategies in business competition amid environmental uncertainty and competitive pressure. Companies need to strengthen and have a Internal capabilities to increase a more competitive advantage over competitors [10]. Other researchers explain that the resource-based view emphasizes the importance of optimizing internal resources to achieve competitiveness to hold the market firmly [10]. Increasingly fierce business competition requires companies to change business strategies to survive [11]. Therefore, absorption capacity, innovative capabilities, and competitive advantage are strategic resources [4].

H_3 : Innovation capability has a positive and significant effect on the competitive advantage

2.4 Dynamic Capabilities and Market Performance

In the growth of market performance in national and international must have a good marketing capability drive. [8] . In giving birth or sending a product to consumers quickly can take advantage of innovative market capabilities, besides that it can also changing customer preferences, provide high-quality post-sales services, and establish cooperation with distributors and retail sellers in the market [8]. Failure in the development of marketing because it does not do how to be more effective when offering products and services to meet customer desires, and can experience rigidity in the organization [8] Which will have an impact on losing growth opportunities and having less efficient performance [8].

H_4 : Dynamic capabilities have a positive and significant effect on market performance [12]

2.5 Competitive Advantage and Market Performance

Strategies to improve market performance in creating competitive advantage [10]. Organizations that adapt to the business environment will easily reduce their operating capital and can create products that are more unique than competitors' products. On the other hand, Jamsa et al. (2011) stated that within the scope of MSMEs, organizational sustainability is also determined by the use of networks as a source of opportunities and the use of resources and networks. Changes must also be anticipated so that companies can continue to exist by promoting competitive advantage [13]. MSMEs need to build their uniqueness through the

creation of products that can attract their customers and, thus, increase the success of their products in the customer market [10]. .

H_5 : Competitive advantage has a positive and significant effect on market performance

2.6 Mediating Role of Dynamic Capabilities

Market penetration strategies commonly called internationalisis that must be applied by business actors to improve sales performance and require good marketing skills. They still use resources in marketing with traditional as well as brand power and are found to have an insignificant impact on INV performance [8], as their brands are usually unknown in national and international markets. Companies need the right and skilled innovation to get a lot of attention from their customers, communicate products well and can motivate potential customers in making purchasing decisions. So it is, can master the fast-changing environment through such mediation.

H_6 : Dynamic capabilities mediate innovation capabilities and market performance

2.7 Mediating Role of Competitive Advantage

A marketing concept that focuses specifically on innovation capabilities and the development of new ideas that align with understanding needs [9] and can beat its competitors with a significant competitive advantage for businesses that are active in choosing the right innovation options for customers [9]. By improving the quality of innovation capabilities can maximize business performance. [7]. One such competitive advantage is that technology and information can facilitate marketing innovation towards a competitive market [7].

H_7 : Competitive advantage mediate innovation capabilities and market performance

3. Methodology

This study aims to examine the role of innovation on the marketing performance of MSMEs and investigate how the effect of innovation on marketing performance is mediated by dynamic capabilities and competitive advantage. The first theory of this study comes from a framework based on the Resource-based view (RBV) theory or an approach used in business strategy management to identify unique and valuable resources owned by a company to achieve competitive advantage. The type of research we use in this study uses quantitative research methods. Data was collected from MSME owners where each respondent filled out a google form, The questionnaire was created using likert scale which has a total of 5 points, namely "strongly disagree" to "strongly agree". This study is limited to the Surakarta Region in Indonesia with a concentration of MSMEs. The sample taken amounted to 100 respondents. In this study using a quantitative approach to compile this research then by conducting a sobel test using the smart-pls tool. Using SEM-PLS software and Smart-PLS 4.0 for data analysis techniques [7] by exploring and predicting many complex models for which there are less stringent requirements. The Smart - PLS analysis tool has 2 models, namely the Inner model and Outer model.

4. Result and Diccusion

4.1 Characteristics of Respondents [14]

Based on the research results, a total of 100 respondents, namely MSME owners, were included as samples. Table 1 summarizes the characteristics of respondents in terms of age and gender. The age sample is dominated by samples aged 50 and above at 40%, and the characteristics of respondents based on gender are dominated by men at 69%.

Table 1. Characteristics of Respondents

Demographics	Frequency	Percent
Age		
20-29	12	12%
30-39	13	13%
40-49	35	35%
>50	40	40%
Gender		
Female	69	69%
male	31	31%

4.2 Measurement Model

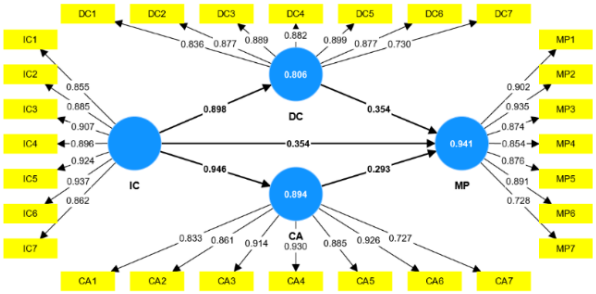

Figure 2. Outer Model

From the explanation of Figure 2 above, that the results of structural model estimation show that all indicators have a loading factor value above 0.6 and this has become a condition for the fulfillment of convergent validity [7]. So the results of the outer model analysis show that all items of the innovation capability, dynamic capability, competitive advantage and market performance variables show adequate reliability. This indicates that the questionnaire used in this study is effective in measuring the desired construct.

4.3 Outer Loading

This study took 100 MSME'e and then analysed with the Smart PLS 4.0 application

Table 2. Outer loading value Smart-PLS

	CA	DC	IC	MP
CA1	0.833			
CA2	0.861			

CA3	0.914			
CA4	0.930			
CA5	0.885			
CA6	0.926			
CA7	0.727			
DC1		0.836		
DC2		0.877		
DC3		0.889		
DC4		0.882		
DC5		0.899		
DC6		0.877		
DC7		0.730		
IC1			0.855	
IC2			0.885	
IC3			0.907	
IC4			0.896	
IC5			0.924	
IC6			0.937	
IC7			0.862	
MP1				0.902
MP2				0.935
MP3				0.874
MP4				0.854
MP5				0.876
MP6				0.891
MP7				0.728

Based on table 2, namely Smart-PLS data processing, it means that all indicators have a loading factor value greater than 0.70 and are said to be valid on each variable in this study.

4.4 Validity and Reliability Test

Tabel 3. Validity and Reliability Test Smart-PLS

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
CA	0.945	0.950	0.956	0.757
DC	0.939	0.941	0.951	0.735
IC	0.959	0.960	0.966	0.802
MP	0.944	0.947	0.955	0.753

Based on the results of the reliability and validity-overview construct data in table 3, some understanding can be drawn. The value of composite reliability and the value of cronbcah alpha can be used to see the results of reliability tests on an instrument. If the composite reliability test results > 0.7 indicate a reliable instrument, but if the value ranges from 0.5 to 0.6 then it can be used and the Cronbach alpha value > 0.6 [7]. The innovation capability construct has a high reliability value with Cronbach's alpha of 0.959, indicating good internal consistency in measuring innovation capability in increasing sales. In this innovation capability construct, the high reliability value indicates that the measurement of innovation capability in increasing sales is consistent and reliable. These results indicate that the innovation capability construct can be an important factor in influencing dynamic capabilities, competitive advantage and market performance.

5. Inner Model

The results of the Inner Model data reveal a strong link between the variables of innovation capability, dynamic capability, competitive advantage and market performance. The correlation coefficient between innovation ability and market performance is 1,000, which proves that the relationship is very significant between the two variables. Similarly, between innovation capability to dynamic capability and competitive advantage, as well as dynamic capability and competitive advantage to market performance, all have a correlation coefficient of 1,000, showing a highly significant relationship.

Table 4. Inner Model Smart-PLS

	CA	DC	IC	MP
CA				1000
DC				1000
IC	1000	1000		1000
MP				

5.1 R-Square

Based on the results of the R-square data analysis in the table 5 figure, the R-square results on market performance indicate that the variables in the model can explain 94.1% of the variation that occurs in market performance. This indicates that the previous constructs measured in this study have a significant contribution in explaining the level of market performance. The adjusted R-square which is almost the same as the R-square indicates that the model is less affected by the number of variables and observations in the sample.

Table 5. R-Square Smart-PLS

	R-square	R-square adjusted
CA	0.894	0.893
DC	0.806	0.804
MP	0.941	0.939

5.2 F. Square

The results of the data in table 6, that Results f-square result of 0.186 shows that innovation capability has an influence of 18.6% on market performance. The f test is done with the aim of knowing how much the independent variables together affect the dependent variable. It can be concluded that if the level used is 0.5 or 5%, if the F value > 0.05 then the independent variable simultaneously affects the dependent variable or vice versa. [7]. This shows that the level of innovation capability can affect market performance when the results of products and services have their own characteristics, products that are rare and cannot be imitated so that they can produce and maintain a competitive advantage for maximum market performance results. The higher the innovation creativity, the higher the marketing performance [7].

Furthermore, the f-square value that reaches 0.5 reveals that innovation capability has a significant and strong influence on dynamic capabilities and competitive advantage. In this case, the f-square number close to 1 indicates that the innovation capability variable contributes significantly to the dynamic capability and competitive advantage variables. In other words, the higher the innovation, the higher the level of dynamic capabilities and competitive advantage in improving market performance..

Table 6. F-Square Smart-PLS

	CA	DC	IC	MP
CA				0.147
DC				0.391
IC	8.436	4.159		0.186
MP				

5.3 Q square (Q2)

From the results of R square (R2) above, it can be calculated the value of productive relevance with the following formula (1):

$$\text{Q square}=1 - [(1\text{-R21}) \times [(1\text{-R22})] \times [(1\text{-23})] \quad (1)$$

With R21 is the value of dynamic capabilities, R22 is competitive advantage and R23 is market performance. Then the result of the productive relevance value is

Q square = 1 – [(1-R21) x [(1-R22)] x [(1-23)]
= 1 – [1-0,806) x (1-0,894) x (1-0,941]
= 1 – [0,194 x 0,106 x 0,059]
= 1 – 0,001
= 0,99

Based on the calculations carried out using the Q square formula above, the productive relevance result is 0.99. This productive relevance value illustrates the extent to which the model developed in the study can explain variations in the observed latent constructs, namely dynamic capabilities, competitive advantage and market performance..

In this context, the productive relevance value of 0.99 indicates that the developed model is able to explain about 99% of the variation in dynamic capabilities, competitive advantage and market performance. That is, the factors studied in the research, such as innovation capability, have a significant contribution in explaining changes in the level of dynamic capability, competitive advantage and market performance through innovation capability. With a high value of productive relevance, this study provides evidence that market performance has a direct and indirect influence through dynamic capabilities and competitive advantage on innovation capabilities..

6. Hypothesis Testing

Testing the structural model is done through the t test which serves to explain between the variables in the study. The basis used in testing the hypothesis directly is the value contained in the patch coefficients and indirect effect output. Through the P Value results obtained if the P Value value on each variable is <0.05 then HO is rejected, the positive effect can be seen through the Original Sample. Table 7 below gets the bootstrapping technique for hypothesis testing results.

Table 7. Path coefficients Smart-PLS

Variable	Original Sample (o)	T statistics (0/STDEV)	P values	Information
CA→MP	0.293	3.192	0.001	Positive and Significant
DC→MP	0.354	4.804	0.000	Positive and Significant

IC→CA	0.946	10.609	0.000	Positive and Significant
IC→DC	0.898	6.886	0.000	Positive and Significant
IC→MP	0.354	3.499	0.000	Positive and Significant
IC→DC→MP	0.318	4.537	0.000	Positive and Significant
IC→CA→MP	0.277	3.331	0.001	Positive and Significant

The function of Path coefficients is to determine the hypothesized variable relationship. The path coefficient value is between -1 and 1. If the value is between 0 and 1, it can be expressed positively, if the value is between -1 and 0, it can be expressed negatively.

The results of the hypothesis and path coefficients in table 7 above show the results of hypothetical testing, the changing relationship is presented as significant if the t-statistic is greater than 1.96 with a margin of error (p-value) of less than 5% or 0.05 [1]. Conversely, the size of the relationship is seen from the original sample value of.

7. Conclusions

Based on the explanation in this study, it can be concluded that by expanding the RBV theory with the Innovation Capability variable playing a very important role in shaping market performance, with dynamic capabilities and competitive advantage as mediators. These results support the RBV theory on which this research is based. This research makes an important contribution to understanding what factors can affect the increase in sales by making an innovation that makes the market dynamic and increases competitiveness to compete with other competitors. The lesson learned from this study is the importance of efforts to increase innovation, which can have a positive impact on market performance. It is hoped that these findings can be the basis for business actors, such as store managers with market products and have many competitors then given an innovation to become a product that is different from its competitors to increase sales and have strong competitiveness. In addition, the research that has been compiled can also be used as a benchmark reference for future research in this field, by studying other variables that may have an impact or influence on market performance.

The limitations of this research have not considered the importance of technology, for future research can develop digital marketing skills. The application of digital marketing is believed to be a strategic tool that can improve the performance of MSMEs more quickly. The sample in this analysis is limited in scale. As a result, a larger sample size should be considered in future studies. This research model can be replicated in a cross-cultural and cross-country context for more conclusive findings.

8. Acknowledgments

We would like to thank God Almighty and our parents for their prayers and encouragement, as well as the organizers who have given us the opportunity to submit this research. This work is original research original and has never been published or is not under consideration for publication elsewhere.

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