

# Creating Competitive Advantage in the Riau Crispy Palm Oil Mushroom SMEs

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**Abstract.** The competitiveness development on a business is inevitable, including in small and medium enterprises (SMEs). Competitiveness catalyzes chances and triggers threats either coming from inside or outside a corporation, which will significantly influence the stability of the business. Therefore, each SME owners have to create a competitive advantage. This research concentrates on establishing a competitive advantage of SMEs on particularly crispy palm oil mushroom enterprises in Riau province. The aim of this research is to allow the SME owners to create a competitive advantage. Data were collected through observation, interview, and questionnaire collected from the owners. The purposive sample was taken based on a criterion that the business has been running for 5 years. There were 225 samples taken. Data were analyzed by using path analysis. The research result shows that the crispy palm oil mushroom SMEs must be able to increase marketing performance in order to create a competitive advantage. Besides, owners should further improve entrepreneurial skills, be market-oriented, faster in adopting technology, and expand potential business partners.

**Keywords:** competitive advantage; marketing performance; entrepreneurial and market orientation; technology adoption business partner

## 1 Introduction

The small and medium enterprises (SMEs) have positive influence in developing countries like Indonesia for its main characteristic, which is labor intensive business [1]. They can be found almost in all locations especially in rural areas, depending on the local raw materials as well as major supplier of stock and facilities of primary needs for low-income community [2, 3]. The small and medium enterprises' contribution towards Indonesia gross domestic product which increased from 57.85% to 60.34% in the last five years. Of the whole businesses in Indonesia, SMEs have 99.99% proportion or equals to 56.54 million enterprises in number [4]. In Europe, 99% of business are SMEs [5].

It also exists in New Zealand where 99% of the companies are SMEs [6]. In Riau, from 278 thousand businesses, 98.66% are small and medium sizes, and only 1.34% are medium and large-scale enterprises. Every year, SMEs rise on 5-10 percent [7]. However, their growth must always be encouraged to speed up the welfare of society and develop regional economy, because the success of SMEs has a direct influence towards economic development especially in developing countries [8, 9, 10, 11].

A small and medium enterprise of crispy palm oil mushroom is one of SMEs in Riau province. This enterprise takes local raw materials as its production ingredients; mushroom growing on empty bunches of palm oil. Data noted that Riau is the largest province producing palm oil in Indonesia [12]. The production of fresh fruit bunches of 1.792.481 tons in 2000 increased to 8.721.148 tons in 2017. This escalation causes an increase of waste of palm oil empty bunches that can be used as a medium to grow mushroom. This is a potential for the crispy palm oil mushroom enterprises to improve its production by taking advantage of mushroom growing on the empty bunches.

Apart from its possibility to increase the production, crispy palm oil mushroom enterprises have to maintain its business stability and enhance trade performance by establishing a competitive advantage. The competitive advantage can be possessed only if the SMEs offer qualified products with cheaper price compared to competitors, provide excellent services, have unique characteristics, and difficult to be duplicated by others [13]. The enterprises must also do an investment regarding to innovation to gain product distinction over other competitors. This competitive advantage sources mostly from various activities such as products designing, making process, marketing, and distributing.

Based on the researcher's observation, the competitive advantage of that crispy palm oil mushroom enterprises is still low. Most of the owners have not yet implemented new innovated technology especially in product packaging. This possibly happens due to lack of business network and ability to get information, incapable of adapting to the cutting-edge technology, and not yet pro-active in exploiting market opportunities. For those reasons, the owners must design the products as unique as possible to outperform the competitors.

A lot of researchers have studied the failure and success of SMEs in gaining the competitive advantage. The main determining keys of SMEs in achieving its distinction in Jamaica are the capability to develop an irreplaceable product and flexibility in adopting advanced technology [14]. To reiterate, the company must continuously innovate to obtain competitive advantage in the market. A SME should possess entrepreneurial orientation of such quality as proactive, flexible, aggressive, and dare to take risks [15]. In Iran found that marketing skill has a significant impact to competitive advantage [16]. Thus, it is an obligatory for SMEs to have market orientation. Other than that, business partners could help establishing a competitive advantage [17].

This research, however, is different from some others conducted previously for it particularly focuses on crispy palm oil mushroom enterprises in Riau province with marketing performance as its intervening variable. Marketing performance as an intervening variable is used because a SME is expected to gain competitive advantage through selling growth, customers, and profit. From this research result, activities and attempts to increase competitive advantage for regional government and the crispy palm oil mushroom enterprises can be discovered. As the competitive advantage is improved, the local economy is also expected to get better and that positive image about local commodity in Riau province is developed.

## **2 Theoretical Framework**

### *Competitive Advantage*

Competitive advantage is the customers' perspective towards product and services as the highest qualitative value as nobody can offer similar products or services (unique) [18, 19]. If duplicated, it will be charged higher, like knowhow cost, installment fee, or having a license or patent protection. Competitive advantage is also a beneficial strategy for cooperated companies to compete effectively within the same market place. Competitive advantage is expected to be

able to assist in gaining profits, increasing market share and customers' satisfaction as well as helping the business maintenance [20].

#### *Marketing Performance*

Marketing performance is a process of providing the best services to consumers to gain profits [21]. If the consumers are satisfied, they will usually re-purchase the products and help to endorse the products' finest features to others. Marketing performance is measured from the purchased units (the increased of sales volume), consumers' development, and profits. The better the marketing performance of a company, the easier it is to gain a competitive advantage [22].

#### *Entrepreneurial Orientation*

Entrepreneurial orientation can influence competitive advantage of a company [23]. Entrepreneurial orientation is a preference to strive to be the first in market product innovation, take risks, and proactive in outclassing competitors. Entrepreneurial orientation has a positive impact to competitive advantage [24]. Nevertheless, that entrepreneurial orientation has no significant impact towards competitive advantage [25]. Yet, it tends to have positive implication for marketing performance [23, 25, 26, 27].

There is a correlation between entrepreneurship orientation variable, innovation, and new entry and this correlation is called triadic connect [28]. Entrepreneurship and innovation are two concepts which are regularly correlated to a firm performance increase as a source of competitive advantage [29, 30, 31, 32, 33].

#### *Market Orientation*

Market orientation also has a positive effect towards competitive advantage of a business [23], yet does not have any correlation to business performance [34]. Competitive advantage as a supporting system of marketing performance increase can be reached through market-oriented business [22]. Market-oriented is a fundamental standpoint for a company corresponding to an increase of global competition and changes in consumer needs; therefore, it is necessary for a corporation to keep updating market news and information [35]. Market orientation is as well deemed as business culture where an organization commits to creatively create superior value for consumers and yield superior performance for the corporation itself so that eventually may lead to an improve of competitive advantage [31].

#### *Technology Adoption*

Technology has a central role for the successfulness of SMEs and is positively correlated to business steadiness [36]. The delay of a SME in adopting advanced technology is influenced by several factors such as human resources capacity, financing, marketing, government support, and competitive advantage [37, 38, 39]. Further, several other things like ability to gain and absorb information, ability to approve and operate the latest technology, rapidness in adjusting the new technology, capability to modify possessed technology, and capacity to respond changes in quality or consumers' style based on the technology are observed to gauge the level of technology adoption [40]. Facing global competition and international trading requires technology adoption to achieve marketing performance and competitive advantage [41]. The production cycle can also be cut by implementing certain technology and this may lead to greater business profits [42].

#### *Business Partner*

A good relationship with business partner brings particular impact to competitive advantage of a corporation [43]. A well-developed business partner could improve business performance [31]. The number of resources availability is the main problem faced by a SME pioneering its new business [44]. Encountering business associates or partners which are agreeable to business

requirements could create a competitive advantage [17, 43]. The associates could also mediate resources acquisition strategy for product innovation of the competitive advantage [31, 45].

### 3 Research Methods

This survey research was conducted in Siak, Pelalawan and Kampar regencies, Riau province, Indonesia. These regencies were selected because these are the areas where many crispy palms oil mushroom enterprises exist. Purposive sampling method was done to those people having run the business for at least 5 years. There were 225 samples in total. Primary data necessary for the research were questions and statements related to research variables. Meanwhile, secondary data were gained from the Department of Industry and Trade, Department of Plantation, and Central Bureau of Statistics. The research variables measurement is based on the respondents' perception towards the whole variable indicators constructed on the model. Data were analyzed with path sub-structure 1 and 2 analyses by using SPSS software, version 21.

### 4 Results and Discussion

Prior to data path sub-structure analyses 1 and 2 are conducted, average score for each research variable is measured as shown in Table 1. Table 1 shows marketing performance has high criteria average value as 9.80. The total was calculated from the selling growth level, the number of consumers, and profits development. Most of the palm oil crispy mushroom business have undergone an increase in terms of trading, consumers and profits development each year. Marketing performance is a factor commonly employed to assess impacts of the strategy implemented by a company for it is related to an attempt of understanding, creating, communicating, and presenting value to consumers.

Competitive advantage is at an average level with 7.70 mean. This crispy palm oil mushroom SMEs indeed has its own characteristics; the product is made from mushroom growing on the palm tree bunches. Nonetheless, its marketing is still limited to school cafeteria, small stores, merchants, or directly delivered to consumers based on their orders. Additionally, the packaging is also simple and less-attractive. Type of plastic used to wrap the product is polyethylene (PE). When this type of plastic used to package oily products, the grease may leak from the wrap and will stick to the product.

**Table 1.** Average Score of Research Variable

No.	Variable	Mean	Category
1	Competitive advantage	7.70	Moderate
2	Marketing Performance	9.80	High
3	Entrepreneurial Orientation	10.10	High
4	Market Orientation	9.70	High
5	Technology Adoption	9.80	Moderate
6	Business Partner	10.40	Moderate

The result of path analysis is portrayed in Table 2. Table 2 shows that entrepreneurial orientation, market orientation, technology adoption, business partner, and marketing performance have either direct or indirect significant influence to competitive advantage. Market orientation has the most significant direct impact towards marketing performance for

0.768. Meanwhile, the mean for business partner is straightforwardly influencing competitive advantage is only 0.557. Implicitly, market orientation is having the biggest effect to competitive advantage is 0.365. Market orientation in this research is at the high level with 9.70 mean. This means that the crispy palm oil mushroom enterprises mostly have set market-oriented principle in running the business. The packaging has been in line with the customers' requests. Furthermore, it is believed that the traders have known their competitors precisely, so they always attempt to create a different product.

From Table 2, the equation of sub-structure 1 and 2 are arranged as follow:

$$\text{Sub-structure 1: } Y_1 = 0.360X_1 + 0.768X_2 + 0.255X_3 + 0.308X_4 + e_1$$

$$\text{Sub-structure 2: } Y_2 = 0.327X_1 + 0.475Y_1 + 0.557X_4 + e_2$$

**Table 2.** The Results of hypothesis test

No.	Hypothesis	Path Coefficient	P-Value	Note
H1	Entrepreneurial Orientation → Marketing Performance	0.360	0.000	Significant
H2	Market Orientation → Marketing Performance	0.768	0.000	Significant
H3	Technology adoption → Marketing Performance	0.255	0.000	Significant
H4	Business Partner → Marketing Performance	0.308	0.000	Significant
H5	Entrepreneurial Orientation → Competitive advantage	0.372	0.000	Significant
H6	Business Partner → Competitive advantage	0.557	0.000	Significant
H7	Marketing Performance → Competitive advantage	0.475	0.000	Significant
H8	Entrepreneurial Orientation → Marketing Performance → Competitive advantage	0.171	0.000	Significant Mediation
H9	Market Orientation → Marketing Performance → Competitive advantage	0.365	0.000	Significant Mediation
H10	Technology adoption → Marketing Performance → Competitive advantage	0.052	0.000	Significant Mediation
H11	Business Partner → Marketing Performance → Competitive advantage	0.265	0.000	Significant Mediation

This research found that market orientation and business partner are the two most influencing factors to marketing performance and competitive advantage. The least affecting aspect is technology adoption. Facing worldwide competitive trade requires advanced technology. Production cycle can be shortened to apply technology so that it may be more profitable for the company [42]. The research result describes that technology adoption variable

score is at a moderate level with mean 9.8. This indicates that the sellers have been able to obtain information related to new technology either from social media or local government. Nevertheless, it is unfortunate that they have not yet capable to implement that sophisticated technology due to budget restriction and lack of ability. The delay of SMEs owners in adopting technology is influenced by some factors such as human resources limitation, capital, marketing issue, and government support [37, 38, 39].

In fact, technology could also be used in promoting the product online, which has become a trend nowadays. Hence, it is normal for a business that does not well use the technology will take longer period to develop. Thus, in order to create competitive advantage, the crispy palm oil mushroom SMEs must enhance its technology use by developing the human resources competency of both owner and workers. It also needs to add the capital access to resolve the issue regarding to the expensive cost of technology adoption. Technology has a central role for the successfulness of SMEs and is positively correlated to business steadiness [36]. Facing global competition and international trading requires technology adoption to achieve marketing performance and competitive advantage [41].

## 4 Conclusion

Competitive advantage is realized when a business performance exceeds its competitors. Competitive advantage is gained by seeking different aspects which will be more valued by the consumers and cannot be easily duplicated by the other competitors. For that reason, cost reduction in product or service supplying and continuous improvement towards value given to consumer are necessary. In addition, the government is expected to support the crispy palm oil mushroom SMEs, not only as a technology provider but also as a party running a training and guidance in using the technology. Lastly, the government is also expected to facilitate capitalization or financing for SMEs to solve the technology cost issue.

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