

**BUSINESS STRATEGIES AND INNOVATION ON COMPETITIVE  
ADVANTAGE OF SMEs**

**Ahmad Zaini**

Magister Management, Faculty of Economics and Business, Hasanuddin University; zaini@kawan.vip

**Abstract**

In the face of a dynamic and competitive environment, SMEs must figure out how to remain competitive. This has to do with SMEs' future growth and survival. The purpose of this study was to investigate how innovation and business strategy affect competitive advantage. 68 questionnaires were used to gather information. In the Makassar city fresh market, 68 SME owners received a total of questionnaires. the probability sampling approach used to select the sample. Multiple Linear Regression with SPSS version 23 was used to analyze the data. Business strategy and innovation have a positive and significant impact on competitive advantage, according to this study's findings.

**Keywords :** *Strategi Bisnis, Inovasi, Keunggulan Kompetitif, UKM, Makassar.*

**A. INTRODUCTION**

Small and medium-sized businesses, or SMEs, make a significant contribution to the revival and expansion of the economy and has the potential to boost developing nations' competitiveness. They promote the rapidly expanding commercial space sector, which facilitates industrialization and fosters creativity and innovation. Small and medium-sized businesses (SMEs) make up 99.7% of the 4.7 million businesses in the UK and have a direct and indirect impact on a nation's economic growth. Additionally, they provide significant job opportunities. SMEs are worldwide components of the private sector. A number of factors support the influence of strategy on SMEs, which in turn influences their business development. Given that SMEs are also crucial to society and the economy, From the point of view of a resource-based strategy, this exemplifies the significance of the company's resources and capabilities in establishing its competitive advantage. Jan Dvorsky, Jaroslav Belas, Beata Gavurova & Tomas Brabenec (2021) discuss the perception of financial risk has a major influence on future business. There is an implementation regarding operational risk, especially company resources, implementation regarding the quality of company products and companies regarding limited suppliers, so this affects the future development of SMEs.

Mastery of technology is an advantage that every business needs to win in the global market. High quality personnel (managers and employees); creativity and strong drive; high level of productivity and process production efficiency; production of goods; good organizational structure and management system; high level of initiative; a broader perspective on the product and business environment (economic, social, political, etc.); as well as the capacity to face fierce competition in the global market. The importance of a company's resources and capabilities in developing its competitive advantage from the perspective of a resource-based strategy. Progress is the way to gain excellence. These results discuss the organization of culture, the

existence of business processes for operational success in gaining an advantage competitively and effectively (Azeem, M., Ahmed, M., Haider, S., & Sajjad, M., 2021).

From a small business perspective, an innovation strategy is used to successfully sell an innovative product in the marketplace, usually gradually turn a profit, and translate creative ideas into products, processes, and marketing. MSMEs need an innovation strategy because it will be more risky for companies not to innovate in many industries. The products offered have undergone periodic revisions and improvements, which have been noticed by both the industry and customers. Business strategy that innovates will make it more likely to make a profit. Innovation strategy as a fundamental tool for determining the direction of business innovation based on strategic objectives and business strategy. Newman, A., Obschonka, M., & Block, J. (2022) discuss MSMEs, especially the conditions that occur during the crisis regarding company policies for the adoption of businesses that develop in the future.

In the face of a dynamic and competitive environment, SMEs must find ways to remain competitive. This has to do with the growth and survival of SMEs in the future. The aim of this study is to test and empirically test the impact of business strategies and innovation on the competitive advantage of SMEs. The study will benefit Makassar's small and medium-sized enterprises by helping the government in developing the right policies for the progress of SMEs in Indonesia, especially in Makassar.

## **B. LITERATURE REVIEW**

In light of the ever-increasing level of business competition, according to Schymik's, businesspeople must continue to look for ways and strategies to defeat competition in their fields. When selecting a business model and concept, businesspeople must be able to combine internal factors, particularly resources, with external industrial structures. After analyzing the industry structure using external factors, businesses can use all of their internal resources to create a variety of advantages. Competitive advantage factors are things that they can achieve, develop, or create. A competitive advantage is provided to the business by its strategic decisions to capitalize on market opportunities. Business strategy, also known as competitive strategy, is usually developed at the divisional level and focuses on improving the company's competitive position in a particular industry or market segment. A business strategy may center on increasing sales revenue.

To achieve the objectives of the research results division, business strategy must combine various functional activities. Idea of a company's competitive advantage has been created. Repeatability, durability, and ease of matching are variable measures of competitive advantage. The core of a company's performance in a competitive market is competitive advantage. The profit a business derives from the benefits or value it can offer to its customers. A company can gain a competitive advantage if it can create an advantage over any of these three generic strategies. Many company activities in designing, producing, marketing, shipping, and sales support can be examined to gain an understanding of their competitive advantage. As a result, a position where the organization is still working to beat competitors constitutes a competitive advantage.

### **1. Business Strategy and Competitive Advantage**

Strategy is a means of achieving objectives. The differences in the concept of strategy demonstrate how the concept of strategy has evolved over time. The company's strategy reflects its awareness of how, when, and where it must compete with its rivals and with what goals and objectives.

A strategy is a method for achieving long-term goals. Geographic expansion, diversification, acquisition, product development, market penetration, retrenchment, divestiture, liquidation, and joint ventures are all components of business strategy. Strategy is the potential of an action that necessitates the decision of a top manager and calls for substantial resources. Strategy also has an impact on the success of an organization, typically only lasts for five years, and the company is focused on the future. Because strategy has multiple effects, both internal and external factors need to be taken into account. Business is an action to produce goods and services for the benefit of society (Hadi & Udin, 2021).

A company will only be able to enjoy normal returns, or the amount of money it would make from investments with the same risk, if it does not have a competitive advantage. Companies that are able to establish long-term competitive advantages not only rely on the company's strengths, but also make it a priority to develop strategies that take into account all aspects of Henaulu. The "Generic Strategy" has planned how to gain this competitive advantage, including the following: Bel's cost leadership, differentiation, and concentration. The clearest of the three generic strategies is cost leadership, in which a company aims to be the industry's lowest-cost producer.

A differentiation strategy is a business's attempt to stand out in its sector in a number of ways that customers value. Because it is one of a kind, a business is worth more. Focus strategy focuses on a single industry segment or group of industry segments and adjusts its strategy to serve customers at the expense of others. The focus strategy can be broken down into two categories: (1) cost focus, in which the company aims to gain cost advantages in its target market, and (2) differentiation focus, in which the company aims to stand out in its target market. Competitiveness as a direction regarding the process of developing added value in the company's future environment for economic achievement (Jatmiko, B., Udin, U., Raharti, R., Laras, T., & Ardhi, K. F., 2021). As a result, we offer the following hypothesis:  
Hypothesis 1 (H<sub>1</sub>). Strategy has a positive effect on competitive advantage.

## **2. Innovation and Competitive Advantage**

The businessman can confront his rival by employing the competing strategy. A company's process of building and developing a variety of strategic resources that have the potential to give it a competitive advantage could be interpreted as this strategy. This benefit serves two purposes: as a means of generating performance and neutralizing the competitive assets and capabilities of rivals. The company can develop products that enhance business performance through careful innovation. In essence, a company's performance will also rise if it innovates its products. This is because the businesses have used market orientation to gain a competitive advantage and boost their business performance. The discussion of organizational innovation and the innovation process has no effect on the implementation of competitive advantage, so competition is not very influential for future company activities. (Abadi, F., Fadli, J. A., & Prastyani, D., 2023). Customers can gain a competitive advantage if the products they buy consistently differ from those of competitors, in which these distinctions are derived from the outcomes of the business's market orientation. As a result, innovation variables must be included in this investigation as mediators of the impact of business strategy on competitive advantage. There is a positive correlation between competitive advantage and performance in terms of sales volume, profit level, market share, and return on investment. Competitive advantage describes the output of the company/organization that can provide interest in the market and is able to face competition between companies, effective achievement of the ultimate goal, and the

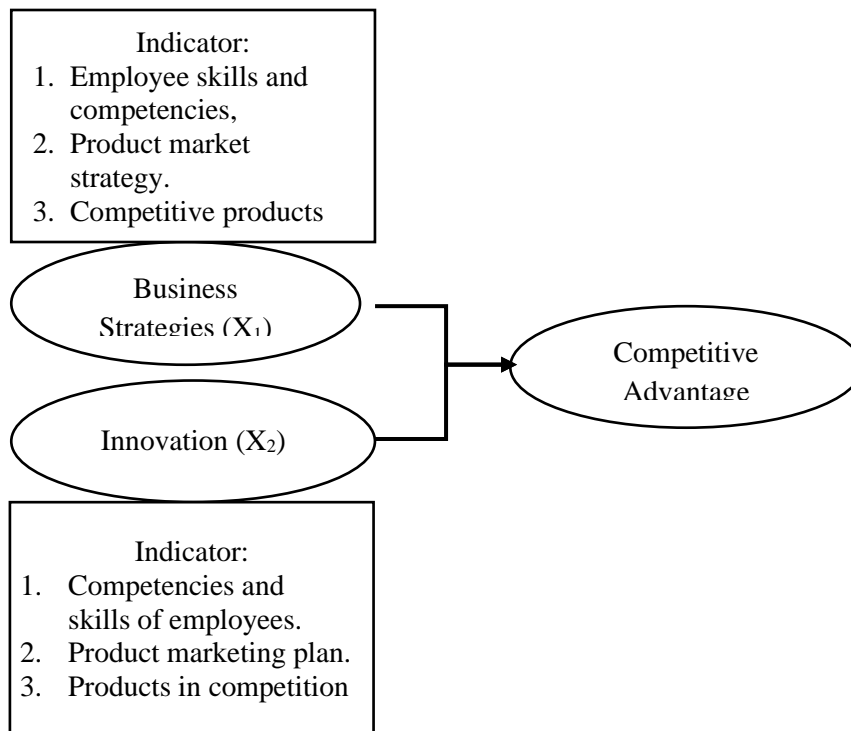
achievement of the company to be able to survive (Abadi, F., Fadli, J. A., & Prastyani, D., 2023). As a result, we offer the following hypothesis:

Hipotesis 2 (H<sub>2</sub>). Innovation has a positive effect on competitive advantage.

### 3. Conceptual Model

Figure 1 depicts this research model based on the previous review of the library, the problem formula, and the background:

**Figure 1:** The Conceptual Model



## C. RESEARCH METHOD

### 1. Location and Research Design

Quantitative approaches are used in this study. The effects of innovation and business strategies on competitive advantage are discussed in this study. The subjects of the study are all UMKM in Makassar's perpetrators and owners.

### 2. Population or Samples

UKM in Makassar City is the population used in this study. Non-probability sampling was used in sampling so that 68 MSMEs registered at Pasar segar in Makassar City were used as criteria in sampling.

### 3. Data Collection Method

The primary data collection in this study uses the following methods:

- Angket method, with research instruments in the form of a questionnaire submitted to each respondent, managers or owners of small industries.
- The observation method is used to determine respondents from the population that will be used as samples in this study.

### 4. Data Analysis Method

To determine the magnitude of the influence of independent variables on dependent variables, double linear regression equations are used with the following equations:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e \dots\dots\dots(1)$$

Dimana:

- Y : Competitive advantages
- $\alpha$  : Konstanta
- $X_1$  : Business strategy
- $X_2$  : Innovation
- $\beta_1$ -  $\beta_2$  : Koefisien Regresi
- e : Error

Hypothesis testing was carried out using multiple regression models in the SPSS program. From this model, the t value will be obtained as the estimation parameter, the coefficient of determination (R), and also the regression coefficient for each independent variable. Regression coefficient values (b1 to b2) are positive and significant for variables X1 and X2, so hypothesis 1 and hypothesis 2 are supported.

## D. EMPIRICAL RESULTS

### 1. Descriptive Statistics

**Tabel-1: Characteristics of Respondents**

Characteristics	Criteria	Frekuensi
<b>Owner's Gender</b>	Male	25
	Female	43
	<b>Total</b>	<b>68</b>
<b>Type of business</b>	Food	32
	clothes	36
	<b>Total</b>	<b>68</b>
<b>Length of Business</b>	1-3 y	13
	3-5 y	28
	5-7 y	15
	<b>Total</b>	<b>68</b>

With 43 respondents, the majority of respondents in this study were female business owners. While respondents who have men (25 respondents). Respondents who have a type of food business are 32 respondents and those who have a type of clothing business are 36 respondents. While based on the length of business 1-3 years as many as 13 respondents, 3-5 years as many as 28 respondents and 5-7 years as many as 15 respondents.

### 2. Prerequisite Evaluations

The SPSS 23 tool was used to test the hypotheses in this study. Multiple linear regression is used as an analysis in this study. In addition to testing the hypothesis, validity and reliability tests are used in this study to assess the statements of each variable. The results of the validity and reliability are presented in table 2 and table 3.

**Tabel 2: Pengujian Validitas**

Variable	Question Items	r-hitung	r-tabel	Kesimpulan
Business strategy	X <sub>1.1</sub>	0.977	0.121	Valid
	X <sub>1.2</sub>	0.899	0.121	Valid
	X <sub>1.3</sub>	0.912	0.121	Valid
Innovation	X <sub>2.1</sub>	0.812	0.121	Valid
	X <sub>2.2</sub>	0.882	0.121	Valid
	X <sub>2.3</sub>	0.921	0.121	Valid
Competitive advantage	Y <sub>1.1</sub>	0.877	0.121	Valid
	Y <sub>1.2</sub>	0.881	0.121	Valid
	Y <sub>1.3</sub>	0.721	0.121	Valid

Source: Data Processed 2023.

Based on the validity test table for all variables, it shows that the r calculated Pearson correlation for all question items has a value greater than the product moment r table of 0.121. It can be concluded that all indicators used in each variable are declared valid.

**Tabel 3: Reliability Testing**

Variable	Cronbach's Alpha	Cut of Value	Kesimpulan
Business strategy	0.920	0.600	Reliabel
Innovation	0.792	0.600	Reliabel
Competitive advantage	0.996	0.600	Reliabel

Source: Data Processed 2023.

As can be seen from the reliability test table above, each of the variables used in this study produced reliability test results with a Cronbach's alpha value greater than or equal to 0.60. Because of these findings, it is possible to draw the conclusion that each and every variable has been declared to be reliable. As a result, the data can be tested during the subsequent analysis stage.

### 3. Results of Multiple Regression Analysis

**Tabel 4: Partial Test**

Coefficients <sup>a</sup>					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	2,950	1,143		2,205	,000
X1	,326	,115	,384	1,836	,002
X2	,194	,114	,230	1,696	,004

a. Dependent Variable: Y

Based on the findings of the analysis, the following regression equation was constructed:

$$Y = 2.950 + 0.326 X_1 + 0.194 X_2$$

Based on the regression equation, business strategy and innovation variables have a positive regression coefficient. This means that any increase in each of these variables will also result in an increase in competitive advantage.

Then seen from the t test table the business strategy variable has a t table value of 1.836 and an importance level of  $0.002 < 0.05$  and the innovation variable has a t table value of 1.696 and an importance level of  $0.004 < 0.05$ , so it can be assumed that these two factors are up to the limit have an impact on competitive advantage.

## **E. DISCUSSION**

Competitive advantage is significantly improved by business strategy. Business strategy and competitive advantage are strongly correlated with this coefficient. Organizations with the right business strategy can certainly compete with their rivals to ensure their long-term survival. A solid understanding of strategic concepts and other concepts related to them determines a strategy's success. A few of the management activities that are the focus of this company include marketing strategies, production or operational strategies, distribution strategies, organizational strategies, and financing-related strategies.

To market a product or service, an organization must be able to understand what consumers need and want. Innovation is also important in the sense that business must be able to boost innovation and product development in order to compete with other. This indicates that competitive advantage will also increase if innovation is enhanced.

The new product development has an impact on competitive advantage. This shows that businesses will be able to survive in the face of competition if they are able to design their products in a way that meets the needs of their customers.

## **F. CONCLUSION**

Since every business has a strategy, the term "strategic planning" has been used. In the face of ever-increasingly fierce business competition, this strategic planning aids in figuring out how to achieve objectives, how the company can grow, and how to increase market share. According to this concept, one strategy that can be utilized to gain a competitive advantage is a sound business strategy. In the meantime, the company's innovative actions to achieve these objectives cannot be separated from its operational performance. In order to carry out these activities of innovation, such as technological innovation, product innovation, and innovation in business strategy. The ability to invent is one of an entrepreneur's most important qualities.

Business survival depends on innovation. This is due to the shifting requirements, desires, and requirements of customers as well as the shifting business environment. Customers may not always consume the same item. Customers will seek out goods that they believe will satisfy them. Therefore, constant innovation is required for the business to continue operating. Innovation can take the form of new goods, services, or ideas that someone else thinks are novel.

The study demonstrates that the business strategy has a positive impact on the competitive advantage of SMEs listed in the city of Makassar's new market. Innovation in business can also help small and medium-sized businesses (SMEs) in Makassar gain a competitive advantage.

## Acknowledgments

Thank you very much to the owners of SMEs in the fresh market in the city of Makassar who have been willing to take the time to fill out our questionnaire. We would also like to thank all those who were involved in this research.

## References

- Abadi, F., Fadli, J. A., & Prastyani, D. (2023). Human Resource Strategy, Innovation, Competitive Advantages in The Manufacturing Industry. *Quality - Access to Success*, 24(192), 130–135. <https://doi.org/10.47750/QAS/24.192.15>
- Azeem, M., Ahmed, M., Haider, S., & Sajjad, M. (2021). Expanding competitive advantage through organizational culture, knowledge sharing and organizational innovation. *Technology in Society*, 66(June), 101635. <https://doi.org/10.1016/j.techsoc.2021.101635>
- Hadi, N., & Udin, U. (2021). Testing the Effectiveness of CSR Dimensions for Small Business Entrepreneurs. *Journal of Open Innovation: Technology, Market, and Complexity*, 7(1), 1–15. <https://doi.org/10.3390/joitmc70100>
- Jan Dvorsky, Jaroslav Belas, Beata Gavurova & Tomas Brabenec (2021). Business risk management in the context of small and medium-sized enterprises, *Economic Research-Ekonomska Istraživanja*, 34:1, 1690-1708, DOI: 10.1080/1331677X.2020.1844588
- Jatmiko, B., Udin, U., Raharti, R., Laras, T., & Ardhi, K. F. (2021). Strategies for MSMEs to Achieve Sustainable Competitive Advantage: The SWOT Analysis Method. *Journal of Asian Finance, Economics and Business*, 8(3), 505–515. <https://doi.org/10.13106/jafeb.2021.vol8.no3.0505>
- Newman, A., Obschonka, M., & Block, J. (2022). Small Businesses and Entrepreneurship in Times of Crises: The Renaissance of Entrepreneur-Focused Micro Perspectives. *International Small Business Journal: Researching Entrepreneurship*, 40(2), 119–129. <https://doi.org/10.1177/02662426211063390>