



# Effect of Entrepreneur Capability on Competitive Advantage on MSMEs Makassar City Through Innovation Capability

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**Abstract.** MSMEs contributes greatly to the economy of a country, including Indonesia. This research is to determine the effect of entrepreneurial capability on competitive advantage in MSMEs in Makassar City through entrepreneur capability as well as innovation capability. The methodology used in this research is a quantitative method. The samples used in this study were 85 MSMEs located in Makassar City. The data collection technique used was a questionnaire. Methods of data analysis using SmartPLS. The results of the study show (1) Entrepreneur Capability has a significant influence on the Competitive Advantage of MSMEs in Makassar City with a t-statistic value of  $8.203 > 1.96$  and a p-value of  $0.000 < 0.05$ .; (2) Entrepreneur Capability has a positive-significant effect on the Competitive Advantage of MMSMEs in Makassar City through Innovation Capability with a value of 0.376 (positive value), a t-statistic value of  $7.340 > 1.96$  and a p-value of  $0.000 < 0.05$ .

**Keywords:** Entrepreneur capability · Competitive Advantage · Innovation Capability · Makassar City MMSMEs

## 1 Introduction

Micro, Small and Medium Enterprises (MSMEs) are factors driving economic growth in a country, Indonesia is no exception. Data on the development of Micro, Small and Medium Enterprises in Indonesia in 2019 the number of business units is around 65 million units and is able to absorb a workforce of around 119 million people [1]. On the other hand, the contribution of MMSMEs to the Gross Domestic Product (GDP) in the 2018 period amounted to 61.1% and a contribution of 38.9% was only contributed by large business actors, who numbered 5,550 or 0.01% of all business actors [1].

The development of MMSMEs in Indonesia has been hampered due to Covid-19 due to regulations limiting community activities. These activity restrictions have implications for the declining performance of MSMEs. According to the South Sulawesi Cooperatives and MSMEs Service, in 2020 there were around 1,143,700 MSMEs in South Sulawesi experiencing a decrease in income due to restrictions on community activities during the Covid-19 pandemic.

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**Table 1.** MMSMEs in Makassar City for the 2018–2021

Year	Number of MMSMEs
2018	2683
2019	4441
2020	4478
2021	5387

Data Source: Makassar City Cooperatives and MSMEs Office, 2022

Makassar City, which is the center of South Sulawesi Province, has become one of the big cities in Indonesia as well as the gateway to the Eastern Indonesia region which is experiencing quite rapid economic development. In the 2015 to 2019 period, Makassar City's economic growth was quite impressive, reaching an average of 8.09 percent per year. However, Makassar City's economic growth contracted in 2020 around minus 1.27 [2]. One of the sectors driving the economy of Makassar City is the Micro, Small and Medium Enterprises sector or called MMSMEs. MMSMEs in Makassar city in the 2018–2021 period can be seen in the Table 1.

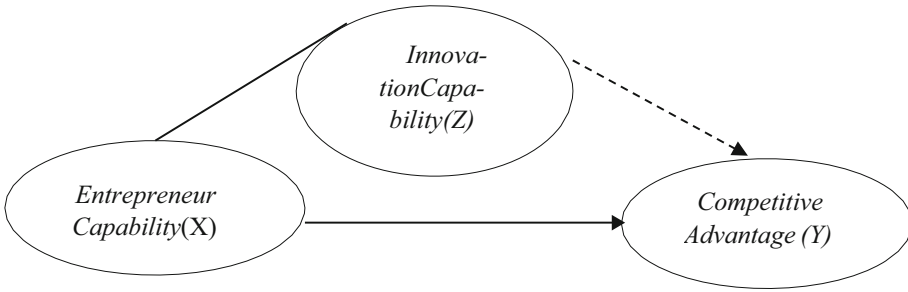
The data in the Table 1 shows that in the 2018–2021 period the number of MSMEs has increased quite well, has great economic potential and is very likely to be developed. In the current situation of facing a new normal due to the Covid-19 pandemic, MSMEs must be able to innovate to achieve competitive advantage. Innovation is a process of turning opportunities into ideas that can increase the value of an item and Competitive advantage is obtained by an organization when it is able to build, develop and or acquire a series of attributes (or execution actions) that enable it to outperform its competitors [3]. In addition, MSMEs must also be flexible so that they can respond quickly and make the best decisions in the environment to market changes that tend to be difficult to predict and predict, especially during this pandemic.

Seeing these conditions, entrepreneurial capability is needed in order to be able managing a business to survive in the midst of increasingly fierce market competition. Entrepreneur capability must have an innovative, proactive attitude, and dare to take a risk which is expected to provide success for MSMEs [4]. In addition, the ability to innovate is one of the most important characteristics possessed by an entrepreneur [5]. Companies will not be able to survive long without innovation because consumer behavior, needs, wants and demands are always changing. From the description above, a research conceptual framework is developed as shown in Fig. 1.

## 2 Methodology

This type of research uses a quantitative model in the form of a value or score for the answers given by respondents to the questions or statements in the questionnaire.

The population used in this study is all MSMEs in Makassar City. The sample in this study were MSME actors registered at the Makassar City Cooperative and MSME



**Fig. 1.** Conceptual Framework

Service. If there is a sample that is too large, then the results of data processing will be very sensitive so that it will be difficult to obtain good goodness-of-fit measures [6]. So that the sample size in this study used a sampling technique of 5 to 10 observations which were used as estimates. So the number of samples used in this study were 85 samples.

Research variables are attributes, properties, or values of a person, object, or activity with special variables that research can apply to examine and draw conclusions [7]. The research variables used as exogenous variables are Entrepreneur Capability (X); Endogenous Variables (Dependents), in this study the Endogenous Variables are Competitive Advantage (Y); and the intervening variable in this study is Innovation Capability (Z).

The data analysis model uses SEM analysis, with the help of SmartPLS software. In the analysis test, PLS uses two measurements, namely the measurement model (outer model) in testing the validity and reliability of a study and the structural model (inner model) which is used to test the causality of a variable or test hypotheses [8].

### 3 Result

#### 3.1 Measurement Model Test Result (Outer Model)

Measurement model testing was carried out using SmartPLS software. The results of testing the measurement model (outer model) can be seen in the description (Fig. 2).

In evaluating the measurement model (outer model) there are several things that need to be considered, namely:

#### 3.2 Convergent Validity Results

The results of convergent validity can be seen in the outer loading value or size and also the Average Variance Extracted value. The results of convergent validity meet the requirements if the value of each loading factor indicator is  $>0.7$  (Table 2).

The results of convergent validity on all indicators of this study show that all indicators are declared valid because they have a loading factor value of  $>0.7$ . So that all indicators meet the requirements of convergent validity.

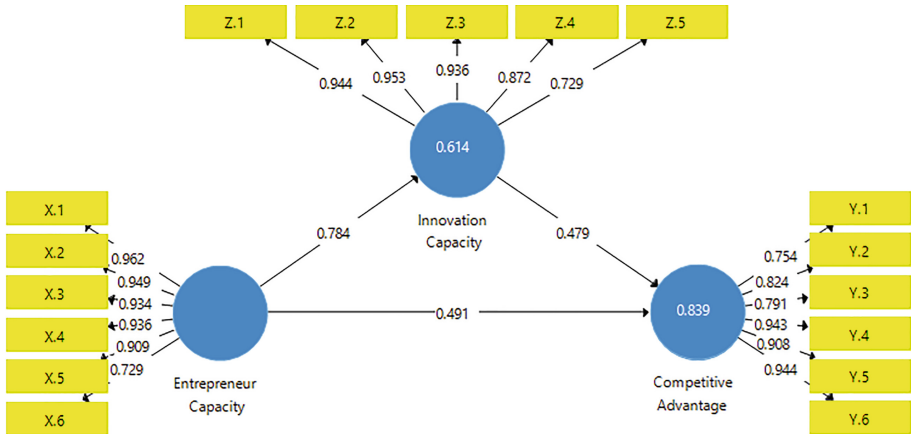


Fig. 2. Outer Model Test Result Smart-PLS 3

Table 2. Convergent Validity Results

Variable-Indicator		Loading factor	Valid
Entrepreneur Capability	X <sub>1</sub>	.962	Valid
	X <sub>2</sub>	.949	Valid
	X <sub>3</sub>	.934	Valid
	X <sub>#</sub>	.936	Valid
	X <sub>\$</sub>	.909	Valid
	X <sub>%</sub>	.729	Valid
Innovation Capability	Z <sub>&amp;</sub>	.944	Valid
	Z <sub>2</sub>	.953	Valid
	Z <sub>3</sub>	.936	Valid
	Z <sub>#</sub>	.872	Valid
	Z <sub>\$</sub>	.729	Valid
Competitive Advantage	Y <sub>&amp;</sub>	.754	Valid
	Y <sub>2</sub>	.824	Valid
	Y <sub>3</sub>	.791	Valid
	Y <sub>#</sub>	.943	Valid
	Y <sub>\$</sub>	.908	Valid
	Y <sub>%</sub>	.944	Valid

**Table 3.** Test Results Average Variance Extracted

Variable	AVE	Information
Entrepreneur Capability	.822	Valid
Innovation Capability	.793	Valid
Competitive Advantage	.746	Valid

### 3.3 Average Variance Extracted (AVE)

In the SEM measurement model, indicators can be declared valid if the AVE value is  $>0.5$ . AVE (Average Variance Extracted) is used as a form of testing to support the discriminant validity test (Table 3).

Based on the table above, each variable as a whole shows  $AVE > 0.5$ , so that these variables is valid and meet the criteria of discriminant validity.

### 3.4 Cross Loading

The indicator used is declared valid in the discriminant validity test if the value of the cross loading factor that is owned is the highest value for the variable in question compared to the cross loading factor for other variables (Table 4).

Based on the Table 4, the value of cross loading on each variable has a higher value when associated with cross loading to other constructs. This shows that each indicator is appropriate to explain its construct for each variable and proves the discriminant validity of all valid items.

### 3.5 Reliability Test

#### Composite Reliability

Composite reliability is used as a tool to identify all research variables that have a level of consistency and are adequate in measuring construct variables. Reliability testing is done by looking at the value of composite reliability and Cronbach alpha contained in each variable. The values that must be fulfilled so that each variable can be declared valid is  $>0.7$  for the composite reliability value and Cronbach alpha value.

Based on the Table 5, the variables as a whole have a composite reliability value of  $>0.7$ , so the variables are declared reliable. The results of the composite reliability test that have been carried out certainly need to be supported by Cronbach alpha testing to determine whether the variables used are fully reliable or not.

Based on the table, each variable as a whole has a Cronbach alpha value  $> 0,70$ , that the variable is declared to meet the criteria of composite reliability, supported by the Cronbach alpha test and it is stated that all variables are reliable (Table 6).

**Table 4.** Cross Loading Test Result

Variable	Competitive Advantage (Y)	Entrepreneur Capability (X)	Innovation Capability (Z)
X <sub>1</sub>	.828	.962	.688
X <sub>2</sub>	.747	.949	.694
X <sub>3</sub>	.726	.934	.631
X <sub>4</sub>	.822	.936	.674
X <sub>5</sub>	.713	.909	.660
X <sub>6</sub>	.822	.729	.853
Y <sub>1</sub>	.754	.467	.751
Y <sub>2</sub>	.824	.764	.794
Y <sub>3</sub>	.791	.793	.747
Y <sub>4</sub>	.943	.813	.779
Y <sub>5</sub>	.908	.792	.676
Y <sub>6</sub>	.944	.804	.730
Z <sub>1</sub>	.879	.819	.944
Z <sub>2</sub>	.828	.718	.953
Z <sub>3</sub>	.882	.833	.936
Z <sub>4</sub>	.683	.597	.872
Z <sub>5</sub>	.449	.389	.729

**Table 5.** Composite Reliability Test Results

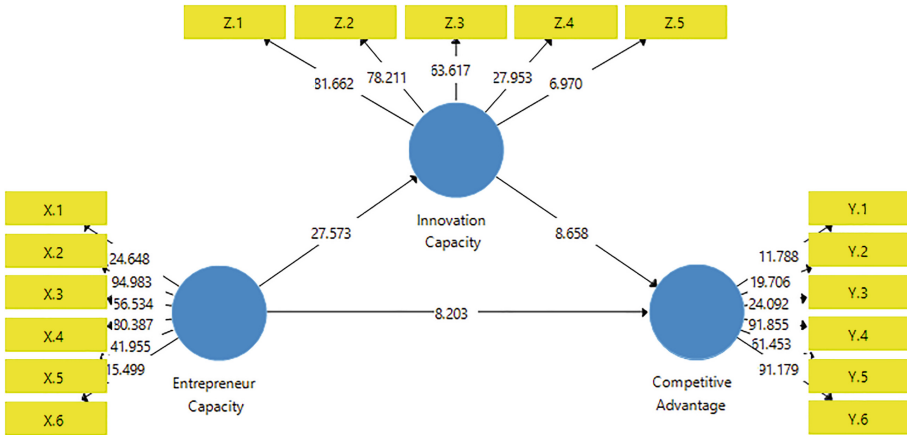
Variable	Composite Reliability	Information
Entrepreneur Capability	.965	Reliable
Innovation Capability	.950	Reliable
Competitive Advantage	.946	Reliable

**Table 6.** Cronbach Alpha. Test Results

Variable	Cronbach Alpha	Information
Entrepreneur Capability	.955	Reliable
Innovation Capability	.935	Reliable
Competitive Advantage	.930	Reliable

**Table 7.** R-Square ( $R^2$ ) Test Results

Variable	$R^2$	$R^2$ Adjusted
Competitive Advantage	.839	.835
Innovation Capability	.614	.610



**Fig. 3.** Inner Model Test Results using Smart-PLS 3

**3.6 Structural Model Test Result (Inner Model)**

Structural Model Testing aims to determine and measure the relationship between construct variables, significance and R-Square in a study.

**R-Square ( $R^2$ )**

Based on the test results above, it can be concluded that the competitive advantage construct variable has a strong relationship and can be explained by the entrepreneur Capability and innovation Capability variables of 83.9% and 16.1% can be explained by other variables outside the variables determined in this study. Whereas the construct variable innovation Capability has a strong relationship and can be explained by the entrepreneur Capability variable of 61.4% and 39.6% explained by other variables outside of this research variable (Table 7).

To see whether a hypothesis can be accepted or rejected in research, among others, by looking at the significance value tested between constructs, *t-statistics* and *p-values*. In testing the structural model, the significance value set is (two-tailed) *t*-value of 1.96 (significance level = 5%) and with the provision that the *t* statistic value must be >1.96 (Fig. 3).

Based on the results of the data test above, Original Sample of the influence of entrepreneur capability on Competitive Advantage is 0.491 (positive value) so it can be concluded that entrepreneurial capability has a positive relationship to competitive

**Table 8.** Coefficients Test Results

Variable Effect			(O)	(M)	(STDEV)	T Statistics	P-value
X	Y		.491	.491	.060	8,203	.000
X	Z	Y	.376	.378	.051	7,340	.000

Information:

O = Original Sample

M = Sample Mean STDEV = Standard Deviation

advantage, when entrepreneurial capability increases, competitive advantage will also increase for MSMEs. Then based on the results of the data test, there is a statistical t value  $> 1.96$  is 8,203 and P-values of  $0.000 < 0.05$ . Thus, it can be said that entrepreneur capability a significant effect the competitive advantage of MSMEs (Table 8).

Analysis of the path coefficients results test on the relationship between the construct variables in an indirect effect get the results that the variable *entrepreneur capability* to *competitive advantage* through Innovation Capability has a P-value of 0.000 with a significance of 0.05, t-statistic value of 7,340 the significance value set is (two-tailed) t-value of 1.96 (significance level = 5%) and Original Sample value is 0.376 (positive value) which shows that *entrepreneur capability* positive and significant effect on competitive advantage by *Innovation capability* an intervening variable. The results of testing the data can be concluded that entrepreneurial capability is able to mediate competitive advantage.

## 4 Discussion

Based on the results of this research data analysis shows that entrepreneurial capability has a positive and significant effect on the competitive advantage of MSMEs in Makassar City. This means that if MSMEs in Makassar City have high entrepreneurial capability, it will also have a high effect on increasing Competitive Advantage. MSMEs that have entrepreneurial capacity will try to find various alternatives and business strategies so that they can produce different competitive advantages that are not owned by their competitors. Increasing competitive advantage in Makassar City MSMEs can also be formed through good entrepreneurial capacity, because with good leadership skills in running a business, it will be able to move and direct MSMEs to have high competitiveness and generate competitive advantages. In accordance with the results of research conducted by Yusnita and Wahyudin (2017) who examined Micro Enterprises in Bangka Regency which showed that entrepreneurial capability influences competitive advantage in micro-enterprises in Bangka Regency [4].

The results of this study's data analysis also show that entrepreneurial capability has a positive and significant effect on the competitive advantage of MSMEs in Makassar City through innovation capacity. These results it can be concluded that innovation capability is able to mediate entrepreneur capability towards competitive advantage. A very important character possessed by an entrepreneur is the ability to innovate, where innovation in product development will produce its own value for the product so as to create a competitive advantage.



## 5 Conclusion

Based on the presentation of the results of the research and discussion that has been described previously, the following conclusions can be drawn:

1. Entrepreneur capability has a positive and significant effect on the Competitive Advantage of MSMEs in Makassar City with value of 0.491 (positive value), t-statistic of  $8.203 > 1,96$  and P-values of  $0.000 < 0,05$ .
2. Entrepreneur capability has a positive and significant effect on the Competitive Advantage of MSMEs in Makassar City through Innovation Capability with an value of 0,376 (positive value), t statistic value of  $7.340 > 1,96$  and P values of  $0.000 < 0,05$ .

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