



# Performance Improvement Strategy through Product Innovation and Competitive Advantage

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**Abstract.** This research examines the influence of product innovation and competitive advantage on SME performance. In this research, survey data collection techniques were used with a population of all SMEs in the North Toraja area, South Sulawesi. The sampling method was simple random sampling of a total of 100 respondents. The statistical method used is path analysis. Using AMOS software with research results showing that: (1) there is a positive and significant influence between product innovation and competitive advantage (2) there is a positive and significant influence between product innovation and SME performance, (3) and there is a positive and significant influence between competitive advantages on SME performance.

**Keywords:** MSEs, product innovation, competitive advantage, performance

## 1 Introduction

Micro, Small and Medium Enterprises (MSEs) have an important role in the national economy because they are a component of national industry so they can increase economic growth. Apart from that, the role of MSMEs is very influential, especially on sources of income for low-income groups and the provision of labor so that this reduces poverty levels. However, in this village the environment for MSMEs is increasingly tough, especially due to the criticality of consumers in choosing products and competition is getting tougher so that MSMEs are required to improve product quality and be innovative in choosing the products they market. Product development or product innovation is an indicator of current market competition. With products and product innovation that are right on target, it will improve the quality of MSMEs in the eyes of the public. However, the direct impact will be felt by MSMEs due to an increase in sales, market share and profits for MSMEs. This states that competitive advantage is when you have an advantage over competitors and are able to exist in the market (Retnowati & Mardikaningsih, 2021). Therefore, the success of competitive strategy leads to competitive victory over market competitors and product innovation.

Competitive advantage comes from several activity indicators, namely product design, production process, marketing activities, distribution, market acceptance. Absolute competitive advantage is very influential at all scales to ensure that their products can survive (Fatimah et al., 2018) There are three conditions for the development of small and medium enterprises. That is, (1) entrepreneurial conditions,

technology and relationships, (2) business-related conditions, capital structure and corporate culture, and (3) environmental conditions, choice. strategy (Pono, 2018).

Based on data from the Directorate General of Treasury of the Indonesian Ministry of Finance (KPPN MAKALE), it is stated that MSMEs are believed to have high economic resilience so that they can support the stability of the financial and economic system. The sectors that receive the largest composition of distribution are the agriculture, hunting and forestry sectors, followed by the wholesale and retail trade sectors at 65% and 23% respectively of the total KUR distribution. If it can be developed well, it can improve the economy and welfare of local communities, so that poverty rates can be controlled.

In general, the decline in the indicators of small and medium enterprises is caused by capital limitations, difficulties in selling products, production issues, human resources and the use of traditional technologies. Therefore, it is necessary to increase and develop businesses that require appropriate strategies to produce creative products that are of high quality and are in demand by the public so that they can compete.

This research aims to test performance improvement strategies for product innovation and competitive advantage. Product innovation. Because innovation allows companies to differentiate themselves and their products from competitors, innovation can provide a way for companies to create a competitive advantage.

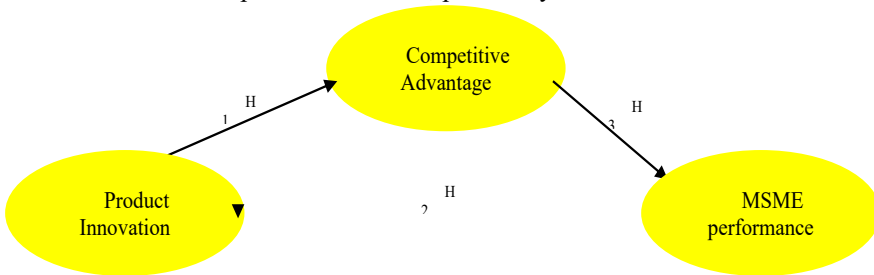
Competitive strategy is this: "Competitive strategy is about differentiation. It involves the conscious choice to do things differently or to do things differently than competitors in order to provide a unique combination of value" (Porter, 1980). The meaning of this statement is that the SME's activities are focused on carrying out the different activities of its competitors, including providing a unique combination of value from others, such as the SME's expertise and resources. Meanwhile, according to Kotler (2007), competitive advantage is an advantage obtained by offering greater value to customers, lower prices, or more benefits commensurate with higher prices compared to other competitors, thus creating diversity that can be consumer choice. Companies that continually focus on improving productivity and performance are likely to be in a better competitive position, which will ensure that the company has a solid capital base from which to continue to compete with other companies. Based on data obtained from the North Toraja MSME Cooperative Industry Service, the number of MSMEs recorded reached 3,658 business units. The need for food is a basic human need and the large population of North Toraja makes this business quite popular, so that the number of people involved in this business continues to increase every year. The driving force for increasing profits for MSMEs in North Toraja is the high number of tourists visiting for tourism. Especially for the agricultural sector which really supports the increase in MSMEs in North Toraja, such as Toraja Coffee which is well known abroad.

## 2 Research Methodology

This study investigates the impact or relationship between product innovation and competitive advantage on small business performance. The study was conducted in

the North Toraja region of South Sulawesi. The object of this research was chosen because the Toraja region is one of the cultural icons and tourism centers in South Sulawesi which has its own attraction for tourism in Indonesia. North Toraja is the northern part of South Sulawesi, and takes 8-9 hours to travel from the capital city of South Sulawesi, namely Makassar, with a distance of 320 km. Toraja's existence in terms of tourism potential means that other regions also have a positive impact, thus having an impact on improving the community's economy. This research was conducted for 2.5 months.

The population selected in this research were Small and Medium Enterprises (UKM) in Toraja according to data from the industry department, while the sample was determined using a random sampling method with a sample size of 100 respondents. Sampling is aimed at business voters. Therefore, the analysis technique used in this study to identify and verify the relationship between variables is path analysis. To test the existence of relationships between exogenous and endogenous variables in the model created and to explain the existence of direct and indirect influences from a set of specified variables, path analysis is used.



The test results can be shown in the following table.

Table 1. Regression Weights (Group number 1 - Default model)

			Estimate	S.E	CR	P
C.A	<---	PI	1,789	2,862	,424	,001
PB	<---	PI	.017	,057	2,569	***
PB	<---	C.A	,573	,925	1,523	,003

Based on the results of AMOS processing in testing the existence of a relationship and the level of significance is shown in the Regression Weight table (path coefficient) at a probability level value < 5%.

- Based on the test results, looking at the probability value of 0.001 shows that this value is smaller than 0.05 at the significance level, so that the hypothesis built can be concluded that H1 is accepted and H0 is rejected. So the product innovation variable has a direct positive and significant influence on competitive advantage.
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- Based on the test results, looking at the probability value of 0.001 shows that this value is smaller than 0.05 at the significance level, so that the hypothesis built can be concluded that H1 is accepted and H0 is rejected. So the competitive advantage variable has a positive and significant direct influence on improving the performance of MSEs in North Toraja. With the significant influence of competitive advantage on improving the performance of MSEs, it can be interpreted as an indirect influence between product innovation on improving the performance of MSEs.

Based on the results of statistical tests, it shows that product innovation has a positive and significant effect on the competitive advantage of SMEs in Toraja. The demand for a product requires entrepreneurs to develop the use of technology, especially in the fields of marketing and development. From a management perspective, developing and expanding the production and marketing division is considered a strategic step to increase efficiency in small and medium businesses. Product innovation is change that involves activities that add to or improve existing resources, modify them to create something of value, create something new and different, convert materials into resources, and combine all resources into new, more productive configurations. We strive to gain competitive advantage.

The role of innovation is an important aspect that can provide added value in helping companies gain competitive advantage. Companies need to develop formal and comprehensive strategies when implementing innovation. This strategy makes your company's innovation goals visible by explaining what and how you will innovate. Companies that are trying to survive develop strategies to produce products that sell on the market. The competitive advantage perspective refers to a company's position relative to its competitors and seeks to shape the company's current performance. Companies that continue to focus on performance and try to improve performance can achieve a better competitive position, which provides the company with stronger capital so that it can continue to compete with other companies (Droge and Vickrey, 1994).

The higher the level of innovation created by a business, the greater the competitive advantage and efforts to continue to maintain the business in business competition. Maintaining efforts and these efforts will improve business operational performance.

### **3 Conclusion**

Product innovation has a positive and significant impact on competitive advantage, which shows that the hypothesis developed by the researchers can be accepted. Product innovation has a direct effect on improving the performance of multinational companies, which shows that the hypothesis developed by the researchers can be accepted. Then, competitive advantage has a positive and significant influence on

improving MSE performance and can indirectly explain the relationship between product innovation and improving MSE performance through competitive advantage, indicating that the hypothesis developed by researchers can be accepted.

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