A Competitive Strategy Quality System of SME's Handicraft Products in a Development Country (Study in Central Java Province, Indonesia)

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Abstract: - SMEs in developing countries often face the problem of the policy determining the competitive strategy quality system to develop business performance. Analyzing how to improve the performance of handicraft SMEs within the context of the effect of the competitive strategy and quality system of SMEs is required to address the issues raised above. Thus, a research model was developed using four research variables: strategic asset quality, adaptability, the entrepreneurial orientation of SME owners, and competitive strategy quality. Data regarding the variables studied used a structured questionnaire so that the structured statements in the questionnaire were able to answer the research variables, which 110 handicraft owners then answered in Central Java Province, Indonesia. Following the collection of the data, the structural equation modeling (SEM) method was used to analyze it. The model created for this study is a fit, according to the findings of the model testing. The competitive strategy quality system is positively and significantly impacted by the analytical findings about the role of strategic asset quality, environmental adaptability, and entrepreneurial orientation. According to the results of the hypothesis, enhancing the capability of asset quality indicators and the company's environmental adaptability may be used to improve the competitive strategy quality system of the Handicraft Product Small Business Group in Central Java Province, Indonesia.

Key-Words: - SMEs, handicraft, competitive, quality, entrepreneurial orientation

1 Background

In general, SME's in developing nations frequently struggle with financing, marketing, knowledge gaps, and low-quality human resources. Mastery of knowledge is a key aspect to increase competitiveness in the face of rising competition. The main flaw of SME's is this. Both internal and external variables have an impact on the low levels of knowledge mastery in SME's, [1]. Internal causes include (1) a lack of awareness and desire to use the proper information, (2) a lack of funding to advance technical expertise, (3) a lack of commercial savvy, and (4) a lack of access to technological resources. (1) The outcomes of research and development that are not yet suited for the growth of SMEs are an external element,

According to, [2], to face the challenges faced by SME's is necessary to have various new market breakthroughs, the determination of accurate market strategies, improvement of the system of product quality, and the competitiveness of the products produced. These factors may be summed up by putting into practice the appropriate marketing plan to obtain a competitive advantage, which is created by tying the business to its surroundings. The industrial environment in which the business competes is the primary component of the firm's environment, even though the relevant environment is quite wide and includes both social and economic influences, [3].

The strongest factors in industrial rivalry will define and become crucial in terms of the effectiveness of developing competitive strategies, [4]. This will ultimately determine the activities necessary for a company to excel, such as innovation, a cohesive culture, or the implementation of a good marketing strategy, [5]. However, these competitive factors can also be a source of failure if the company does not succeed in overcoming the competitive forces that exist in the industry through the quality of the competitive strategy that has been formulated.

In general, SMEs frequently struggle with issues related to financing, marketing, a lack of knowledge, and weak human resources. Knowledge mastery is a crucial component to boosting competitiveness in the face of growing competition, [6]. The main flaw with SMEs is this. Both internal and external variables have an impact on the poor level of knowledge mastery in SMEs. According to the findings of earlier studies, the issues that SMEs frequently confront mostly relate to the policy in defining the quality of competitive strategies to grow firm performance, [7].

2 Literature Review

2.1 Strategic Assets
The uncertainty and turbulence of the organizational environment can be identified through its dimensions: dynamics, complexity, and scarcity of resources, [8]. The volatility of environmental changes tends to be higher and its contributors are not easily predicted with accuracy, [9]. Uncertainty also occurs due to the scarcity of key resources for the creation of added value and competence in today's society, namely knowledge or wisdom, and attention. A strategic asset is anything that a firm has, such as a brand name or technical innovation, network connections, corporate social responsibility activities, or better customer management techniques, [10]. Today there has been growing recognition that the only resource that can provide a sustainable competitive advantage for organizations lies in the ownership of intangible resources. In the HR Scorecard, the ownership of intangible assets will provide tangible benefits/ profitability, [11]. Intangible strategic assets owned by an organization include human resource competence, knowledge management, organizational capability, and experience (CEO), [12].

2.2 Capability
The study, [13], suggests three levels of capabilities, namely static capabilities, dynamic capabilities, and metaphysical capabilities. Static capabilities reflect the company's ability to perform key functional activities, plant layout, logistics, and advertising more efficiently than competitors, [14]. Dynamic capabilities are related to the dynamic renewal of company activities or the company's ability to learn, adapt, change, and make continuous updates. Organizational capabilities are defined as competencies or abilities to work effectively on specific tasks and goals, including the ability to transfer knowledge and skills to new tasks and

situations as well as the motivation to hone these abilities and capabilities, [15]. These competencies and abilities result from a set of relevant attributes, such as knowledge, abilities, skills, and attitudes that develop and see within the organization.

Resource-based competencies can be understood as capabilities based on human and non-human assets, tangible assets, and intangible assets, which enable a company to outperform its competitors for a sustainable period. These competencies, such as innovation capabilities, include technological innovations, marketing innovations, and managerial innovations that have the potential to create an organization, [16].

The process of identifying and putting plans into action may be referred to as strategic management. Strategy is a method of resource allocation that enables firms to retain performance. A comprehensive plan for the utilization of resources to establish a lucrative position is another way to define strategy. To establish a competitive edge, strategic management participates in the formulation and execution of strategies, [17]. Durand (2017) suggests four approaches to developing and utilizing competencies, namely (1) reinforcement in utilization; (2) "synergetic fit"; (3) access through network utilization ("networking access); and (4) adaptability.

3 Research Methods
Purposive sampling is used in this research methodology. The respondents are chosen for this study depending on the researcher's considerations, which is why. Regression weight on SEM, an analytical tool utilized in this study, is used to assess the strength of the association between the variables. A route diagram is used to describe the research model. This will make it simpler to understand how the testable variables are related causally. Using Average Variance Extracted (AVE), also known as convergent validity, is a measurement of the distribution of variance between a construct and its indicators. If the construct has an AVE with a minimum threshold of 0.5, convergence validity is fulfilled.

Data regarding the variables studied used a questionnaire that was structured in such a way that the structured statements contained in the questionnaire were able to answer the research variables which were then answered by 110 respondents who owned handicraft craftsmen in Central Java Province, Indonesia. The collected data was then analyzed using the Structural Equation Modelling (SEM) analysis technique.

4 Research Result

4.1 Respondents by Age
Based on research collected through questionnaires, the profile of respondents according to age is obtained in Table 1.

According to how the questionnaire was distributed, 60% of respondents who are over 40 are UMKM Batik enterprises.

4.2 Respondents by Educational Level
Based on the research collected through the distribution of questionnaires, the profile of respondents according to education level was obtained in Table 2.

According to the distribution of this poll, 54% of respondents who are Batik UMKM business owners had a high school or technical education. The business length and characteristics are presented in Table 3 and Table 4 respectively.

Table 1. Respondents by Age

No	Respondent Age	Frequency	Percentage
1	< 35 years old	12	8
2	35 - 40 years	16	10
3	40 - 45 years	32	21
4	> 41 years old	70	60
	Total	150	100

Source: Data processed 2022

Table 2. Respondents by Education Level

No	Level of education	Frequency	Percentage
1	Elementary School	5	2
2	Junior High School	25	16
3	Senior High School	67	54
4	College	43	28
	Total	150	100

Source: Data processed 2022

Table 3. Business Length

No	Length of business	Amount	percentage
1	Up to 5 years	8	5
2	>5 -10 years	22	15
3	More than 15 years	115	80
		150	100

Source: Data processed 2022

Table 4. Business Characteristics

No	Produced product	Amount	percentage
1	Clothing Batik Material	40	27
2	Batik material only	63	42
3	Bag	17	11
4	bed sheets	12	8
5	Other clothing products	18	12
		150	100

Source: Data processed 2022

The characteristics of the respondent's business are seen from the length of business, the type of product produced, the form of the company, the target market, and the number of employees. When viewed from the length of business, most of the respondents (80%) have been running their business for more than 15 years from generation to generation from their parents. The duration of business is less than 5 years and more than 15 years respectively. The majority of respondents produce all products made from batik materials only (42%), besides batik clothing (27%) in addition to other products produced: bags, bed linen, and other clothing products, and the majority sell their products throughout Indonesia. Like other SMEs, the majority of respondents have no more than 10 employees and most of them are shop employees

4.3 Confirmatory Factor Analysis

The purpose of the confirmatory analysis is to test a concept that is built using several measurable indicators. This stage describes the measurement of the dimensions that make up the latent variables in the study. The first and second confirmatory factor analyses are part of the confirmatory analysis. Exogenous variables in Confirmatory Factor Analysis 1 include integration approach, adaptability, reliance, and trust. Figure 1 below shows the findings of this investigation
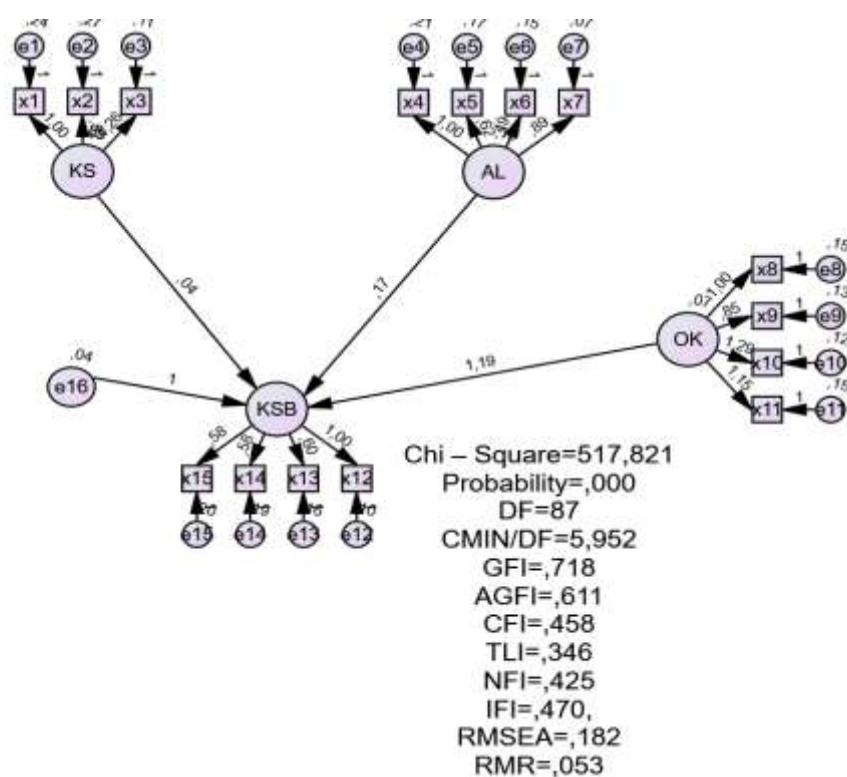

Chi – Square=517,821
Probability=,000
DF=87
CMIN/DF=5,952
GFI=,718
AGFI=,611
CFI=,458
TLI=,346
NFI=,425
IFI=,470,
RMSEA=,182
RMR=,053

Fig. 1: Confirmatory Factor Analysis

Table 5. The Goodness of Fit Index

Goodness of Fit Indeks	Cut off Value	Hasil	Evaluasi Model
Chi-Square (df = 112)	Kecil (<137.701)	135.125	Good
Probability	≥ 0,05	0,062	Good
RMSEA	≤ 0,08	0,046	Good
GFI	≥ 0,90	0,863	Marginal
AGFI	≥ 0,90	0,815	Marginal
CMIN/DF	≤ 2,00	1.212	Good
TLI	≥ 0,95	0,955	Good

Table 6. Standardized Regression Weight Structural Equation Modeling

			Stand Estimate	Estimate	SE	CR	P
KSB Competitive Strategy Quality System	<---	KS Competitive Strategy Quality System	0.32	0.41	0.126	2.231	0.032
KSB Competitive Strategy Quality System	<---	AL Environmental Adaptability	0.187	0.175	0.88	3.185	0.047
KSB Competitive Strategy Quality System	<---	OK entrepreneurial orientation	0.820	1.191	0.228	2,224	***

Source: Summary of primary data processed 2022

Based on the findings shown in Table 3, it can be concluded that the value of Chi-Square 135.125 has a probability of 0.061, while the other feasibility indices are likewise within the predicted range. This issue demonstrates that there is no difference between the sample covariance matrix and the matrix, which makes it impossible to reject the predicted population covariance and allow this model to be used.

The Goodness of Fit Index is presented in Table 5. Similarly, the standardized Regression Weight Structural Equation Modeling is presented in Table 6.The model hypothesis test shows that the model used is fit as seen from the significance level of the chi-square model big as 84.25, and the value of Goodness of Fit (GFI) is 0.718. The value of CR is 2.231 with a probability of 0.032, according to the parameter estimate for examining the impact of strategic asset quality on the quality of competitive strategy. The variable strategic asset quality has a positive and substantial impact on the effectiveness of the competitive strategy system, as shown by the P value (significance) of 0.05.

5 Discussion

5.1 The Influence of the Strategic Asset Quality Variable on the Quality of SME's Competitive Strategy Quality System

The quality of the competitive strategy is highly influenced by the asset quality variable, according to the findings of the hypothesis testing, which may be explained. The findings of this study corroborate those of Kamener's research (2017), which states that to be able to compete, business actors must consider the quality of strategic assets because strategic assets affect the quality of competitive strategies in Central Java Province. The better the quality of strategic assets, the better the competitive strategy of SMEs in the Batik fashion creative industry. Strategic assets are all resources owned by the company that become the company's strength in the face of competitors; this study uses three indicators, namely the quality of tangible and intangible assets.

Tangible strategic assets are strategic assets that can be seen in their form, such as trademark names, financial resources, locations, and so on. Giving a unique trademark, strong financial resources, and choosing a strategic location for example can be a driving factor for improving the quality of its competitive strategy. The capacity to master materials standards, access to financial institutions or partnerships, improvements to the brand and manufacturing facilities, as well as developing an appropriate location plan, may all be used to raise the quality of physical assets.

In terms of the impact of intangible strategic assets, the quality is increasing intangible strategic assets, the higher the quality of the competitive strategy. Improvements to the logo, increasing the competence of human resources, knowledge management, and company experience will increase the ability of SMEs to develop competitive strategies. Meanwhile, increasing organizational capability is carried out by improving services, always trying to develop products, and improving vertical and horizontal coordination. These results support the research of Zabadi (2012) which stated that for SMEs, product identity is very important for companies and has a significant effect on product marketing.

5.2 The Effect of Environmental Adaptability Variables on the Competitive Strategy Quality System

It may be explained that the environmental adaptation variable has a substantial impact based on the findings of hypothesis testing. a competitive strategy's quality, with an influence level of 0.255. The more adaptive batik SMEs to change the environment, the quality of competitive strategy will

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also increase. This is in line with Kamener's research (2017) which states that companies must able to align the company's capabilities with its environment. This is also consistent with the study by Grace George et al. (2022), which found that organizations that are highly flexible and adaptive to their external environment do better than those that are less flexible and less adaptive.

Efforts to increase adaptation to the environment are carried out by understanding customers, suppliers, dealers, and competitors. For batik SMEs, efforts to understand customer needs are carried out by constantly updating motifs, models, materials, prices, and customer tastes either through research or following the development of these indicators. Analyzing dealer needs This is done by considering factors related to dealer loyalty to the company, such as price and service. While the analysis of competitors is done by observing the trends that develop in the batik industry.

5.3 The Influence of the Entrepreneurial Orientation Variable on the Competitive Strategy Quality System

The quality of a competitive strategy is significantly influenced by the orientation variable entrepreneurship, with a degree of influence of 0.161, according to the findings of hypothesis testing, which may be explained. The quality of SME lunches will increase in direct proportion to the degree of entrepreneurial orientation. The findings of this study concur with the research of Huynh (2022), which states that innovation and the courage to take risks which are characteristics of entrepreneurial orientation affect sustainable competitive advantage. Likewise, the results of research by Marcella, et.al (2022) state that companies with a good entrepreneurial orientation will be able to improve performance. Increased entrepreneurial orientation is carried out by increasing the company's ability to innovate (innovativeness), increasing courage in taking risks (risk-taking), and taking advantage of every opportunity (proactiveness). Courage in taking risks, for SMEs batik is done by expanding the market to potential consumers such as teenagers and children, producing batik with motifs contemporary motifs that are out of the norm. Taking advantage of opportunities can be done by actively seeking information related to Batik and its Batik products.

6 Conclusions and Recommendations

The quality of SME's competitive strategy is at a quality level. The batik SME actors in Central Java Province, Indonesia can compete with similar business actors, both with fellow business actors in the same area and business actors from other regions who market to the same consumers.

The quality of the competitive strategy is supported by the value of the product produced, the product is also at a fairly high level of scarcity, and the product is quite difficult. The quality of a competitive strategy can be positively and significantly influenced by the variables of strategic assets, environmental adaptability, information technology adaptability, and entrepreneurial orientation, either jointly or separately. The variable quality of strategic assets has the biggest impact on the effectiveness of the competitive strategy.

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Contribution of Individual Authors to the Creation of a Scientific Article (Ghostwriting Policy)

The authors equally contributed to the present research, at all stages from the formulation of the problem to the final findings and solution.

Conflict of Interest

The authors have no conflict of interest to declare.