

# The Influencing Factors of Competitiveness in Small and Medium Enterprises in Indonesia

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## ABSTRACT

SMEs (Small and Medium Enterprises) plays important role in national economy. It is shown by development of small enterprises in Indonesia, especially in rural such as Songkok centre. The role of marketing becomes very important for SMEs because of the rapid business competition conditions. The main aim of this research is to analyse the effect of entrepreneurial marketing and marketing performance on competitiveness.

Study case of this research was conducted in SMEs Songkok centre located in Lamongan District, East Java, Indonesia. Songkok is a Muslims' symbol of identity, considering that Indonesia has the biggest Muslims population in the world so it is expected to enhance the selling. Taking sample was conducted with census method by fulfilling questionnaire given induration of about 30 days. There were 75 respondents. In this research, indicator that is used in entrepreneurial marketing included a concept, method, strategy, and market intelligence. Marketing performance variable consisted indicators of entrepreneurial orientation, technology orientation, customer orientation, competitor orientation and inter-functional coordination. Competitiveness variable consisted indicators of price, quality, delivery and product line.

Analysis method of data was processed by using SEM-PLS (Structural Equation Modelling-Partial Least Square). The result of this research showed that there was positive effect between entrepreneurial marketing variable and marketing performance on competitiveness in SMEs of Songkok centre in Indonesia. Entrepreneurial had positive effect on marketing performance of 11.303. Then, entrepreneurial marketing had positive effect of 4.141. Whereas marketing performance toward competitiveness had the lowest effect of 2.659. The result became a benchmark in developing Songkok business, including in marketing system which was applied by entrepreneurs.

**Key Words:** SMEs, Entrepreneurial marketing, marketing performance, competitiveness

## 1. INTRODUCTION

### 1.1 Background

Reported by Bank Indonesia (2015), SMEs plays an important role for economic in Indonesia. SMEs have proportion of 99.99% from total of entrepreneurs in Indonesia or it is amounted 56.54 million units. SMEs are able to prove its existence in economy in Indonesia. The phenomenon of SMEs' development can be used as

benchmark of national economy, especially in each province in Indonesia.

According to the Ministry of religion (2015), Indonesia is a country with the biggest population of Muslims in the world. There are 240 million people or 88.2% are Muslims. According to Balafif et al (2016), the most typical in the life of Islamic society is the use of Songkok. Songkok is symbol of a Muslim. Therefore, most people consider that Songkok is the primary need so it

makes Songkok industries continue to appear.

The obstacles which are often faced by SMEs are market access. Thus, it needs to build better marketing system (Chrismardani, 2014). Based on Sarma (2013), the fairly new concept and becomes hot issue in marketing is Entrepreneurial Marketing. The concept tends to be more proactive toward market because the role of entrepreneurs is very strong in making custom of customers' needs. According to Stoke (2007), Entrepreneurial marketing is more appropriate concept approach which is reviewed from resource limitation and issues in SMEs.

Many competitions in business world force entrepreneurs of Songkok to revitalize the marketing system in order to be able to compete with other entrepreneurs. Based on Sekda (2017) marketing performance is defined as procedure which is directly relevant to business decision that leads to competitiveness. Ahmedova (2015) explains that competitive ability can create sustainable competitive advantage. It leads to higher and long-term performance. Septiani (2013) suggested that to be able to maintain and sustainable, SMEs need to concern about business competitiveness or product competitiveness. Competitiveness refers to enterprise's ability to respond flexibly, quickly and sustainably in changes of requests/demands, the availability of technology and resource as well as competitive action of enterprise (UNESCA, 2009). The aim of this research is to analyse the effect between entrepreneurial marketing variable and marketing performance on competitiveness in SMEs of Songkok centre in Indonesia.

### **1.2 Formulation of the Problem**

From the background above, the formulation of the problem in this research is as follow:

How entrepreneurial marketing affects marketing performance?

How entrepreneurial marketing affects competitiveness?

How marketing performance affects competitiveness?

## **2. LITERATURE REVIEW**

### **2.1. Songkok Craft and Its Potential**

Majority of population in Indonesia is Muslim. It has a big influence in Indonesians' lives. One of types in life of Islamic society is the use of Songkok. Songkok is a symbol of Muslim. Thus, it is a need that most people consider as primary need. It makes Songkok industries continue to appear.

According to Balafif et al (2016), Songkok currently becomes symbol of identity for Muslims so many people use national songkok of Indonesia. It is because majority population in ASEAN is Muslim, so Songkok industries play important role in obtaining additional foreign exchange for the country. Therefore, it needs good attention from both government and private sector to develop Songkok industry.

Songkok which is also called peci or kopiah is a traditional cap for Malay people. In Indonesia, Songkok is well-known as peci then it becomes national usage and it used by Muslims. For Indonesian Muslims, Songkok becomes formal cap to attend important ceremonies such as wedding, Friday prayer, religious ceremonies, Eid Al-Fitr and Eid al-Adha. Songkok is also worn as complementary Malay traditional clothes to attend certain meetings. Thus, Songkok has potential in developing business and increase seals.

### **2.2 Entrepreneurial Marketing**

Several variations have been appeared in researches about entrepreneurial marketing. The diversity occurs not only in entrepreneurial marketing definition, but also relates to used measurement method (dimension). This research refers to Stokes (2007) who suggests that there are four entrepreneurial marketing principles which are divided into concept, strategy, method, and market intelligence. Principles of Traditional marketing and entrepreneurial marketing can be seen in Table 1 as follow;

**Table 1. Principles of Traditional Marketing and Entrepreneurial Marketing**

Principle of marketing	Traditional Marketing	Entrepreneurial Marketing
Concept	Customer-oriented; market encouragement, product development	Innovation-oriented; idea encouragement, intuitive estimation about market needs..
Strategy	Top-down approach (segmentation, targeting, and positioning).	Bottom-up approach from customer and other influence groups.
Method	Mix Marketing 4P/7P	Method of interactive marketing, word of mouth marketing and direct selling.
Market intelligence	Formal research and intelligence system	Informal network and collecting information

Source: Stokes, 2007

Table 1 explains that concept of entrepreneurial marketing is focused on innovation and idea development according to understanding of market needs. Traditional marketing assumes that an estimation of customers' needs reflect product or service development. Entrepreneur targets customer through bottom-up approach to market, not through segmentation process, targeting and top-bottom positioning from traditional marketing. Entrepreneurial marketing tends to use interactive marketing that works closely with customer and uses word of mouth to mouth to find new customer. Entrepreneurial marketing is depicted by collecting informal information through personal contact network and it is different from traditional marketing that collects systematic market intelligence. Marketing is a common thing for entrepreneur, but it is not always based on conventional marketing theory. Entrepreneurial marketing can improve entrepreneur strength by reconditioning that entrepreneur aspect can be included in marketing principle. According to Keeh et al (2007), entrepreneurial marketing is a marketing aspect that emphasizes the needs and develops network that can supports enterprise.

### 2.3 Marketing Performance

Best (2009) reveals that marketing performance is marketing metric recording customer behaviour then it will become indicator of financial performance. Whereas Kotler & Keller (2012) explained that marketing metric is measure device that assists enterprise to calculate, compare and interpret marketing performance. It can be

concluded that marketing performance is a measure device which is used to assess and evaluate marketing activities that can directly perceived by customer.

Business performance is the result of business strategy called as marketing performance in market process. According to Tutar et al (2015), achieving superior business performance is a central area in marketing and strategic management. Business performance is the result of business strategy called as marketing performance in market process. Asomaning and Abdulai (2015) explained that if market orientation is determined to organization, it will lead to improvement of performance.

### 2.4 Competitiveness

Kaur et al (2016) assumes that competitiveness is based on how good the performance of organization. In this context, competitiveness can be considered as ability in allocating availability resource efficiently. Lantu et al (2015) explains, to enhance competitiveness, SMEs must have competitive ability. Competitiveness measurement can be seen from some perspective. According to Kaur et al (2016) and Kumar et al (2017), it is important for success competitiveness, in giving higher value to customer, enterprise must compete in efficient operation, cost and quality that are effective to give higher pleasure to customer than competitor.

## 3. RESEARCH METHOD

### 3.1 Method of Taking Sample

Taking sample used in this research is through census, in which researcher deployed Likert scale questionnaire 1-4 to all Songkok entrepreneur. They had about

30 days to fulfil the questionnaires. There were 75 respondents in Songkok central Lamongan District, East Java Province, Indonesia.

### 3.2 Method of Data Analysis

Method of data analysis was conducted by using SEM PLS (Partial Least Square). Based on Mattjik and Sumertajaya (2011), Structural Equation Modelling (SEM) is a statistic analysis that can answer problems (problems of measurement and causal relation among variables). Research modelling through SEM enables an individual to be able to answer questions either regression question or dimensional (it measured concept of dimensions). According to Jogiyanto and Abdillah (2015), PLS is variant based structural

equation analysis (SEM) that simultaneously can conduct test of measurement model and test of structural model. Specification model of PLS in path analysis consists of three types of relation, which are inner model, outer model and weight relation. This research used second order confirmatory factor analysis. Ghazali (2015) added, second order construct had two stages, first, analysis was conducted from latent dimension construct to the indicators and second, analysis was conducted from latent construct to the construct.

### 3.3 Definition of Variable Operational

Definition of variable operational used in this result can be seen in Table 2 as follow

**Table 2. Definition of Variable Operation**

Variable	Sub Variable	Definition
Entrepreneurial Marketing (EM) (Entrepreneurial Marketing is marketing from small enterprises (IKM) which develop trough entrepreneur” (Bjerke and Hultman, 2002))	Concept (K)	In business orientation, entrepreneurial marketing focuses on innovation orientation and the existence of idea and intuition as device to assess market need (Stokes, 2007)
	Strategy (S)	In strategic value, entrepreneurial marketing practices bottom-up process or provide the product according to clients’ demand. STP concept is not determined by IKM because market target is formed from elimination process and natural selection by clients. (Stokes, 2007)
	Method (M)	In tactical level, entrepreneurial marketing is not proper in adopting 4P because entrepreneurs adopt interactive marketing approach or directly contact customers. (Stokes, 2007)
	Market Intelligence(IP)	In monitoring marketing environment, entrepreneurship used informal method such as self-observation or using existence network (Stokes, 2007)
Marketing performance (KP) (Marketing performance is metric market recording customer behaviour then it becomes indicator in financial performance).	Entrepreneurial Orientation (EO)	Enterprise tendency to find new opportunity of market. Strengthen and restore currently market status (Tutar, 2015)
	Technology Orientation (TO)	An ability of enterprise to establish strong technology infrastructure and use it in developing product (Tutar, 2015)
	Customer Orientation (CO)	Customer orientation asks enterprise to understand and satisfy customer needs for obtaining the result in form of profit (Asomaning and Abdulai,2015)
	Competitor Orientation (COM)	Focus on competitor can enable enterprise to respond market and meet customer needs better than the competitor (Asomaning and Abdulai,2015)
	Inter-functional Coordination (IO)	Through inter-function coordination, it ensures communication among functional areas that assist to create market condition effectively, create customer value and serves customer in either internal or external. (Asomaning and Abdulai ,2015)
Competitiveness (DS) (Sakda (2017) and Ahmedova (2015), competitiveness is the most important condition for overall business prosperity to obtain income and high sustainable employment level	Price (P)	Offering competitive price, whether enterprise can compete based on price or offer as low as their competitor (Kaur et al 2016).
	Quality (Q)	Product quality used included aspects such as product performance, durability and reliability (Kumar et al 2017)
	Delivery (D)	Delivery performance depends on two aspects. In general those are time and volume that will be delivered (Kaur et al 2016)
	Product Line (PL)	Provides some bigger products, many new products and ability to change in product design and makes product line becomes important as main priority. (Kaur et al 2016)

Source: processed from many literature (2018)

### 3.4 Research Model

SEM-PLS analysis was used to find out direct effect among entrepreneurial marketing variable and marketing performance toward competitiveness. SEM-PLS research model can be seen in Figure 1 as follows.

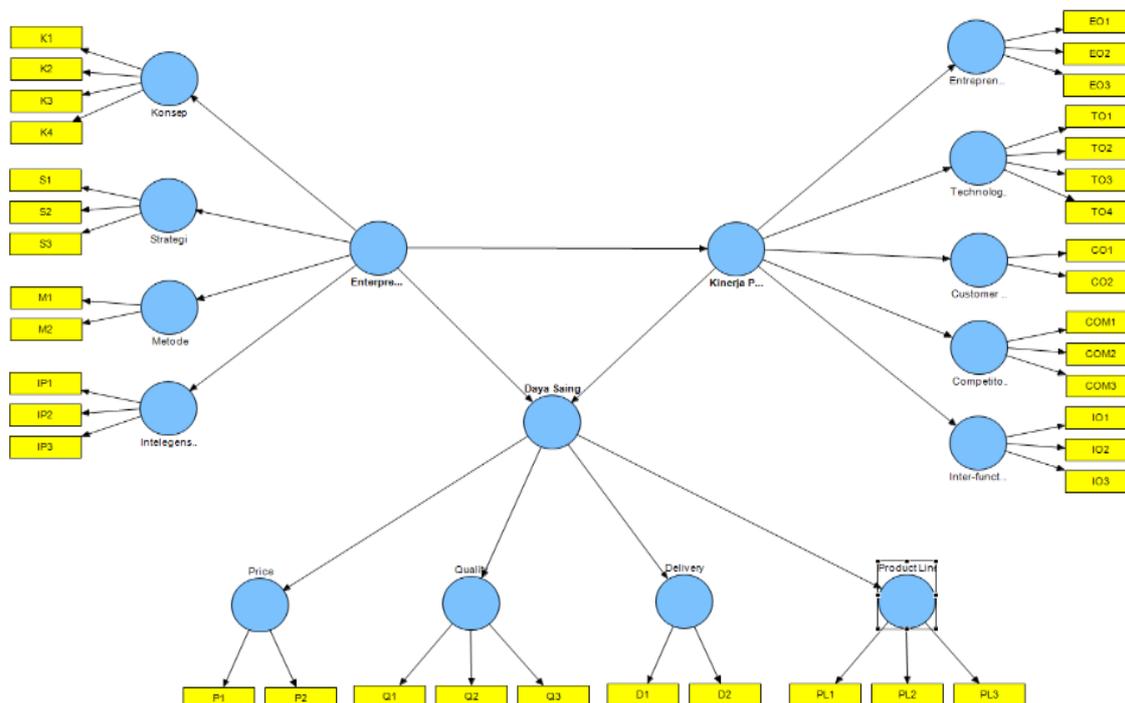


Figure 1. SEM-PLS Research Model

### 3.5 Hypothesis

Based on research model, hypothesis in this research as follow:

H1: Entrepreneurial marketing affects positively competitiveness in SME of Songkok centre in Indonesia

H2: Entrepreneurial marketing affects competitiveness in SME of Songkok centre in Indonesia.

H3: Marketing performance affects directly competitiveness in SME of Songkok centre in Indonesia.

## 4. RESULT AND DISCUSSION

Latent variable in this research consisted of three main variables as follow: entrepreneurial marketing, marketing performance and competitiveness. Each latent variable had manifests (indicators) as explained in previous operational variable. In order to find out effect among the variables, analysis of SEM PLS was conducted and it would be tested by assessing outer model (evaluation of

measurement model) and inner model (evaluation of structural model).

### 4.1 Evaluation of Measurement Model (Outer model)

In evaluation of measurement model (outer model), examination of validity and reliability data would be conducted in each latent variable which were entrepreneurial marketing, marketing performance and competitiveness by using Software Smart PLS. Based on data processing with assessment of Smart PLS Software, the result of criteria evaluation in Table 2 was obtained. From the table, it is known that this model has met standard value in model outer criteria. It indicates that this model has validity and good reliability.

Based on Table 3, it can be described that the value of the loading factor of each indicator has a value of  $>0.5$ . In the study it included into the exploratory research. The loading factor value shows that the indicators used are valid or meet the standard criteria of loading factor, so that it

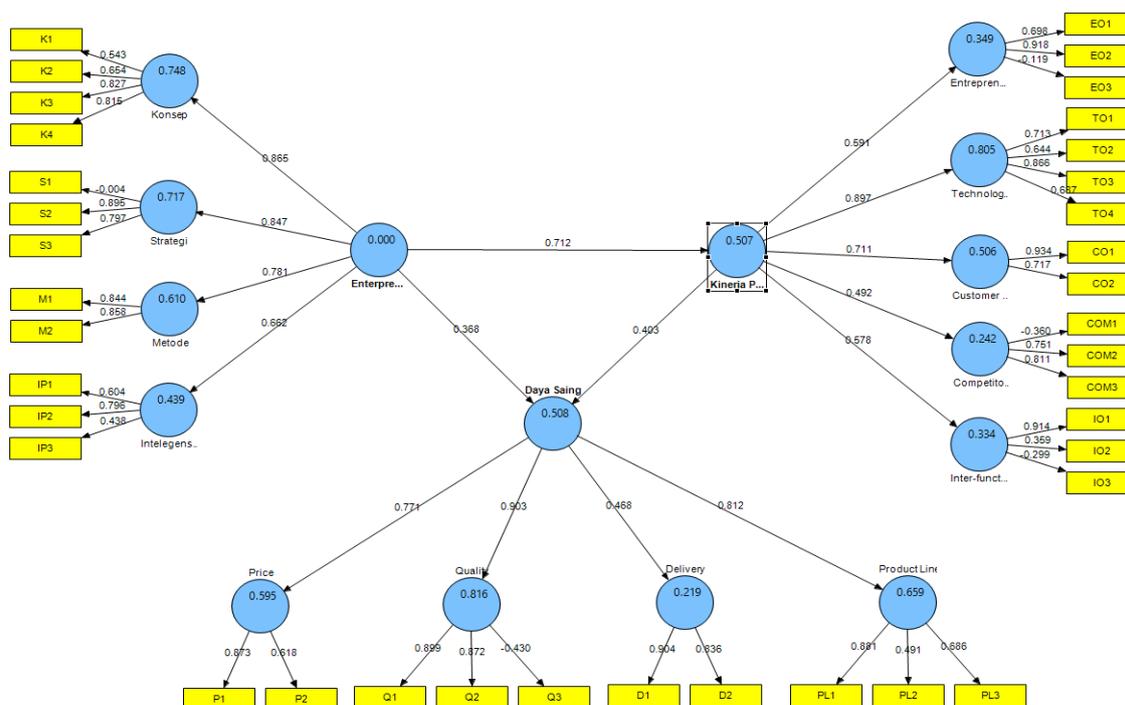
can be continued to further analysis test. The value of Average Variance Extracted (AVE) is that all the indicators used meet the standard assessment criteria that are >0.50 means that 50% or more of the variance of the indicator can be explained. Reliability testing was conducted to prove the accuracy, consistency and precision of

instruments in measuring constructs. Reliability in the study by looking at the value of composite reliability is that each construct meets the standard criteria of assessment that is >0.60. As for the PLS analysis diagram in this study can be seen in the figure below.

**Table 3. Results of assessment criteria and standard values of reflective modes**

No.	Criteria	Standard	Assessment Result	Information
1	Loading Factor	≥ 0,5	Indicators:K2,K3,K4, S2,S3,M1,M2,IP1,IP2,EO1,EO2,TO1,TO2,T03,T04,CO1,C O2,COM2,COM3,IO1,P1,P2,Q1,Q2,D1,D2,PL1,PL2	Valid
2	Average Variance Extracted (AVE)	≥ 0,5	K = 0,626 EO = 0,662 S = 0,712 TO = 0,526 M = 0,723 CO = 0,678 IP = 0,568 COM = 0,660 IO = 1,000 P = 1,000 D = 0,755 Q = 0,830 PL = 0,648	Valid
3	Cross Loading	Each indicator has a greater loading factor for each latent measured compared to other latent indicators	All indicators have a greater correlation with their own latent rather than other correlations	Valid
4	Composite Reliability	≥ 0,6	K = 0,828 EO = 0,791 S = 0,837 TO = 0,812 M = 0,839 CO = 0,803 IP = 0,723 COM = 0,794 IO = 1,000 P = 1,000 D = 0,755 Q = 0,907 PL = 0,779	Reliable

Source: Primary Data (processed 2018)



**Figure 2. Analysis Diagram of Initial PLS Model**

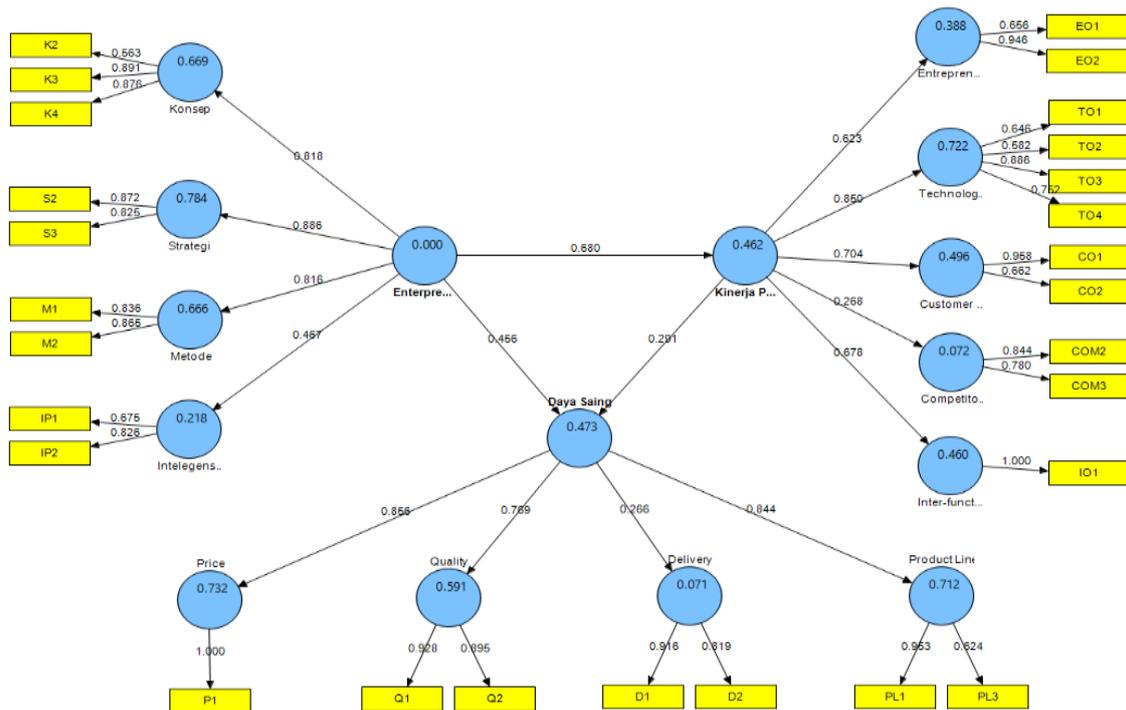


Figure 3. Analysis Diagram of Last PLS Model

#### 4.2 Evaluation of the structural model (inner model)

Inner model evaluation is an analysis that describes the causality relationship between latent variables. Through the bootstrapping process, the parameters of T-statistical test are obtained to predict the existence of a causality relationship. According to Ghozali (2015), the structural model in PLS was evaluated by using  $R^2$  for the endogenous construct path coefficient value or t-values for each path to test the significance between constructs in the structural model. The values of  $R^2$  are used

to measure the level of variation in changes in exogenous variables to endogenous variables. In the test, a variable is said to have an impact on other variables if the t-statistics is greater than t-table at 5% alpha, the t-table value is 1.96. In other words, entrepreneurial marketing variables and marketing performance will have effects on the competitiveness if they have a t-statistic value that exceeds 1.96. The results of the assessment of criteria and standard value of inner model of this research can be seen in Table 3.

Table 4. Results of the assessment of the inner model criteria and standard value of inner model

No.	Criteria	Standard	Assessment Result	Information
1	$R^2$ of endogenous latent variables	Value of $R^2$ is 0,67 as substantial; 0,33 as moderate; and 0,19 as weak.	$R^2$ for KP = 0,462 and DS = 0,473	$R^2$ moderate
2	F Square	0,02 ; weak, 0,15 ; moderate and 0,35 strong	Coefficient value EM -> KP = 0,679 EM -> DS = 0,455 KP -> DS = 0,291	F Square moderate and strong
3	Estimation of path coefficient	Real effect if t-statistics > t-table. In alpha 5%, value of t-table is 1,96	T-statistics value EM -> KP = 11,303 EM -> DS = 4,141 KP -> DS = 2,659	EM has an effect on KP EM has an effect on DS KP has an effect on DS

Source: Primary Data, processed (2018)

Based on the results that have been explained, it can answer the hypothesis in this study:

- H1: Entrepreneurial marketing has a significant effect on marketing performance
- H2: Entrepreneurial marketing has a significant effect on competitiveness

H3: Marketing performance has a significant effect on competitiveness

Based on the results of PLS processing (Table 4), it was found that  $R^2$  from both variables were in the moderate category. Marketing performance variables and competitiveness have a value of 0.462 and 0.473 which showed that the variables can present the variables contained in the model. Based on the results of the processing, it also found a significant effect of entrepreneurial marketing on marketing performance (coefficient value 0.679, t-statistics 11.303). The magnitude of the coefficients between the Entrepreneurial Marketing variables and the marketing performance is 0.679, this number is in the strong correlation category. Entrepreneurial Marketing variables obtained a significant effect on competitiveness (coefficient value 0.455, t-statistics 4.141). The amount of the coefficient between the variables is 0.455 and is in the strong categorization. Then the effect of variable of marketing performance on competitiveness is different, equal to (coefficient value 0.291, t-statistics 2.659). The magnitude of the coefficient between the marketing performance and competitiveness variables is 0,291 and it is in the moderate categorization.

The effect marketing performance variables on competitiveness has the lowest t-statistics. This indicates that there is still a connection or relationship between both variables if it is implemented to SMEs of Songkok enterprise. Thus, it does not rule out the possibility of increasing competitiveness in marketing their products. Most businessmen are only limited to craftsmen, meaning that the businessmen are still non-expert in the field of marketing because they only focus on the products they produced. Thus, it needs a learner organization to be used as a place for businessmen to have knowledge related to marketing or to become a competent businessman. On the other hand, businessmen can make the organization or forum for problem solving regarding

competition in the business of songkok. Support from government institutions is also needed because the policies of the government can also influence the competitiveness of businessmen in developing the Songkok business.

## 5. CONCLUSION

From the results and discussion, it can be concluded that both entrepreneurial marketing variables and marketing performance have a significant effect on competitiveness. The lowest effect on competitiveness is demonstrated by the marketing performance variables and. That is, if a businessman can improve his marketing system, it can improve the competitiveness of his business.

## 6. Suggestions

Based on the results obtained in this study, it is still far from perfection. It is expected for the future researchers to add more references related to entrepreneurial marketing variables, where in this study refers to one opinion of Stokes (2007) which consist of concepts, methods, strategies and market intelligence, so that this research can be developed further. Furthermore, additional analysis is also needed to get the right strategy to be used in developing SMEs. Hopefully this study can be useful and can increase the knowledge of science in the future.

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