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Applying Innovation Strategy and Its Effect on Competitive Advantage of Creative Industry: Spicy Culinary Subsector in Indonesia

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Abstract

The main issue of this study is the intense competition among business competitors both new business competitors and old business competitors which have controlled the Indonesian market. Besides, there has been an increasing number of SMEs that engage in culinary sector. However, many culinary sectors have still lack of quality. This study discusses the implementation of innovative strategies that affect the competitive advantage of creative industries in sub-sector of spicy culinary foods in Indonesia. Creative industry is an industry in which its main elements consist of creativity, expertise, and talents. These elements have greater potential in increasing the success by offering intellectual creation. The researchers used quantitative method. The samples of this study were 30 respondents as the business actors of SMES in spicy culinary food sub-sector in Indonesia. The technique of analyzing the data used was simple linear regression processing with SPSS version 25. Based on the result of the study, innovative strategies had positive and significant influence toward the competitive advantage and have ability in creative and innovating thinking ability. This study proposes that SMES innovation strategy will greatly improve the performance and competitiveness of business. The further study is expected to observe other variables which are not studied in this study because it has been found 65% influence. However, this study has other practical benefits for the actors of SMEs in culinary sub-sector to improve the innovative strategies.

Keywords: Creative Industries; Indonesia; Competitive Advantages; Innovation Strategy

1. Introduction

The creative industry is one of the business category that many Indonesian people are interested in. The Indonesian Ministry of Trade defines the creative industry as an industry that originates from individual creativity, skills and talents to create prosperity and employment opportunities by exploiting individual's creation and creativity skill. This creative industry is in great demand because it has a fairly large market and profits. Based on data from the Ministry of Industry of the Republic of Indonesia in 2016, this industry has contributed IDR 642,000,000,000,000.00 or 7.05% of Indonesia's total gross domestic product (GDP). Micro, small and medium enterprises (MSMEs) involve in the creative industry. The Indonesian Banking Development Institute and Bank Indonesia (BI) identified several characteristics of small businesses such as the fixed types of commodities, fixed business location, good financial administration, having business license and experienced resources in entrepreneurship. Meanwhile, medium-sized businesses have better organizational conditions because they already have a labour organization, applied a good accounting system, and own access to banking sources of funds.

Indonesia has many sectors to support the progress of people and the nation. One of the important sub-sectors that have a major influence to support this progress is the economic sector. This sector supports people's lives to maintain a good life and full fill all their needs. Currently, culinary is closely related to daily food consumption. The culinary sub-sector makes a significant contribution, which is 30% of the total revenue from the tourism and creative economy sectors. This shows that the culinary industry has a very strong potential to develop. Competitive strategy is one of the strategies that can be used by business actors in facing competition. This strategy can generally be interpreted as a process by which companies build and develop various strategic resources that have the potential to generate competitive advantage. These advantages have two roles; a tool to generate performance and a tool to neutralize assets and competitive competencies owned by competitors (Suhaeni, 2018).

The creative industry relies on creative creation and has intellectual property rights that have the potential to create employment opportunities so that it can contribute to the national revenue higher than revenue contribution of the electricity, gas and clean water sectors. Therefore, the creative industry is required to continue to innovate in order to be competitive and increase the added value of its products to make a significant contribution to the economic country (Lestari et al., 2020). MSMEs in Indonesia began to develop more or less around 2016 and the number continues to increase every year. The following Figure 1 is a graphic image of the number of MSMEs in ASEAN countries in 2021.

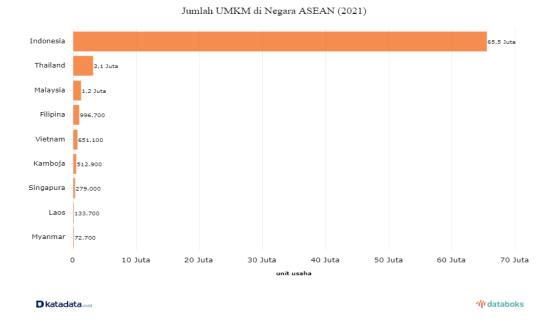


Figure 1: Number of MSMEs in Asean Countries in 2021 Source: (Databooks, 2022)

As seen from Figure 1, ASEAN Investment Report released the report in September 2022 stated that Indonesia has the highest number of micro, small and medium enterprises (MSMEs) in the ASEAN region. The report notes that the number of MSMEs in Indonesia in 2021 will reach around 65.46 million units. This number is much higher than neighbouring countries as shown in the figure. In 2021, MSMEs in Indonesia are recorded to be able to absorb 97% of the workforce, contribute 60.3% to the Gross Domestic Product (GDP), and contribute 14.4% to national exports. The proportion of Indonesian MSMEs worker absorption is the largest in ASEAN. In neighbouring countries, MSMEs only absorb labour in the range of 35% to 85%. The increase of MSMEs in Indonesia is because MSMEs are a strategic force to accelerate development. The number of MSME increases based on the business categories in the MSME databox for 2020 is in Figure 2.

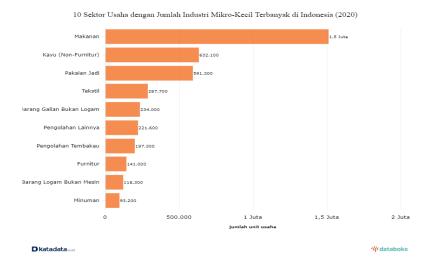


Figure 2: The Increases of MSMEs Based on Business Category in 2020 Source: (Databooks, 2022)

Based on Figure 2, the majority of Indonesian micro small industries (MSI) are engaged in the culinary sector. According to data from the Central Statistics Agency (BPS), the number of MSIs in the culinary sector reached 1.51 million business units in 2020. The proportion of MSI in the culinary sector reached 36% of all national MSI, which total 4.21 million business units. This is because consumers want everything practical, including food. Consumers no longer need to take a long time to order food so that it can be consumed fast and easily because of being supported by technological developments and the internet. This opportunity is used by entrepreneurs in the culinary field, particularly in spicy fast food. Spicy food is a flavour food that a lot of women love. Seeing the development of the spicy culinary business in Indonesia, accompanied by the emergence of various types of spicy food brands on the market, has caused intense competition among spicy culinary businesses. Consequently, continuous innovation is needed if a business wants to compete and survive. One important character of an entrepreneur is the ability to innovate.

Several studies have investigated that there is a relationship between competitive advantage and innovation. Business actors who have competitive advantages have the ability to think creatively and innovatively. The results of the study support the results of previous research, stating that companies without creativity and innovation will not compete and survive in an era of increasingly intense competition (Lestari et al., 2020). In addition, Gronhaug and Kaufmann state that innovation is becoming increasingly important as a means of survival, not just growth in the face of uncertain environment and increasingly competitive business conditions. The study conducted by Hurley et al. also concludes that companies with high innovation capabilities will be more successful in responding to their environment and developing new capabilities that lead to competitive advantage and superior performance (Suhaeni 2018). The proper and fast innovation strategy decisions can improve company performance, especially in strategic decisions to be made. Therefore, preparing the right strategy which is based on external and internal environment, and then establishing the right innovation strategy are the keys to succeed in innovation (Purwati et al., 2021). Based on some of the studies above, it can be concluded that innovation has an influence on competitive advantage. Therefore, it is necessary to conduct research to determine the implementation of innovation strategies that have an impact on the competitive advantage of the creative industry in the spicy culinary sub-sector in Indonesia.

2. Literature Review

2.1 Innovation Strategy

Innovation strategy refers to how firms turn to new product or technology development to survive rapid market changes. In the current market, organizations normally face the challenge of reconciling various resource requirements to respond to market changes and competition. An innovation strategy could help the organization determine the configuration of existing resources, products, processes, and systems to adapt to the market. Meanwhile, it guides the organization in making appropriate decisions on which work and functions should be made in the future market (Chen et al., 2018).

Innovation has been studied for quite some time, but because of the differences in the viewpoints and backgrounds of each individual researcher, no definition that is generally well accepted can be constructed. Innovation as similar to new directions in exploiting the existing resources of a business for new things such as new products, new production methods, new suppliers or sources of raw materials, the utilization of new markets, and new methods in business management. Innovation as a process of developing new ideas. Innovation is an important tool of the entrepreneur in creating competitive potential in business and wealth by utilizing existing resources or by creating new ones, including development using new knowledge. Innovations as new things developed for use in an organization that are well received by personnel within the organization. Innovation is a new product or process that has been improved and used commercially for the first time. From the several definitions above, this research determined the definition of innovation as "a new thing different from what already exists that has been developed using existing knowledge and that responds to the needs of the market (Distanont & Khongmalai, 2020)

Strategy is an important process to overcome various critical activities of the company and face future conditions that tend to be uncertain and difficult to predict. Using strategy means the company is trying to deeply investigate the potential to maximize the final results to be achieved, and at the same time, strategy develops the ability to adapt the rapidly changing environment. Strategic management examines the company's efforts to develop a sustainable competitive advantage as a determinant of the company's ability to create wealth. An innovation strategy is needed in MSMEs because in many industries, it will be more risky supposing that the company does not innovate. Both consumers and industry have experienced periodic changes and improvements to the products offered. As a result, some companies is fortunate to apply innovation strategies. Innovation strategy also helps businesses find new challenges for their development and growth. Innovation strategy is a management concept, consisting of many internal and external activities that increase the innovation potential of a business. It is necessary to emphasize the importance and role that influences the formation of innovation strategies. These roles come from business employees, managers, and also customers.

Innovation strategy is a multi-dimensional concept consisting of several dimensions, resulting in better measurements than only one dimension. There are four dimensions of innovation strategy consisting of the orientation of the company's leadership towards innovation, the type of innovation carried out, the source of innovation, and the level of investment required in innovation (Lestari et al., 2020). The following four dimensions are used in the innovation strategy such as: a) Leadership orientation, seen based on the company's position in the market whether the company is a first-to-the-market, a second-to-the-market or late-entrant player. b) Type of Innovation, representing a combination of manufacturing innovation, namely the processes carried out and the products produced by the company. This dimension is divided into two, namely product innovation and process innovation. c) Source of Innovation, explaining the implementation of innovation activities, whether the innovation idea comes from the company's internal, external to the company or both. d) Investment Level, including investment in terms of financial investment, technology and investment in human resources. Investment in technology is the key for companies in developing brands, both products and services. Producing innovation and allocating investment in human resource development are considered to be the key to success in facing competition in the era of the ASEAN Economic Community (AEC).

2.2 Competitive Advantage

Competitive advantage is the key to success in strategic management because it is a strategy designed to achieve corporate value (Azeem et al., 2021). Competitive advantage can be formed through the creation of customer value and competitors. Competitive advantage, in perspective of competitors and customers, is the thinking process of a strategy because companies compete from five resources, namely: people, time, money, technology and knowledge. Companies have a competitive advantage when they have a product or service that their target market is considered better than competitors. The goal of competitive advantage is the main focus in achieving success in an entrepreneurial activity such as trading, producing, distributing and recycling process (turning used goods into new goods) (Lestari et al., 2020). Competitive advantage is a main concept of competitive sustainable strategy for Small and Medium Industries (SMIs) that operates in a highly competitive environment. The strategy is to provide good quality, offer better services, keep overhead to a minimum, apply the maximum use of technology or production tools, offer more choices, use a unique marketing approach and offer lower prices (Lestari et al., 2020).

Competitive advantage can be in forms of product difference or services created from competitors in penetrating the market. Competitive strategy is the determination of long-term goals carried out by a business organization to achieve the desired goals, (Hatammimi & Thahara, 2022). Porter defines competitive advantage as a strategic benefit from companies that cooperate to compete more effectively in the market place. The strategy must be designed to achieve a sustainable competitive advantage, so that the company can dominate the old market as well as the new market. The most important thing in achieving the success of the implemented strategy is to identify the company's real assets, in this case the tangible and intangible resources that make the organization unique, (Suhaeni, 2018).

Therefore, to achieve a competitive advantage in terms of brand power, brand popularity, and product image, SMEs must implement promotional strategies which would eventually increase the marketing performance of their business. If a SME has a competitive advantage, there will surely be a positive impact on the performance of the company (Yasa et al., 2020). The competitive advantages can result from goods and services that exhibit outstanding differences from the typical products in the respective domain or that have a lower cost than those of the competitors. In addition, components of competitive advantage originate from the ability of a business to maximize the efficiency of its production process, to develop superior quality goods and services, and to develop services to which customers respond with high satisfaction rates (Distanont & Khongmalai, 2020).

The statements mentioned previously are able to be summarized and simplified into five dimensions of competitive advantage that can be used in assessing small and medium enterprises (MSMEs) in Indonesia. These five dimensions are: a) The uniqueness of the product/service, seen based on the type and packaging of the product offered and the services provided. b) Variation of products/services, seen based on the variety of products, packaging sizes and variations of services. c) Product price or value, seen based on the selling price, discount, quality and service satisfaction. d) Reputation, seen from building a trusted company, brand reputation, relations with the community, government and also customers. e) Customer experience, seen from a sense of pride, convenience of purchase and business location.

3. Materials and Methods

3.1. Materials

In analyzing the data the researchers employed the causal association method and used quantitative approach. The causal association method is a research used to prove the extent of the relationship between two or more variables. In this study, there were independent (influencing) variable and dependent (influenced) variable. The associative method is a research that aims to determine the effect or relationship between two or more variables. While the quantitative approach is an approach in which the data obtained are in the form of numbers and analyzed

according to the statistical method used (Sari, 2019). This study investigated the implementation of innovation strategies that have an impact on the competitive advantage of the creative industry in the spicy culinary sub-sector in Indonesia. Based on the research model proposed, the hypotheses of this study are:

H0: There is has no significant influence of implementing innovation strategy to competitive advantage. Ha: There is has significant influence of implementing innovation strategy to competitive advantage.

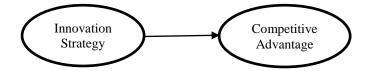


Figure 3: Research Framework Source: (Suhaeni 2018)

3.2. Methods

Preliminary test was conducted to determine the validity and reliability of the data obtained from each questionnaire item filled out by the respondent. By using quantitative methods, it was expected to obtain accurate measurement results of the responses given. Thus, the data in the form of numbers could be processed statistically. The instrument in this study was primary data in the form of a questionnaire distributed to respondents or all SMEs in the spicy culinary sub-sector in Indonesia. The results of the data obtained were analyzed using SPSS v. 25.

Population is all objects (people, events, or things) that have certain characteristics both concrete (tangible) and abstract (intangible) objects (Wegner, 2010). The population of this research was SMEs engaged in the spicy culinary sub-sector in Indonesia. The data was collected through the distribution of questionnaires using a 5-point Likert score. All answers were analyzed and then processed. The sample is part of the population whose characteristics are studied and considered as representative of the population, so that the number of samples is less than the total population (Wegner, 2010). Sample also means part of the population, or a small group observed. In this study, the samples taken were MSME actors engaged in spicy culinary in Indonesia. Based on the data in Figure 1.2, the total number of MSMEs in the culinary category in 2020 was 1.5 million MSMEs. According to Arikunto, if the total population is above 100, the researcher may take a sample of 10-15% or 20-25% (Kurniawan et al., 2021). The number of business actors as sample was 30 respondents representing other business actors engaged in the spicy culinary sub-sector in Indonesia (Boldureanu et al., 2018). The sampling technique used in this study was a non-probability sampling technique, convenience sampling. The respondents were selected based on availability and ease of accessing (in terms of place and time) and fulfilling predetermined requirements.

Data collection is a systematic and standard procedure for obtaining the required data (Nnubia, 2020). There has been relationship between data collection methods and the research problem to be solved. There are several methods in collecting research data. The following are two ways that researchers did to collect various information needed by researchers, including: a) Questionnaires, as instruments for data collection in which participants or respondents fill out questions or statements given by researchers. Researchers can use questionnaires to obtain data related to thoughts, feelings, attitudes, beliefs, values, perceptions, personality and behavior of respondents. The Likert scale is a psychometric scale that is commonly used in questionnaires, and it is the most widely used scale in survey research. The form of the Likert scale answers consists of strongly agree, agree, neutral, disagree, and strongly disagree, (Cavaliere et al., 2021). Library study, an activity to collect materials related to research originating from scientific journals, literature and other publications that are used as research sources. This technique collects theories that exist in the literature which enable the researchers to find problems with existing theories and use them (Nnubia, 2020).

The data was analyzed through simple linear regression, analysis of correlation coefficient (R), coefficient of determination (Adjusted R2) and partial analysis (t-test) processed with SPSS v. 25 application. This analysis was used to determine if there is a positive influence from the independent variables to the dependent variable or not. The regression model is described as follows (Tumwet et al., 2015):

Y = a + bX + e

Note: Y: Dependent Variable a: Constanta b: Regression Coefficient X: Innovation Strategy Y: Competitive Advantage e: Error

The purpose of using simple linear regression analysis in this study was to find out the effect of the independent variable strategy innovation on the dependent variable competitive advantage. The correlation coefficient (R) shows how much the relationship exists between the independent variable (X) simultaneously with the dependent variable (Y). The value of R ranges from 0 to 1. The closer the value is to 1, the stronger the relationship is. While the closer the value is to 0, the weaker the relationship is. Guidelines for providing an interpretation of the correlation coefficient are described as follows:

0.00 - 0.199 = very low 0.20 - 0.399 = low 0.40 - 0.599 = moderate 0.60 - 0.799 = high 0.80 - 1.000 = very high

According to Santoso, regression for more than two independent variables, adjusted R Square is used as the coefficient of determination. Adjusted R Square is the adjusted R Square (R2) value. The coefficient of determination (Adjusted R2) aims to determine how much the independent variable contribute to the dependent variable. The greater the value of the coefficient of determination is, the better contribution of variable X to variable Y is (Tumwet et al., 2015). Respondent characteristics can see in Table 1.

Profile	Criteria	Percentage
ex	Male	40%
	Female	60%
.ge	<19 Year	6.7%
-	20-30 years	93.3%
	30-40 years	3.3 %
	40-50 years	
ducational Background	Junior High/Senior High School	73.3%
-	Diploma Degree	
	Bachelor Degree	26.7
	Master or Doctoral Degree	
Type of Business	Individual	76.7%
	Family Business	26.7%
	Firm	
	Limited Liability Company	
Length of Business Operation	1-5 years	93.3 %
	6-10 years	3.3%
	11-20 years	6.7%
	>20 years	
umber of Employees	5-10 people	80%
	10-15 people	20%
	>20 people	3.3%
rofit per year	2.500 – 5 million	50%
	5-10 million	36.7
	10-20 million	10%
	30-50 million	3.3%
	50-100 million	3.3%
ntrepreneurs engaged in the	spicy	100%

Source: Data Primer 2022

4. Results and Discussion

The first analysis was conducted to obtain regression coefficient. As seen from the table, the correlation between innovation strategy and competitive advantage result the value of 0.805, and the sig value of 0.0000. This value is higher than 0.05, meaning that the relationship between variables were positive and significant. This concludes that if innovation strategy is effectively implemented, the competitive advantage in spicy culinary food will remain well. The result of regression coefficient can see in Table 2.

Table 2: The result of regression coefficient

Correlations

		Strategi Inovasi	Keunggulan Bersaing
Strategi Inovasi	Pearson Correlation	1	.805**
	Sig. (2-tailed)		.000
	Ν	30	30
Keunggulan Bersaing	Pearson Correlation	.805**	1
	Sig. (2-tailed)	.000	
	Ν	30	30

**. Correlation is significant at the 0.01 level (2-tailed).

Source: SPSS

The second analysis was carried out to determine the level of relationship between innovation strategy and competitive advantage. The R value obtained was 0.805, indicating that the relationship was strong. The R2 value of 0.649 showing that the coefficient of determination of competitive advantage in the creative industry in the spicy culinary sub-sector contributed to innovation strategy as much as 65%. While the rest of 35% was other independent variables outside the regression model investigated. Model Summary an see in Table 3.

Table 3: Model Summary

Model Summary^b

					Change Statistics					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	Durbin- Watson
1	.805 ^a	.649	.636	6.474	.649	51.679	1	28	.000	2.663

a. Predictors: (Constant), Strategi Inovasi

b. Dependent Variable: Keunggulan Bersaing

The third analysis was conducted to find out whether the innovation strategy variable had an effect on competitive advantage. In this study, the main hypothesis tested were; H1: There is an influence between the Innovation Strategy on competitive advantage in the creative industry of the spicy culinary sub-sector in Indonesia. A significance value of 0.00 < 0.05 meaning that H1 was accepted and was able to be widely applied outside the research focus. Anova analysis can see in Table 4.

Table 4: ANOVA

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2165.772	1	2165.772	51.679	.000 ^b
	Residual	1173.428	28	41.908		
	Total	3339.200	29			

a. Dependent Variable: Keunggulan Bersaing

b. Predictors: (Constant), Strategi Inovasi

Source: SPSS

After analyzing the theory and research results above, the researchers concluded that "Innovation Strategy (X) affects Competitive Advantage (Y) with a total effect of 65%. There is a significance value of 0.00 < 0.05, so the H1 hypothesis is successfully accepted. Based on the results of research conducted, the innovation strategy has a positive and significant impact on competitive advantage. The results of this study support the results of previous research, that business actors must have a competitive advantage and must have the ability to think creatively and innovatively.

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