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Review Article

Analysis of Competitive Advantages of SMEs in the Global Market

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Abstract - *The existence of SMEs is proven to provide employment and is able to survive and become an economic driver, especially after the economic crisis. On the other hand, SMEs also face many problems, namely limited working capital, low human resources, and inadequate mastery of science and technology, so they lack competitiveness. Method This study uses a descriptive exploratory approach by analyzing the competitive advantage of SMEs in facing the global market. This scientific work was developed using a literature review approach or study of Putaka. The theory/concept approach is carried out by referring to several sources, such as books and scientific journals. The results of this study indicate that the key to success in being able to survive in the midst of competition lies in the company's ability to build a competitive advantage. Entrepreneurial orientation can be a corporate strategy in building competitive advantages such as the desire to achieve goals (need for achievement), business confidence in success (internal locus of control), self-confidence (self-reliance), innovation (innovative), risk-taking. Innovations to build competitive advantage include product innovation, process innovation, and marketing innovation.*

Keywords **-** *SME, Resources Based View and competitive advantage.*

I. INTRODUCTION

Small and Medium Enterprises (SMEs) is a business that has an independent nature and has an important role in economic growth in a country. The contribution of SMEs can absorb labour and have a very large influence in reducing unemployment in a country, both developing countries and developed countries. This condition is almost the same as what happened in India, that the Micro, Small and Medium Sector (MSME) has emerged as a very dynamic sector in the economy in India over the past five decades, and MSME has provided more employment opportunities over the past 7 years (Shaik et al. 2017).

Based on Law Number 20 the Year 2008, the criteria for SMEs is to have a net asset of more than Rp 50,000,000 (fifty million rupiahs) up to a maximum of Rp 500,000,000 (five hundred million rupiah) excluding land and buildings for business premises or having annual sales results. more than Rp. 300,000,000 (three hundred million rupiahs) up to a maximum of Rp 2,500,000,000 (two billion five hundred million rupiahs). This is supported by the results of Lusy (2019), SMEs have good business continuity through loans provided by financial institutions, which are shown by increasing income and adding assets, increasing the number of workers used, and increasing living standards that are more prosperous.

Mustikowati (2014) states that SMEs are very weak in competing, seen from the difficulty to increase output due to limited knowledge, limited adaptation to environmental changes, and lack of agility in dealing with market competition. The competition occurs not only between companies within a country but occurs between companies from various countries (Easton & Zhang, 2002) as a result of the imposition of free-market economies carried out by several world organizations, including AFTA. Readiness of SMEs to face competition in the business world, an SME is required to be able to read market changes and read the environment faced in the competition so that it can compete with its competitors. Companies must increase and maximize the strength they have to overcome the intense market competition

The main problems faced by SMEs include limited infrastructure and government access related to licensing and bureaucracy and high levels of levies. With all the problems that exist, the huge potential of SMEs is hampered. Although SMEs are said to be able to withstand the global crisis, in reality, the problems faced are many and more severe. That is because, in addition to being indirectly affected by the global crisis, SMEs must also face unresolved domestic problems such as labour wages, employment, illegal fees, corruption, and others. Other problems faced by SMEs, namely the existence of trade liberalization, such as the entry into force of the ASEAN-China Free Trade Area (ACFTA), which has effectively been in effect in 2010. On the other hand, the Government has agreed on an ACFTA cooperation agreement or other agreements, but without first considering the readiness of

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SMEs to be able to compete. For example, the readiness of product quality, the less competitive prices, the readiness of the market, and the lack of clarity of the imported product maps so that the competition's position is clearer.

Problems faced by SMEs cause SMEs to be less able to create excellence to achieve competitiveness and through this study contribute to the achievement of SME competitiveness through literature studies.

II. THEORETICAL REVIEW

A. Resources Based View (RBV)

Resource-Based View (RBV) has become one of the most influential theories in the history of management theory, especially in strategic management theory. In general, the RBV focuses on understanding the organization's potential resources and capabilities (Robbins and Coulter, 2007). The purpose of this theory is to explain how the internal resources of a company can achieve sustainable competitive advantage. However, not all company resources are factors that have the potential to make the company achieve a competitive advantage.

Resources Based View is defined as a unit of strategic assets that are rare, valuable, imperfectly imitable, and non-substitutable (Meso and Smith, 2000). Resource-based view is seen as a strategy to achieve an organization's competitive advantage through the identification of heterogeneous organizational resources. This resource-based approach aims to classify strategic organizational resources that have the most potential to create competitive advantage (Akio, 2005). Ireland (2003) suggests that if it can manage resources and capabilities in a strategic and structured manner, competitive advantage will increase. With resource-based and attention focused on the process of creating competitive advantage, this view is the fundamental principle that determines differences in terms of wealth creation.

According to Barney and Clark (2007), in order to be able to achieve sustainable competitive advantage, companies must pay attention to the company's resource criteria, namely: a. Resources add positive value to the company. b. Resources are difficult for competitors to emulate. c. Resources are unique or rare among competitors. d. Resources are not replaced by other sources by competing companies. Nieves and Osorio (2014) conducted an empirical study that showed that a resource-based view could explain or influence the innovation capacity of a company. The RBV theory states that internal and external factors influence company performance which depends on the context of the competitive environment and the industrial context (Makhija, 2003).

B. Competitive Advantage

Basically, every company that competes in an industrial environment has a desire to be superior to its competitors. Companies generally implement this competitive strategy explicitly through the activities of various existing functional departments of the company. The basic thinking of creating a competitive strategy starts with developing a general formula on how the business will be developed, what exactly the goal is, and what policies will be needed to achieve that goal. The definition of competitive advantage itself has two different but interrelated meanings. The first understanding emphasizes excellence or superior in terms of resources and expertise owned by the company.

Bharadwaj et al. (1993) explained that competitive advantage is the result of implementing strategies that utilize a variety of company resources. Unique expertise and assets are seen as a source of competitive advantage. Unique expertise is the company's ability to make its employees an important part of achieving a competitive advantage. The company's ability to develop the expertise of its employees well will make the company excel, and the implementation of strategies based on human resources will be difficult to emulate by its competitors. Medium assets or unique resources are real resources needed by the company to carry out its competitive strategy. Both of these resources must be directed to support the creation of the performance of low-cost companies and have differences (differentiation) with other companies.

A similar opinion was expressed by Porter (1990), who explained that competitive advantage is the heart of marketing performance to face competition. Competitive advantage is defined as a benefits strategy of companies that collaborate to create more effective competitive advantages in their markets. This strategy must be designed to create a competitive advantage so that the company can dominate both the old market and the new market.

Bharadwaj et al. (1993) revealed that competitive advantage is measured by indicators of uniqueness, rarely found, not easily imitated, not easily replaced, and competitive prices. Bratic (2011) revealed that competitive advantage is measured in four indicators, namely: Price, Quality, Deliver Dependability, product innovation, and time to market. Peng et al. (2011) measure priorities consist of cost priority, quality priority, deliver priority, flexibility priority, and innovation. Michalic and Buhalis (2013) used image, quality, differentiation, contact, and price in seeing competitive advantage. The conceptual research framework of Li et al. (2006) develops five indicators for measuring competitive advantage, namely: price/cost, quality, delivery dependability, product innovation, and time to market.

C. Innovation

Understanding of innovation, according to Quin et al. (1996), is a technological, managerial, and social process in which a new idea or concept is first introduced to be practiced in a culture. Meanwhile, according to Damanpour (1991), innovation is defined as new products or services that are introduced to the market to meet market needs. Innovation is one of the choices of corporations in the face of market competition and sustainable management. Freeman (2004) considers innovation as an effort by companies through the use of technology and information to develop and produce new products for the industry. In other words, innovation is the modification or discovery of ideas for continuous improvement and development to meet customer needs.

According to Damanpour (1991), innovation can be in the form of product innovation and process innovation. Product innovation, according to Hurley & Hult (1998), is one of the impacts of rapid technological changes and high product variations that will determine company performance. Product innovation can be divided into basic categories, namely product line extensions, "me-too" products, and "new-to-the-world" products. A product line extension is a product that is relatively new to the market but not new to the company, "me-too" products are products that are relatively new in the company but are well known in the market. Whereas the "new-to-the-world" product is a new product both for the company and for the market (Luke & Ferrel, 2000).

Whereas process innovation, according to Cooper (1998), illustrates changes in the way organizations produce the final products and services of a company. Process innovation is defined as a new element that is introduced in the operation of products and services in the company, such as raw materials, job specifications, work mechanisms, and information and equipment used to produce or service (Damanpour, 1991). Process innovation describes changes in the way organizations produce the final products and services of a company (Cooper, 1998). Process innovation includes the stages of a new product, service, or process development, from the concept of ideas to acceptance.

Pervaiz and Shepherd (2010) innovation are not only limited to objects or goods produced but also includes attitudes to life, behaviour, or movements towards a process of change in all forms of community life. So, in general, innovation means an idea, product, information technology, institutional, behaviour, values, and new practices that are not widely known, accepted, and used or applied by the majority of citizens in a certain locality, which can be used or encourage changes in all aspects of community life in order to realize the improvement of the quality of each individual and all members of the community concerned.

In addition, according to Armstrong (2009), innovation is a process that begins in the market stage that relies on assessing customer needs, then goes to the creation of ideas, development, and production or the introduction of new innovative products that are based on an internal environment that emphasizes the ability of ideas HR new and creativity that allows the development of innovation, besides that if based on the external environment in the form of an assessment of market needs, so it can be said that the optimal use of human resources companies can build competitive advantage.

Rogers (2003) states that innovation not only deals with new knowledge and new ways but also with values because it must be able to bring better results, so besides involving new science and technology, innovation also involves perspective and social change. Lesakova (2009) SME innovation is not only a very important determinant of successful SME development. SMEs are required to innovate because they are under pressure in market competition. From this point of view, the ability to compete in innovation plays a very important role as a competitive advantage factor for SMEs. Radenakers (2005) divides innovation into several types, namely product innovation, process innovation, organizational innovation, and business innovation. Lesakova (2009) revealed that innovation indicators include product innovation, process innovation, product and process innovation. Whereas Kemp et al. (2007) use product innovation, process innovation, output innovation. Murat Atalay (2013) in measuring innovation using indicators of product innovation, process innovation, and marketing innovation

D. Entrepreneurship Orientation

Entrepreneurial orientation is the behaviour of entrepreneurs in managing their business. Entrepreneurship can also be defined as the process of value creation by using a unique set of resources to obtain or exploit an opportunity (Morris & Lewis, 1995). Jambulingam et al. (2005) define entrepreneurial orientation as a process, practice, and decision-making activity that leads to the development and creation of new and innovative products that can distinguish organizations from other organizations in the market.

Entrepreneurial companies are companies that innovate market products, do risky business, and are usually proactive in making efforts to improve their competitiveness. Another case is a non-entrepreneurial company, which carries out a little risk-averse innovation and mimics the manoeuvres of its competitors (Miller, 1988). In this regard, Miller (1988) offers the earliest operationalization that captures the dimensions of entrepreneurial orientation in empirical research.

An entrepreneurial orientation will be able to bring the organization towards superior performance (Todorovic and Ma, 2008). According to Mafasiya et al. (2010), there is a positive relationship between entrepreneurial orientation on business performance. It also said that in the multidimensional concept of performance, the relationship between entrepreneurial orientation and performance might depend on the use of performance appraisal indicators. Entrepreneurial orientation describes an organizational behaviour that includes the courage to take risks a proactive and innovative attitude (Slevin and Covin, 1991). Gima and Anthony (2001) argue that organizations with high entrepreneurial orientation skills tend to be able to perform better than competitors in terms of (1) market share, (2) speed in entering the market, and (3) level of product quality.

Frishammar and Horte (2007) state that entrepreneurial orientation consists of three dimensions: innovation, risk-taking, and proactiveness. Lee and Tsang (2001) describe indicators in entrepreneurial orientation, namely the desire to achieve goals (need for achievement), business confidence in success (internal locus of control), self-confidence (self-reliance), innovation (innovative), risk-taking (risk-taking). Mafasiya *et al.* (2010) by using innovativeness, proactive, and risk tasking indicators.

III. RESEARCH METHODS

This study uses a descriptive exploratory approach by analyzing competitive advantage in facing the global market. This scientific work was also developed using a literature review or literature study approach. The theory/concept approach is made by referring to several sources, such as books, scientific journals, and the internet. All descriptions of existing ideas are combined in one order of thought.

IV. DISCUSSION

A. The role of entrepreneurial orientation in increasing competitive advantage

Competition between SMEs is unavoidable, and competition requires SMEs to always understand and understand what is happening in the market and what the market wants through an entrepreneurial orientation so that they are able to compete with other SMEs. SMEs who want to increase the success of corporate entrepreneurship (corporate entrepreneurship) must be entrepreneurial-oriented (Dess and Lumpkin, 2005). Entrepreneurial orientation is a characteristic and value adopted by the entrepreneur himself, which is an unyielding nature, daring to take risks, speed, and flexibility (Debbie Liao and Philip Sohmen, 2001). Entrepreneurial orientation emphasizes the passion for creating business innovation as a refresher from business bottlenecks, which often accompanies the initial steps of innovation (Zhou et al., 2005).

Frishammar and Horte (2007) state that entrepreneurial orientation consists of three dimensions: innovation, risk-taking, and proactiveness. Lee and Tsang (2001) describe indicators in entrepreneurial orientation, namely the desire to achieve goals (need for achievement), business confidence in success (internal locus of control), self-confidence (self-reliance), innovation (innovative), risk-taking (risk-taking). Mafasiya et al. (2010) by using innovativeness, proactive, and risk tasking indicators. Sirivanh et al. (2014) state that entrepreneurial orientation influences competitive advantage. Pardi et al. (2014) found that entrepreneurial orientation had a significant effect on competitive advantage. Through a high entrepreneurial orientation, the behaviour will encourage SME owners or managers to continue to learn in order to have a competitive advantage. Weerawardena and Coote (2001) show that entrepreneurship has an important role in the competitive strategy adopted by companies.

B. The role of innovation in increasing competitive advantage

Innovation is the tendency to adopt or implement new ideas, processes, and products, and in the era of knowledge development, innovation is the main source of competitive advantage. Successful innovation can be used to maintain excellence because it can make the company's external environment more difficult to imitate the strategies used (Gracia-Morales et al., 2007). Hurley et al. (1998) state that innovation is the capacity or ability to introduce processes, products or services, or new ideas in organizations. This opinion is also strengthened by the opinion of jin et al. (2004) that innovation is the core ability of an organization to master and maintain holistic value-dynamic where opportunities for change are exploited, and new ideas are raised, translated, and implemented in practice. Innovation is very important if the innovation is positive can lead to competitive advantage. The innovation process is very important because this will have an impact on competitive advantage. Wingwon (2012) believes that there is a positive relationship between innovation and competitive advantage. Vazquez et al. (2014) state there is a significant positive effect between innovation and competitive advantage. This is also supported by Aziz and Samad (2016), who state that innovation has a strong positive influence on competitive advantage.

V. CONCLUSION

The key to success in being able to survive in the midst of competition lies in the company's ability to build a competitive advantage. Entrepreneurial orientation can be a corporate strategy in building competitive advantages such as the desire to achieve goals (need for achievement), business confidence in success (internal locus of control), self-confidence (self-reliance), innovation (innovative), risk-taking. Innovations to build competitive advantage include product innovation, process innovation, and marketing innovation. In order to increase the competitiveness of SMEs in facing the global market, SMEs need to pay attention to entrepreneurial orientation and innovation.

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