THE ROLE OF INNOVATION STRATEGY IN INCREASING COMPETITIVENESS AND THE ITS EFFECT ON BUSINESS PERFORMANCE

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ABSTRACT

This study is conducted based on a research background that competitions are more intense after the enactment of Asean Economic Community (AEC) 2015. Consequently, all businesses including small and medium enterprises in the Silver Industry in Bali experience competitive pressure which affects the competitiveness and performance achievement of their business. To anticipate this threat, businesses in the silver industry must develop various business innovations including product innovation, process innovation, marketing innovation, and other business innovations in order to improve competitiveness and business performance. The population of this research are all the managers of the Silver businesses in Bali with a sample size of 112 people and the data analysis technique is the SEM analysis.

Results have shown that industrial competition positively and significantly influence the implementation of innovation strategy and competitiveness, but it negatively and significantly influence business performance. Implementation of business strategy also has positive and significant influence on competitiveness and business performance. Subsequently, competitiveness is able to improve performance achievement of businesses.

Hence, managers of silver businesses in Bali are expected to continuously develop various innovations to improve competitiveness and business performance.

Keywords: industrial competition, innovation strategy, competitiveness, and business performance.

INTRODUCTION

In an increasingly tight competition, each business must improve the performance achievement of their business. Small and medium enterprises in the silver industry in Bali have already developed various innovations. This has only been implemented on product designs, product models, marketing methods, and service system. This is what is called business innovation strategy. By implementing innovation strategies, the competitiveness of companies are expected to increase. This is stated in previous research by Bernardo (2014) and Yasa et al. (2017). The results show that innovation strategy has positive and significant influence on the competitiveness of SMEs. Even though SMEs in the silver industry sector have already implemented business strategies (price and service strategy), it is still not enough to produce maximum results. This is shown by the data collected that sales turnover, as a measure of SMEs performance, have not shown an increasing trend over the years. As the performance achievements of SMEs are not yet maximum, other business strategies to complement are needed in order to improve the competitiveness of SMEs in the silver industry and this affects the improvement of business performance.

A business strategy that is very important in the era of intense industrial competition is innovation strategy. Innovation strategy is needed to develop new ways in order to produce silver products that meet market preferences (Al-Hakim and Hassan, 2013; Prajogo, 2016). Aside from that, SMEs in the silver industry also need to develop their competitiveness in order to well maintain the continuity of the business and to improve performance. This is consistent with the research result by Feeny and Rogers (2003); Jaskyte (2011); Acar and Acar (2012).

If innovation strategy is well implemented, it can be expected that results would be maximum, in terms of competitiveness improvement and also the impacts on business performance achievement. Therefore, in order to achieve competitiveness, all businesses in the silver industry in Bali must implement innovation strategy to improve their business performance through the competitiveness that they have, such as product competitiveness, price competitiveness, service competitiveness, marketing competitiveness. If the silver industry in Bali has competitiveness, it will have a positive influence on business performance (Back et al., 2014).

Based on the business issue of silver industry in Bali and as previous researchers have not done any review regarding innovation strategy, complemented with empirical evidence related to the issue, the motivations for this research are: 1) to review existing business issues; 2) to develop previous studies by integrating various innovation strategies which are implemented in the silver industry, and 3) to develop the right innovation strategy implementation model in order to achieve competitiveness which increases business performance.

Hence, the aim of this research is to explain the role of innovation strategy on competitiveness and its impact on business performance improvement in the silver industry in Bali Province.

THEORETICAL REVIEW AND RESEARCH HYPOTHESIS

Industrial competition is the rivalry between two or more companies which are similar in terms of the product, service, price and promotions provided to customers (Adnan et al., 2016). The intensity of industrial competition depends on the number of competitors in the same market, frequency of technological advancement in the industry, frequency of introduction of new products, price reduction, package agreement given to customers by various competitors, and amendments of government regulations and policies and tariff reduction (Chong *and* Rundus, 2004). Industrial competition also occurs in terms of cost, dependence on resources, managerial practice, entrance of obstacles, and implementation of technology (Du *and* Chen, 2010). External environment factors of an industry which instigate industrial competition are: (1) competition intensity between current competitors, (2). Threats from new entrants, (3). Bargaining power of supplier, (4). Bargaining power of buyers, and (5). Threat of substitute products (Porter, 1980; Metts, 2007; Huang and Lee, 2012).

Industrial competition affects business performance, as companies must adapt to the environment change to maintain their competitive position (Huang and Lee, 2012; de Haan, 2015). Porter (1980) stated that industrial competition lowers the rate of return of a company in a perfectly competitive industry environment. Consequently, companies must improve their competitive position in order to be more competitive compared to rival companies. In this context, companies must develop clear business strategies to maintain their competitive position in a very competitive industry environment. Business strategy explains company goals based on internal and external evaluation (Soltanizadeh et al., 2016).

Innovation Strategy

Innovation has become an interest for researchers and practitioners in the fields of competitive business today (Berghman et al., 2013; Alshammari et al., 2014) because innovation is a key factor in the economic growth of the world (Boult et al., 2009; Babkin et al., 2015) and company growth (Back et al., 2014). In this condition, researchers and businesses attempt to develop strategies and resources in creating innovation to maintain the continuity of competitiveness (Bernardo, 2014) and increase income and profit growth in the long term (Berghman et al., 2013). The high interest of researchers and practitioners on innovation results in the emergence of definition variability of innovation. Despite this, in the industrial context, researchers have a similarity in their definition of innovation, namely the process to convert knowledge and ideas into new products and services with value to customers, the market and provide profit and additional value for the company (Feeny and Rogers, 2003; Jaskyte,2011; Acar and Acar, 2012; Al-Hakim and Hassan, 2013; Prajogo, 2016). Innovation strategy is an effort to convert knowledge and ideas into products, processes, service, new system to provide profit for the company and stakeholders (Perdomo-Ortiz et al., 2006; Perdomo-Ortiz et al., 2009; Jaskyte, 2011) or convert knowledge into money (Boult et al., 2009). In this study, innovation strategy is defined as converting knowledge and ideas into products, process, new services or improve methods, existing products and services to fulfill the needs of customers and provide profit for the company.

Competitiveness

Competitiveness is the process to achieve a certain goal, whether in terms of increasing growth and income of a country. Porter (2008) defined competitiveness (competitive advantage) as the ability of a country to create continuous additional value through companies' activities and maintain high quality level of life for the country's people. The key to success of a country is the existence of a strong and highly competitive business world.

The growth and development of industrial competitiveness is influenced by the existence of competition. Competition is influenced by five competitive power, namely (1) entrance of new competitors, (2) threats from substitute products, (3) bargaining power of buyers, (4) supplier, and (5) competition between existing companies. The above mentioned five powers determine the amount of profit obtained in a short period as well as in long term (Porter, 1985).

Competitiveness fundamentally grows from values or benefits created by companies for their customers. Market structure change becomes the basis of competitive practices nowadays, not only competition in terms of price, but also competitive quality practices, which is the effort to win the competition by producing higher quality products. Towards this condition, Schumpeter's view becomes very relevant because dynamic competition has caused the emergence of new products, which are results of R&D and technological advancement, and this at the same time will replace old products and technologies that no longer have added value.

A company is said to have continuous competitiveness or competitive advantage if it is able to produce better results than competitors, successfully create specific and lasting differentiation factors (Porter, 1985). Fundamentally, every competing company in an industry environment has the desire to be superior compared to their competitors.

Business Performance

Business performance is an indicator commonly used to measure the achievement of a company in reaching it's goals (Ho, 2011), or the ability of a company to satisfy customers and dominate the market through the products and service offered.

Business performance is generally measured using the indicators for financial performance and market performance. There are two methods to analyze organizational performance, namely organizational performance that is measured by the quality of product or service, product or service innovation, attractiveness towards employees, employee retention, and customer satisfaction. While market performance is measured by organization's market ability, total sales growth, and total profitability. Tippins and Sohi (2003) measured organizational performance by using 4 dimensions namely relative profitability, return on investment, customer retention and total sales growth.

There are also variations of indicators in the measurement of performance. For example industrial performance is measured by using financial performance such as return on investment or ROI, return on equity or ROE (Alipour, 2013; Andreou et al., 2014; Abdifatah, 2014), revenue growth, amount of profit/surplus (Pinho et al., 2014) and market performance such as sales growth and profitability (Antoncic and Prodan, 2008; Lee and Yang, 2011), market share (Antoncic and Prodan, 2008; Kilic et al., 2015; Zehir et al., 2015; Prajogo, 2016), customer satisfaction and total sales (Lee and Yang, 2011; Kilic et al., 2015).

Conceptual Framework of Research

The theory used in this research is the theory of Competition (Porter, 1985). According to the theory of Industrial Competition (Porter), competition intensity of an industry will be more intense as more companies compete in the industry. This condition cause competitive advantage to be difficult to achieve. Hence, one of the methods for companies to have competitiveness is by implementing the appropriate business strategy, namely the innovation strategy.

The high intensity competition on small and medium enterprises, such as businesses in the silver industry, is also discussed in the study conducted by Metts (2007); Michael et al. (2014), and Rosa and Pedro (2014). A study by Metts (2007) has shown that intense pressure from industrial competition has negative influence on company's performance achievement, which in it includes competitiveness achievement. Company leaders have attempted to reduce this negative influence by creating strategies. The research results by Metts (2007) have also shown that strategy forming activities have not been able to eliminate the negative effect from industrial competition pressure, but have only able to reduce this negative effect. Consequently, this research offers a solution by implementing the right business strategies (innovation strategy) that have been implemented by SMEs (silver industry) with certain justifications, among others (1) business strategy, which in this case is innovation strategy, greatly helps businesses to increase performance by creating new products, new processes, new raw materials (Abbas, 2014).

Based on the conceptual framework which explains the relationship between variables, the conceptual framework is designed and shown in Picture 1.
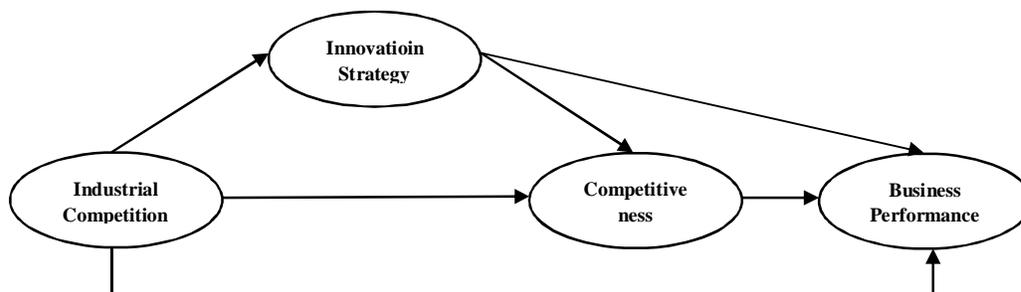
Picture 1
Research Conceptual Framework
Research Hypothesis:
Based on the conceptual framework above, the research hypothesis are formulated as follows.
 H1   :   Industrial Competition has positive and significant influence on innovation strategy
 H2   :   Industrial competition has negative and significant influence on competitiveness
 H3   :   Industrial competition has negative and significant influence on business performance
 H4   :   Innovation strategy has positive and significant influence on competitiveness
 H5   :   Innovation strategy has positive and significant influence on business performance
 H6   :   Competitiveness has positive and significant influence on business performance

RESEARCH METHOD

Seen from the characteristics of the problem, this research is classified as a causality research. Meaning, this research aims to examine the causal relationship between the variables of industrial competition, innovation strategy and competitiveness, along with business performance. This research is conducted on all regencies in Bali, namely: Badung, Gianyar, Klungkung, Karangasem, Buleleng, Jembrana, Tabanan, Bangli, and Denpasar city. The population of this research is all businesses in the silver industry available in Bali.

The sample size of this research is 112 businesses in the silver industry. The sample size is determined using the Slovin formula. With this method, the sample is expected to be representative enough to represent all the silver craft businesses in each regencies/city, and therefore to represent the regions of Bali.

The indicators of the industrial competition variable, innovation strategy, and competitiveness variable, along with business performance is measured by the perceptions of owners or managers of silver craft businesses, as the strategy formulator, using the five level Likert scale, namely strongly disagree = 1, disagree = 2, quite agree = 3, agree = 4, and strongly agree = 5. The measurement of variables was conducted from July 2017 until August 2017.

This research use two types of data, namely: 1) Primary data, which is data obtained from questionnaires filled in by respondents, in this case is the owner or manager of silver craft businesses in Bali; 2) Secondary data, which is data obtained from other sources that supports the research. Secondary data is obtained from the *Badan Pusat Statistik* Bali (Statistics Bali) and *Asosiasi Pengusaha Indonesia* (Apindo / Association of Businessmen Indonesia) in the Silver Industry in Bali, in the form of financial statements, annual reports, and research result reports. There are two data collection technique used, namely by questionnaire and in depth interview on the owners and managers of silver craft businesses, observers / academicians of the silver industry.

Fundamentally, conducting a research is conducting measurements on the phenomena of the research. The tool to measure the phenomena is called research instrument. The indicators of the research instrument is taken from measurements that have been used by a number of researchers. The measurement of industrial competition is taken from the measurements by Porter (1985) and Huang and Lee (2012); innovation strategy is taken from the measurements by Li et al. (2010); and for the variable of competitiveness, measurements used by Hannigan et al. (2015) are adopted; and the measurement for business performance is adopted from Lee and Yang (2011). The form of the research instrument used is a list of questions or questionnaire because this research is a survey research which needs primary data. Questionnaires used are tested before the full research is conducted with a sample of thirty people in order to be a representative of each regencies/city in Bali.

The validity and reliability of instruments are tested in order to examine whether it measures what it should and to examine the consistency of response given by respondents. The validity test of instruments use the correlation product moment technique by Pearson with a minimum limit of r = 0,3 (Sugiyono, 2014: 150). Reliability test of instrument is conducted by calculating the reliability coefficient using Cronbach's Alpha with a minimum limit of Alpha coefficient > 0,6 (Sekaran, 2003: 312 ; Malhotra, 1999: 282). Both tests use the SPSS program.

This analysis is used to describe the research variables, without making generalizations. Afterwards, data collected is tabulated in a table and a descriptive discussion is conducted. Descriptive size is to provide numbers, in terms of respondent quantity along with the average value of respondents answers or percentage. The causal relationship formulated in this research utilize a model which is not simple, variables in the model have a recursive relationship. This form of causal relationship requires a statistic tool that is capable of explaining this relationship. Therefore, the inferential statistic method utilized in this research is the Structural Equation Modeling (SEM).

RESULTS AND DISCUSSION

Hypothesis Test Result

The hypothesis test is conducted by utilizing the t-test on each partial direct effect paths. The complete analysis result is available in the SEM analysis result. Table 1 shows the results of the direct influence hypothesis test.
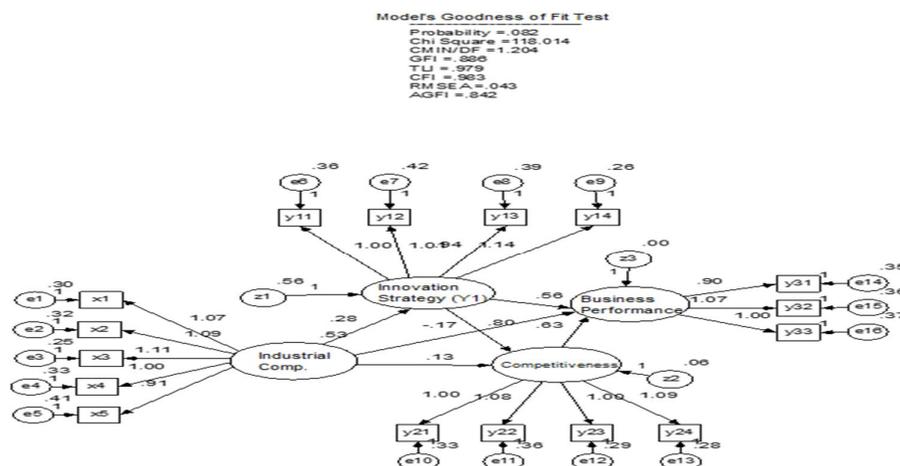
Picture 2
SEM Model

Table 1
   Direct Influence Hypothesis Test Results

Independent Variable	Dependent Variable	Path Coefficient	p-value	Description
Industrial Competition (X)	Innovation Strategy (Y1)	0,258	0,016	significant
Industrial Competition (X)	Competitiveness (Y2)	0,140	0,034	significant
Industrial Competition (X)	Business Performance (Y3)	-0,146	0,025	significant
Innovation Strategy (Y1)	Competitiveness (Y2)	0,890	0,000	significant
Innovation Strategy (Y1)	Business Performance (Y3)	0,530	0,029	significant
Competitiveness (Y2)	Business Performance Y3)	0,529	0,041	significant

Source : Appendix

Hypothesis 1 : Industrial   Competition   (X)   has   direct   influence   on Innovation Strategy (Y1)

SEM analysis result on the influence of Industrial Competition (X) on Innovation Strategy shows a direct effect path coefficient of 0,258 and p-value of 0,016. Since the p-value < 0,05, the **hypothesis** "Industrial Competition (X) has direct influence on Innovation Strategy (Y1)" is accepted. As the path coefficient is positive (0,258), the relationship between the two variables is positive, meaning the higher the industrial competition (X), the higher the implementation of innovation strategy (Y1). Conversely, the lower the intensity of Industrial Competition (X), the lower the implementation of innovation strategy (Y1).

Hypothesis 2 : Industrial   Competition   (X)   has   direct   influence   on Competitiveness (Y2)

From SEM analysis result on the influence of Industrial Competition (X) on Competitiveness (Y2), a direct effect path coefficient of 0,140 and p-value of 0,034 are obtained. Since p-value < 0,05, the **hypothesis** "Industrial Competition (X) has direct influence on Competitiveness (Y2)" is accepted. As the path coefficient is positive (0,140), the relationship between the two variables is positive and significant, meaning the higher the intensity of Industrial Competition (X), the higher the Competitiveness (Y2) of silver businesses in Bali.

Hypothesis 3 : Industrial Competition (X) has direct influence on Business Performance (Y3)

From SEM analysis result on the influence of Industrial Competition (X) on business performance (Y3) a direct effect path coefficient of -0,146 and p-value of 0,025 are obtained. Since p-value 0,025 < 0,05, the **hypothesis** "Industrial Competition (X) has direct influence on Business Performance (Y3)" is accepted. As the path coefficient is negative (-0,146), The relationship between the two variables is negative, meaning the higher the intensity of Industrial Competition (X), the lower the business performance (Y3) silver businesses in Bali. Vice versa.

Hypothesis 4 : Innovation Strategy (Y1) has direct influence on Competitiveness (Y2)

From SEM analysis result of Innovation Strategy (Y1) on Competitiveness (Y2), a direct effect path coefficient of 0,890 and p-value of 0,00 are obtained. Since p-value 0,00 < 0,05, the **hypothesis** "Innovation Strategy (Y1) has direct influence on Competitiveness (Y2)" is accepted. As the path coefficient has a positive sign (0,890), the relationship between the two variables is positive, this means that the higher the innovation strategy (Y1), the higher the competitiveness (Y2), vice versa.

Hypothesis 5 : Innovation Strategy (Y1) has direct influence on Business Performance (Y3)

From SEM analysis result of Innovation Strategy (Y1) on Business Performance (Y3) a direct effect path coefficient of 0,530 and p-value of 0,029 are obtained. Since p-value 0,029 < 0,05, the **hypothesis** "Innovation Strategy (Y1) has direct influence on Business Performance (Y3)" is accepted. As the path coefficient has a positive sign (0,530), the relationship between the two variables is positive and significant, which means the greater the implementation of innovation strategy (Y1), the more silver businesses in Bali are able to increase their business performance.

Hypothesis 6 : Competitiveness (Y2) has direct influence on Business Performance (Y3)

From SEM analysis result of Competitiveness (Y2) on Business Performance (Y3) direct effect path coefficient of 0,529 and p-value of 0,041 are obtained. Since p-value 0,041 < 0,05, the **hypothesis** "Competitiveness (Y2) has direct influence on Business Performance (Y3)" is accepted. As the path coefficient has a positive sign (0,529), the relationship between the two variables is positive and significant, this means that the higher the competitiveness (Y2), the higher the business performance of silver businesses in Bali.

Research Result Discussion

From the calculation of validity and reliability, it was determined that each indicator is capable of measuring the variable and concept being tested and between one concept and another, there is independency. By conducting confirmatory factor analysis (goodness of fit test and factor weightage significance test), it is proved that the overall model fits and the causal relationship can be tested.

Influence of Industrial Competition on Innovation Strategy

Based on Table 1, the variable of industrial competition has positive and significant influence on innovation strategy of silver businesses in Bali. Evidence is shown by the p-value of 0,016 which is lower than 0,05. The relationship between the variables of industrial competition and innovation strategy of silver businesses is shown to be positive, indicated by the inner weight of 0,258. This result can be interpreted as the higher the industrial competition, the higher the implementation of innovation strategy in silver businesses in Bali.

In this research, the indicators of industrial competition are formed from the indicators of the variable of new entrant, existence of substitute product, bargaining power of supplier, bargaining power of buyer, and the existing competition that have important roles in the implementation of innovation strategy by silver businesses in Bali. This research result is in line with the conditions faced by Silver Businesses in Bali. Industrial competition is the factor that prompted the implementation of innovation by silver businesses in Bali.

Influence of Industrial Competition on Competitiveness

Based on Table 1, the industrial competition intensity variable has a significant influence on Competitiveness of Silver Businesses. This results is proved by the obtained p-value of 0,034 which is lower than 0,05. The relationship between the industrial competition variable and competitiveness variable of silver businesses is a positive relationship, seen from the inner weight of 0,140. This result can be interpreted as the higher the industrial competition intensity, the higher the competitiveness of silver businesses in Bali.

In this research, the indicators of industrial competition are formed from the indicators of new entrants, existence of substitute products, bargaining power of supplier, bargaining power of buyer, and existing competition have important roles in the increase in competitiveness of silver businesses in Bali.

Influence of Industrial Competition on Business Performance

Based on Table 1, the variable of industrial competition has significant influence on business performance of silver businesses in Bali. This result is evidenced by the obtained p-value of 0,025 which is lower than 0,05. The relationship between the variables of industrial competition and business performance of silver businesses is negative, shown by the inner weight of -0,146. This result can be interpreted as the higher the industrial competition, the lower the business performance of silver businesses in Bali.

In this research, the indicators of industrial competition are formed from the indicators of new entrants variables, substitute product existence, supplier's bargaining power, buyer's bargaining power, and the existing competition which have important roles in the business performance improvement of silver businesses in Bali.

Influence of Innovation Strategy on Competitiveness

Based on Table 1, the variable of innovation strategy has significant influence on competitiveness of silver businesses. This is proved by the p-value obtained of 0,000 which is lower than 0,05. The relationship between the variables of innovation strategy and competitiveness of silver businesses is a positive relationship, shown by the inner weight of 0,890. This result can be interpreted as the higher the implementation of innovation strategy, the higher the competitiveness of silver businesses in Bali.

In this research, the indicators of innovation strategy are formed from the indicators of product innovation variables, process innovation, design innovation and marketing innovation which have important roles in the increase of competitiveness of silver business in Bali. Innovation strategy has prompted competitiveness of silver businesses in Bali to increase.

Influence of Innovation Strategy on Business Performance

Based on Table 1, the variable of innovation strategy has significant influence on business performance of silver businesses. This result is evidenced by the obtained p-value of 0,029 which is lower than 0,05. The relationship between the variables of innovation strategy and business performance of silver businesses is positive, shown by the inner weight of 0,530. This result can be interpreted as the higher the implementation of innovation strategy, the higher the business performance of silver businesses in Bali.

In this research, the indicators of innovation strategy are formed from the indicators of product innovation variable, process innovation, design innovation and marketing innovation which have important roles in the performance improvement of silver businesses in Bali.

Influence of Competitiveness on Business Performance

Based on Table 1, the variable of competitiveness has significant influence on business performance of silver businesses. This result is evidenced by the obtained p-value of 0,041 which is lower than 0,05. The relationship between the variables of competitiveness and business performance of silver businesses is positive, shown by the inner weight of 0,529. This result can be interpreted as the higher the competitiveness, the higher the business performance of silver businesses in Bali.

In this research, the indicators of competitiveness are formed from the indicators of superior in quality, superior in terms of product design, superior in service, and superior in brand image which have important roles on the performance of silver businesses in Bali.

Research Implications

As stated in the analysis and discussions above, this research, in theory, has been able to discover the relationship between the latent variable of industrial competition on innovation strategy, competitiveness and business performance.

This research has contributed a view for practitioners of the silver businesses in Bali. The contribution of view meant is that the silver business must maintain and strengthen the competitiveness of the company in a comprehensive manner through innovation strategy to be able to increase their business performance

Research Limitation

Various limitations are found in this research, especially due to the following matters. 1) This research only use managers or business practitioners in silver businesses in Bali as respondents, so the result cannot be generalized. 2) The mediating variable examined is the variable of innovation strategy, which in this research significantly influence competitiveness, hence future research should incorporate other mediating variables, such as other business strategies.

Conclusion

Based on the research result, discussions and interpretations in previous chapters, by referring to various theories and previous studies, conclusions can be taken as follows. 1) Industrial competition has positive and significant influence on innovation strategy, meaning that a tight competition prompts silver businesses to conduct innovation strategies. 2) Industrial competition has positive and significant influence on competitiveness, meaning a tight competition is capable of motivating silver businesses in Bali to increase their competitiveness. 3) Industrial competition has negative and significant influence on business performance, meaning that as industrial competition becomes more intense, business performance of silver businesses in Bali will also decrease. 4) Innovation strategy has positive and significant influence on competitiveness of silver businesses, meaning the higher the implementation of innovation strategy, the higher the competitiveness of silver businesses in Bali. 5) Innovation strategy has positive and significant influence on business performance of silver businesses, meaning that the higher the implementation of innovation strategy, the higher the competitiveness of silver businesses in Bali. 6) Competitiveness has positive and significant influence on business performance in the silver industry, meaning that the higher the competitiveness, the higher the business performance of silver businesses in Bali.

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