SMES' INNOVATION OF THE MEDIATOR OF THE INFLUENCE OF THE IMPLEMENTATION OF CSR PROGRAM ON COMPETITIVE ADVANTAGE OF SMES IN MALANG

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Abstract: The purpose of this study is to study the effect of CSR program implementation on SME innovation as a mediator of CSR program influence of competitiveness of Competitive Small Medium Enterprises in Malang City. The analysis unit used is Small and Medium Enterprises (UKM) located in Malang City which gets CSR program from Government or Private sector of 198 SMEs, out of 460 SMEs who received assistance from the CSR program. Analytical tool used is Structural Equation Modeling (SEM). The results show that partnerships with government and private parties through CSR programs can contribute to the improvement of innovation for SMEs, through innovation of products, processes and business systems of SMEs, so as to create competitive advantage.

Keywords: CSR Program, SMEs Innovation, Competitive Advantage.

Small Medium Enterprise is the foundation of the economy in a country, which can save the economic system of a country in economic crisis. In the last decades, small and medium industries are growing very rapidly in some areas, in the sector of food, craft, furniture, until convection or textiles, which become one of the solutions to overcome the unemployment rate and to run the economy of an area. The data from Ministry of Cooperative and SMEs in Indonesia shows employment absorption around 96.77% of the total employees that can be absorbed by small, medium and large business (Ministry of Cooperatives and SMEs Malang, 2016). Malang is a city in which small and medium industries are growing very rapidly. There are 1136 SMEs in Malang city in the sector of handicraft, fashion, and food which is potential as a souvenir (Ministry of Cooperatives and SMEs Malang, 2016). The strategic role of SMEs in the national economic development leads to greater employment absorption and distribution of the results of local development. However, on the other hand, many SMEs face some constraints that should be the attention of the government and private sectors, including the limited working capital, low human resources, and the lack of modes and knowledge owned by SMEs. These conditions lead to the

low competitiveness faced SMEs. Bharadwaj, et al. (1993), explain that competitive advantage is the result of the implementation of the strategy which takes advantage of various resources owned by a company. Competitive advantage allows a company to get superior performance in a certain period of time (Pitts and Lei, 2003).

Bharadwaj, et al. (1993), explain the implementation of strategy in using the resources owned by a business entity, which is called competitive advantage. While Barney (2010), explains that a business entity obtains competitive advantage if their actions can create economic value when they can compete with other businesses. It is supported by the opinion of Satyagraha (1994), which states that competitive advantage is the ability of a business entity (company) to provide more value of its products compared to its competitors, which brings benefits for the customers. A business entity competitively should be able to create innovation in methods, tools, and services that can give a positive impact on the industry in achieving a competitive advantage with resource-based view. Bratic, (2011), used four indicators to measure competitive advantage, namely: price, quality, delivery dependability, product innovation, and time to market. While Maignan & Ferrell (2004), state that priority measurement consists of cost priority, quality priority, delivery priority, flexibility priority, and innovation. The competitive advantage obtained by SMEs cannot be separated from the role of the partnership program, which is known as Corporate Social Responsibility (CSR). While Kihoro and Karanja (2015), explain that collaborative network, innovation, product diversification, and entrepreneurial skills affect competitive advantage.

CSR program can contribute to SMEs by giving an opportunity to SMEs to create innovation in several things. Some studies explain that many CSR programs are given to help SMEs grow in making innovations in its business. A research conducted by Turyakira, et al. (2012), reveals the dimension of Corporate Social Responsibility (CSR) in the small medium enterprise, which are Corporate Social Responsibility (CSR) activities oriented on

workers, market, social, and environment. While Herpen, et al. (2003), states that Corporate Social Responsibility (CSR) is oriented on workers, customers, competitors, society, and environment. While Herpen, et al. (2003), see the implementation of CSR in terms of environmental concerns, customer relations, community, and integrated quality. Basera (2013), concludes that the relevance and the essence of Internal Corporate Social Responsibility (ICSR) are important for competitiveness because it can give good reputation for the company and growth in the business environment which is very competitive. Guiterrez, et al. (2009) and Basera (2013), conclude that Corporate Social Responsibility (CSR) gives a positive impact on competitive advantage.

Previous empirical study shows that in partnership program in the form of Corporate Social Responsibility (CSR) for SMEs, there are still obstacles that can affect the competitiveness of SMEs; therefore, it is interesting to re-study the influence of Corporate Social Responsibility (CSR) program on competitive advantage with the mediation of SMEs' innovation. The implementation of partnership (CSR program) gives a positive contribution to innovation. CSR program can be used as a means to encourage innovation. It means that company makes use of resources owned to empower SMEs as partners to create innovation in solving a variety of problems faced by SMEs. Lesakova (2009), states that the innovation of SMEs is not only the determiner that is very important for the success of the development of SMEs. SMEs are demanded to create innovation because they are under pressure in the market competition.

Based on the description above, a study about innovation as a mediator of the influence of CSR program on the competitive advantage of small medium enterprises in Malang city should be done.

THEORETICAL REVIEW
Corporate Social Responsibility
Corporate Social Responsibility (CSR) is a concept in which a company decides to voluntarily contribute to society in order to be better (Lubis, 2006).

Maignan, et al. (2004) define CSR as follows:

"A business acts in socially responsible manner when its decision and account for and balance diverse stakeholders interest".

In the definition above, it is emphasized the need of balance concern on the diverse interests of stakeholders in every decision and action taken by businessmen through responsible behavior socially. Lawrence & Weber (2005), also explained that: "Corporate social responsibility means that corporation should be held accountable for any its actions that affect people, their communities, and their environment". (Social responsibility means that company should be responsible for every action that affects people, community, and their environment). In the explanation, it is meant that the elements of CSR which are very influential to the action done organization are the society and the environment in which the company operates. According to Schermerhorn in Suharto (2006), social responsibility is a form of the concern of business organization to act in its own way in serving the interests of the organization and the external interest of society. In social responsibility pyramid, Carroll (1979), explains that the total conceptualization of four parts of company's social responsibility includes the idea that company does not only have an economic and legal obligation, but also the responsibility of ethics and philanthropic.

Innovation of Small Medium Enterprises

According to Damanpour (1991), innovation is the introduction of tools, system, law, products or services, a new technology of production process, a new structure or administration system, or new planning system to be adopted by an organization. The ability owned by small medium industry is very determined by a number of factors. They are human resources, technology mastery, access to information, and output and input market. Small companies face particular problems in the formulation of innovation strategy related to the deficiency arising due to the limitation of resources and coverage of the ability of technology. The risk in

responding to the market, the opportunity of technology, and choosing the appropriate action and time (not too early or late) make innovation strategy as the main challenge for their management (Hadjimonalis, 2000).

The small company has a number of unique styles such as rare resources, the influence of low market, and informal communication, which makes it different from the big company (Dickson, et al., 1997). The first concept of innovation is economic development and entrepreneurship (Rosli & Sidek, 2013). Innovation consists of the elements of creativity, research and development (R&D), innovation in new process, new products, and new technology (Lumpkin and Dess, 2001). innovation is change and improvement of resources in creating value added (new wealth) for SMEs. Innovation is also seen as the creation of ideas, the development of product invention, process, and customer service (Thornhill, 2006). Innovation plays an important role, not only for big companies but also for SMEs. Sandvik (2003), states that innovation is one of the most important competitive tools and is generally seen as a core value to measure the ability of the company.

Competitive Advantage

The use of resources has many potential advantages for an organization such as greater achievement of efficiency and lower cost, quality improvement, greater probability of market share, and greater profitability (Collins, 2004). An analytical approach which is called Resource-Based View (RBV) emphasizes the improvement of competitive advantage from the strategic resource of organization (Dierickx and Coll, 1989). Competitive advantage allows a company to obtain superior performance in a certain period (Pitts and Lei, 2003). The main thing of Resource-Based View (RBV) is that companies are different fundamentally because it has a set of resources (Grant (2002), Fleisher and Bensoussan, (2003)). Four criteria of resources of company achieve sustainable competitive advantage, namely: (a) the resources should add a positive value for the company, (b) resources should be unique or rare among candidate competitors and

present competitors, (c) resources should be difficult to be imitated, and (d) resources cannot be replaced by other sources of the competitor companies. In the point of view of RBV, a company cannot expect to buy or take the sustainable competitive advantage owned by other organizations because those advantages are resources which are rare, difficult to be imitated, and irreplaceable (Barney 2010).

The source of the ability to compete is the ability of a company to distinguish themselves from its competitor in the eyes of consumers. The second one is work method with low cost or much profit. For the company or business which deals with innovative products, the speed of launching new designs is very important. Time to market is the time between the ideas of new product design until the product is marketed (Bratic, 2011). Competitive advantage is measured in four indicators, namely: Price, Quality, Deliver Dependability, Product Innovation and Time to Market (Bratic, 2011).

HYPOTHESIS DEVELOPMENT

Research that reveals the implementation CSR program as innovation in developing a program. The research conducted by Bocquet (2011), explored the relationship between the implementation of CSR and innovation by using survey. The research distinguished two clusters, where cluster 1 is a company that adopts CSR program in every event to achieve its goals. While the result of a research conducted by Conesa (2014), shows that CRS is positively related to the innovation of organization and the performance of the company, and the innovation of organization mediates the relationship between CSR and the performance of the company. Moghli, et al. (2012), know the impact of innovation on competitive advantage in the sector of banking in Jordan. Competitive advantage can be seen from the dimension of (cost, time, quality, and flexibility). The research result shows that innovation has a positive and direct impact on competitive advantage through the dimension of (time, quality, cost, and flexibility) and the bank should support innovation in all aspects of business and operation.

Kihoro and Karanja (2015), by doing empirical study entitled "The Youth Enterprises" in facing the global economy are required to have competitive advantages in their business. The empirical study is done on free market 2030 and the competitiveness of SMEs in facing it.

Based on the empirical study, thus the hypothesis of this research is presented as follows:
H1: CSR program significantly affects the innovation of SMEs.

A business entity that has a sustainable competitive advantage should be able to generate the product which has differences with its competitors. To design the market offer that delivers bigger value than competitors who are trying to win the same market, a business entity has to understand the customers and develop the strong relationship with its customers. Kihoro and Karanja (2015), conducted an empirical study entitled "The Youth Enterprises", stating that in facing global economy, business entities are required to have the competitive advantage in running their business. The empirical study is conducted on free trade 2030 and the competitiveness of SMEs in facing it. Moghli, et al. (2012), showed that innovation has a positive and direct impact on competitive advantage through the dimension of (time, quality, cost, and flexibility). Noorani Ibrahim (2014), explains that innovation gives the positive impact on online industry to achieve the competitive advantage with resource-based view.

Based on the empirical study, the hypothesis of this research is presented as follows:
H2: Innovation of SMEs significantly affects competitive advantage

The sources of the competitiveness of SMEs in the level of innovation, entrepreneurship, human capital, financial resources, market potential and business strategy through the implementation of CSR program. Turyakira, et al. (2012), concludes that CSR activities can help improve the life of SMEs and may offer great opportunities to the competitiveness of business, both local and global.

Turyakira, et al. (2014), showed that worker-oriented CSR activities, society-oriented CSR activities, and market-oriented CSR activities significantly affect the competitiveness of SMEs.

Based on the empirical study, thus the hypothesis of this research is presented as follows:
H3: CSR program significantly affects competitive advantage

Costa C., et al. (2015), explains that CSR program gives a contribution to improving innovation. Ubius (2009) stated that CSR program has a correlation with marketing and sales innovation and technical innovation. Kihoro and Karanja (2015), explain that collaborative network, innovation, product diversification and entrepreneurial skills affect competitive advantage. Rojas, et al. (2015), proves that there is no relationship between the innovation activity and competitiveness.

Based on the empirical study, the hypothesis of this research is presented as follows:

H4: Innovation of SMEs mediates the influence of CSR program on competitive advantage

METHOD
Research Design

This research is an explanatory research, which explains the causal relationship and hypothesis test. The reason that underlies the use of explanatory research is that the objective of this research is to prove empirically and explain the influence of corporate social responsibility program on competitive advantage mediated by innovation.

Research Population and Sample

In this study, the analysis unit used is Small Medium Enterprises (SMEs) that get the assistance of CSR program located in Malang city and meet the criteria; there are 460 SMEs as the populations. Based on the number of populations of 460 SMEs, by using Isaac and Michael table with error sampling rate by 5%, the number of samples obtained

**Table 1   Operational Matrix of Research Variables**

No	Variable	Indicator	Source
1	CSR Program (X_1)	Market-oriented CSR Environment-oriented CSR Worker-oriented CSR Society-oriented CSR *Shared Vision* Open mindedness	Turyakira, et al. (2014); Herpen, et al. (2003); Salavaou (2008); Maignan and Ferrell (2004)
2	Innovation of SMEs(Y_2)	*Product innovation* *Process innovation* Business System Innovation Innovative Performance Production Performance Marketing Performance	Nybakk Erlend (2012); Sidek (2013); Lesakova (2009); Martines Serra, et al. (2016), Fransen (2013); Rosli and Sidek (2013)
3	Competitive advantage (Y4)	*Price* *Quality* Deliver Dependability Innovation of Product *Time to market*	Li, et al (2006); Bratic (2011); David, et.al. (2011); Mihalic and Buhalis (2013); Thing Chi, et al. (2009)

is 198 SMEs. The sampling method used was probability sampling, with a technique of proportional area random sampling, which is the sampling technique proportionally to each region.

Research Instrument

Research instrument is a tool used by researchers in collecting data by measuring a variable containing indicators. The variables in this study can be described as follows:

Figure 1 Path diagram of SEM analysis result
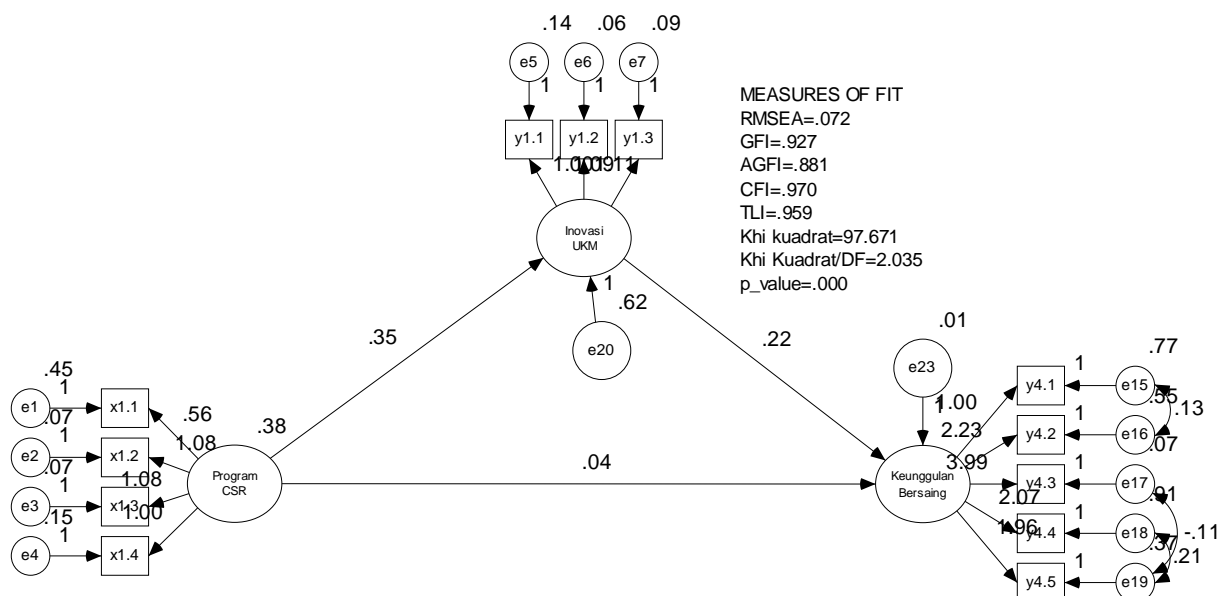
Data Analysis Method

Data analysis technique used in this study is Structural Equation Model (SEM). SEM is a method based on strong theory so that SEM method is used to test a theory, both new theory developed by the researcher herself and old theory, in which empirical test is required to prove it. SEM is not only used to form the theory of causality but to test the existing theory of causality.

Structural Model Test: Research Hypothesis Test

After the model has met the requirements, then the next thing to do is regression weight/ loading factor test. The test is done by comparing the probability value with an error rate at the level of 5%. The value of the probability (p) <0.05 shows significant influence and P> 0.05 shows not a significant influence.

Mediation Test

Mediation variable is a variable that becomes the mediator of the relationship between an explanatory variable and dependent variable. This study involves 1 mediation variable, namely innovation of SMEs. The test is conducted to determine whether an innovation variable can play a role as a mediation variable. Mediation test is used to find out whether the mediation variable is complete mediation or partial mediation.

RESULTS AND DISCUSSIONS
Research Results

The goodness of fit model test must be conducted to ensure that the structural model which has been made can explain the direction of the relationship and the direction of influence appropriately and avoid bias assessment. The complete model test is used to describe whether hypothesis

model is supported by empirical data or not. The complete results of SEM analysis can be seen in Figure 1:

The model evaluation proposed shows that overall evaluation of the model to construct generated the value above critic; therefore, it can be said that the model is acceptable or in accordance with the data because there is no guidance of modification indices so the next model suitability test can be conducted.

Hypothesis Test Result

Structural Equation Model (SEM) analysis by using AMOS 6.0 was used to test the hypotheses proposed by the researcher. As the foundation to test the hypotheses, the Critical ratio (Cr) was used from the results of output regression weight. The hypotheses proposed will be accepted if P value < the significance of 5%. The results of the analysis are presented in Table 2.

Table 2   Analysis Results of *Regression Weight*

Relationship			Path Coefficient	C.r.	p-value	Note
Innovation of SMEs	<-	CSR Program	0.262	3.551	0.000*	Sig.
Competitive Advantage	<-	CSR Program	0.108	2.085	0.037*	Sig.
Competitive Advantage	<-	Innovation of SMEs	0.861	3.164	0.002*	Sig.

Note: *) significant in level of 5%

The test results of the influence of CSR program on the innovation of SMEs generate value of path coefficient by 0.262, with value Cr amounted to 3.551 in the significance level of 0.000. Those results indicate that CSR program directly affects the innovation of SMEs. From those results, it can be explained that the higher level of the involvement of the company in CSR activities, the greater the innovation created by SMEs. The influence of innovation of SMEs on competitive advantage generated the value of coefficient path amounted to 0.861 with Cr value of 3.164 in the significance level of 0.002. Those results explain that innovation of SMEs will have a competitive advantage if SMEs always create innovation such as product innovation, process innovation, and market innovation. The influence of CSR program on competi-

tive advantage generated value of path coefficient amounted to 0.108 with Cr value of 2.085 in the significance level of 0.037. Those results explain that competitive advantage obtained by SMEs cannot be separated from the role of CSR conducted by government and private parties.

The results of the influence of CSR program on competitive advantage without mediation of SMEs' innovation can be seen in Table 3.

The coefficient value of the influence of CSR program on competitive advantage controlled by SMEs' innovation has smaller coefficient value (decrease) than the influence of CSR program on competitive advantage without mediating variable of SMEs' innovation, with the coefficient value of 0.597. Thus, it can be said that SMEs' innovation plays a role as partial mediation of the indirect ef-

Table 3   The Results of the Influence of CSR Program on Competitive Advantage without Mediation of SMEs' Innovation

Relationship			Path Coefficient	C.r.	p-value	Note
Competitive Advantage	<-	CSR Program	0.597	3.856	0.000*	Sig.

Note: *) significant in level of 5%

fect of the influence of CSR program on competitive advantage. The results of this test indicate that CSR program can improve competitive advantage through SMEs' innovation and then SMEs' innovation will be able to improve competitive advantage.

DISCUSSIONS

Based on the result of the hypothesis test, CSR program can help SMEs encourage them to create innovation. CSR program conducted by the company can take advantage of SMEs' resource to produce innovation in terms of products, the process of production, and business network innovation. This result is in line with the opinion of Conesa (2014), measuring CSR program in several dimensions, namely CSR with employees, CRS with customers, CSR with suppliers and CSR with local community environmental), related to SMEs' innovation., in which each variable of CSR influences the innovation of organization. Costa C., et al. (2015), explains that CSR program contributes to improving the exploratory innovation in export performance. Ubius (2009), stated that CSR program has a correlation to marketing and sales innovation.

SMEs' innovation will be able to support competitive advantage if SMEs always create innovation on product generated, process, market, and business information system regularly. Moghli, et al. (2012) showed that innovation has a positive and direct impact on competitive advantage through the dimension of (time, quality, cost, and flexibility). Noorani Ibrahim (2014), explains that to be able to compete competitively, the company should be able to explore and create innovation in methods, tools, and service. Kihoro and Karanja (2015), explain that collaborative network, innovation, product diversification and entrepreneurial skills affect the competitive advantage. Rojas, et al. (2015), prove that there is a relationship between innovation activity and competitiveness in companies in San Luis Potosi City, Mexico.

This result explains that there is an influence of the implementation of CSR program on competitive advantage conducted by government and private; therefore, there is an obligation of CSR pro-

gram to change the view and behavior of businessmen. The coaching process is expected to create a competitive advantage for SMEs. This result is in line with the research conducted by Turyakira, et al. (2012), concluding that CSR activities can help improve the life of SMEs and may offer great opportunities for the competitiveness of business, both local and global. Turyakira, et al. (2013), showed that employee-oriented CSR activities, society-oriented CSR activities, and market-oriented CSR activities significantly affect the competitiveness of SMEs. SMEs' innovation plays a role as partial mediation of the indirect effect of the influence of CS program on competitive advantage. The test results indicate that CSR program can improve competitive advantage through SMEs' innovation and then SMEs' innovation will be able to improve competitive advantage. These results explain that the partnership program in the form of CSR between government or private parties and SMEs in the form of the provision of market-oriented capital, environment-oriented capital, employee-oriented capital (workforce) and society-oriented capital can create innovation for SMEs such as product innovation, process innovation, and market innovation. The innovation process conducted by SMEs which runs well will have an impact on competitive advantage, which can be seen from the greater achievement of efficiency, lower cost, quality improvement, and greater market share and profitability.

CONCLUSIONS AND SUGGESTIONS
Conclusions

The results of this research indicate that CSR program directly affects the innovation of SMEs; therefore, the better and directed CSR program in the helping SMEs, then the greater the innovation created by SMEs in the product, process, business system, the production performance, product innovation performance, and marketing performance. The results of statistic test show that SMEs' innovation affects the competitive advantage of SMEs, so SMEs' innovation will have a competitive advantage if SMEs always create innovation such as product innovation, process innovation, and mar-

ket innovation. The influence of CSR program on excellence explained that competitive advantage obtained by SMEs cannot be separated from the role of CSR conducted by government and private parties. While mediation test concludes that the coefficient value of the influence of CSR program on competitive advantage controlled by SMEs' innovation has smaller coefficient value (decrease) than the influence of CSR program on competitive advantage without mediation variable of SMEs' innovation. Thus, it can be said that SMEs' innovation plays a role as partial mediation of the indirect effect of the influence of CSR program on competitive advantage.

Suggestions

The implementation of CSR program is very influential in creating a competitive advantage of SMEs, either in the orientation of market, environment, labor (workforce) and society. This is because the implementation of CSR program makes SME able to create innovation in product, process, business system, and create innovation on performance, products, and market. In order to implement sustainable and real CSR, in addition to providing capital and monitoring for determining whether the funds are used as intended, government and private parties have to provide training and learning orientation for SMEs. Therefore, further research is expected to assess the other variables that affect competitive advantage of SMEs, for instance, variable of learning orientation, business network, business environment, entrepreneurial orientation, and supply chain management. This study has several limitations that need to be considered; some respondents still cannot understand several questions in the questionnaire and have a different perception of the questions given.

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