PARTNERSHIP STRATEGY AND COMPETITIVE ADVANTAGE TO IMPROVE THE PERFORMANCE OF MSMEs IN THE CREATIVE INDUSTRY

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Abstract: The purpose of this study is to examine the effect of partnership strategies on the performance of creative industries through competitive advantage. The population of this research is Micro, Small, and Medium Enterprises (MSMEs) in Malang City, amounting to 113,000 units in 2018 (in food processing, handicraft, agriculture, and clothing). The respondents are the owners of MSMEs because they can provide information based on the objectives of this research. The number of samples in this study was taken using Slovin’s formula, with a sampling error rate of 5%. The total number of sample obtained was 100 MSMEs. The sample was taken using random sampling method. The analytical method used was Structural Equation Modeling (SEM). The results showed that partnership strategy affects competitive advantage. Competitive advantage can mediate the effect of partnership strategy on MSME performance.

Keywords: Partnership Strategy, Competitive Advantage, MSME Performance


Micro, Small, and Medium Enterprises (MSME) become a place for productive employment because MSMEs are labor-intensive businesses. It does not require certain requirements such as level of education, expertise (skills) of workers. Also, it uses relatively little business capital, and technology used tends to be simple. Currently, developing MSMEs are divided into several categories, namely agriculture, animal husbandry, fisheries, forestry, electricity, gas, clean water, trade, hotels, restaurants, private services, and processing industries, one of which is creative industries. Creative industries, or commonly known as creative economy are economic activities (including industrial activities) by empowering human creative power as an asset to add economic value (Bekraf, 2018). The creative economy is essential to keep up with world trends and competitive ability in global markets that remain and hold on to local capabilities.

In the context of developing the creative economy in many cities in Indonesia, creative industries have a higher potential to develop in big cities like Malang, one of cities with strong potential and competitiveness through the best creative in-
distry products. That is because innovative human resources support Malang as capital for the economic development of the people of Malang City. The best superior products of Malang include ceramic crafts, embroidery, furniture, jewelry (accessories), calligraphy, food, and others.

Seeing the potential of the creative industry in Malang City, MSMEs running in creative industry (MSME) always strive to achieve their business goals. The goal is the result of the final process of all operational activities of SMEs; therefore, they need to do work hard achieve it. To find out the level of goal achievement, measurement is required. Ratnawati (2017) explained that goal achievement of MSMEs could be measured by the success of performance improvement.

MSMEs play an important role as a place for entrepreneurs and fund providers to develop their business. It is helpful to overcome several problems, such as unemployment, job creation, innovation, and long-term economic development (Abiodun and Eniola, 2014). In running its business, MSME always tries to achieve its business goals. The goal is the result of the final process of all operational activities of SMEs; therefore, they need to do work hard achieve it. Nelly (2005) explains that the achievement of company goals can be measured by performance. Company performance is defined as the achievement of organizational goals regarding sales growth, profitability and the stock market (Lin, 2008). Albahussin and Elgaraihy (2013), Gimenez and Ventura (2015), and Omega (2006) stated that business unit is measured by financial performance, innovative performance, production performance, and marketing performance.

Performance improvement of MSMEs is determined by how MSMEs operate partnership relationships between business partners and related parties. Anoraga (2002) revealed that partnership is a form of cooperation of two or more mutually beneficial business actors. Partnership occurs when two or more parties are willing to support each other and complement each other to achieve common goals. This business partnership is carried out between small business units and large business sectors. With this partnership, small business units are expected to live side by side and parallel to large businesses. Jabar et al. (2011) prove that for manufacturing companies, partnership strategy in technology industry has a significant positive effect on organizational performance. Saparuddin and Bado (2011) showed that partnership has a significant and positive influence on the performance of non-financial and financial companies. That proves indications of marketing access, development, and training of human resources (HR), access to capital, and the relationship between management and organization management to business performance. Supriyadi and Ekawati (2014) suggested that partnership strategy has a significant and positive effect on business performance. Yasa et al. (2013) also found that the role of partnership strategies significantly influenced the performance of MSMEs.

Some differences from previous researchers regarding the effect of partnership strategies on business performance open a research gap. Research on competitive advantage can emerge as a mediating effect of partnership strategy on business performance, which is the gap of this research.

Entrepreneurs that have good partnerships will form a broad production network and product distribution (Saparuddin and Bado, 2011). The performance improvement of SMEs contributes to competitive advantage. It can be seen in greater efficiency, minimized costs, improved quality, market share and greater profitability (Ratnawati et al. 2018). Gunasekaran, Patel and Mchaughey (2003), Honey and Lin (2001) as well as Kuei, Li and Ragu Nathan (2005) explained that building strategic partnerships between suppliers and MSMEs is operationalized with five types of activities that are generally carried out, namely: emphasis on high quality, long-term relationships with suppliers, solving problems together with suppliers, ongoing improvement programs with suppliers, as well as planning and setting goals with suppliers. In meeting the conditions of resources, partnership is very helpful to achieve competitive advantage. Meyskens (2010)
argues that diversity of partnerships is positively related to competitive advantage. Partnerships help to fulfill the desired conditions of these resources which lead to competitive advantage. Wu et al. (2011) revealed that partnership has a positive correlation with competitive advantage. If a company has a good partnership with its supply chain, it will have a positive effect on competitive advantage.

Respatya (2001) explained that both product and service companies should begin to pay attention to a concept of competitive advantage so that they can survive and ultimately make a profit. Yusuf, Altaf, and Nabeshima (2004) stated that through rapid customer and technological change, companies should build sensitive supply chains to create a competitive advantage. Independent companies will find it difficult to allocate resources in the long run. The use of resources has many potential advantages for organizations such as achieving greater efficiency, lower costs, quality improvement and bigger possibility of market share as well as profitability (Collis, 2004). A competitive advantage allows companies to obtain superior performance in a certain period (Pitts and Lei, 2003). Four criteria for a company’s resources to achieve sustainable competitive advantage include: (a) resources should add positive value to the company, (b) resources must be unique or scarce among potential competitors and current competitors, (c) sources power should be unique and difficult to imitate, and (d) resources cannot be replaced with other sources by competitors. In the perspective of Resources Base View (RBV), companies cannot expect to buy or take sustainable competitive advantages of another organization, because competitive advantages are scarce, unique, difficult to imitate, and irreplaceable resources (Barney, 1991).

Competitive advantage encourages MSMEs to stay afloat and gain profits. Competitive advantage also encourages MSME performance through achieving profits, developing sales, and increasing the number of consumers. That is demonstrated in research which was conducted by Meutia (2013) that competitive advantage has a significant influence on business performance. Majeed (2011) stated that competitive advantage has a positive effect on performance. According to Eniola et al. (2016), conceptual performance of SMEs can be used as a measurement of competitive advantage through identification of internal and external resources of the organization so that SMEs can improve their competitiveness. Sirivanh (2014) stated there is a positive and significant relationship between performance and competitive advantage.

The fundamental question commonly raised by observers of strategy management is how to improve the performance of creative industries at MSMEs, which mainly focused on partnership strategies and competitive advantage. Based on these explanations, it is interesting to do a research study that tries to analyze competitive advantage as mediating the effect of partnership strategies on the performance of creative industries (MSMEs).

**CONCEPTUAL FRAMEWORK**

Malang City is one of the regions that have strong potential and competitiveness through the creative industry. In running its business, creative industry (MSME) always strives to achieve its business goals as measured by MSME performance. The performance improvement of MSMEs is determined by how MSMEs carry out partnership relationships between business partners and related parties. Jabar et al. (2011), Saparuddin and Bado (2011), Supriyadi and Ekawati (2014), and Yasa et al. (2013) proved that the partnership strategy has a significant positive effect on business performance. Different results were shown by Arend and Wisner (2005), Rezaei, Ort, and Trott (2018) and Goerzen (2007). They stated that the partnership strategy has no significant effect on business performance.

Kihoro and Karanja (2015) stated that SMEs could achieve a competitive advantage if they can create higher value than their competitors. Yusuf, Altaf, and Nabeshima (2004) showed that through rapid customer and technological change, companies should build sensitive supply chains to create competitive advantage. Meyskens (2010) argued that partnership diversity is positively related to competitive advantage. Wu et al. (2011) revealed that partnership has a positive correlation with competi-
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Hypothesis Development

The performance improvement of MSMEs is determined by how MSMEs carry out the partnership between business partners and the related parties. Entrepreneurs who have good partnerships will form a broad production network and production distribution (Saparuddin and Bado, 2011). Jabar et al. (2011), Saparuddin and Bado (2011), Supriyadi and Ekawati (2014), and Yasa et al. (2013) proved that partnership strategy has a significant positive effect on business performance. Based on the study above, then a hypothesis that can be arranged is as follows:

\[ H_1: \text{Partnership Strategy significantly influences the performance of MSMEs} \]

Respatya (2001) explains that both product and service companies should begin to pay attention to the concept of competitive advantage so that companies can survive and ultimately make a profit. Meyskens (2010) argued that partnership diversity is positively related to competitive advantage. Wu et al. (2011) revealed that partnership has a positive correlation with a competitive advantage.

Meanwhile, competitive advantage drives a company to survive and make a profit. That is demonstrated in research which was conducted by Meutia (2013). She found that competitive advantage has a significant influence on business performance. Majeed (2011) stated that competitive advantage has a positive effect on performance. Based on the study above, then a hypothesis that can be arranged is as follows:

\[ H_2: \text{Competitive advantage mediates the effect of partnership strategy on the performance of MSMEs} \]

METHOD

This study focused on business units in several sectors (food processing, handicraft, agriculture, and clothing) in Malang City. There were 113,000 MSMEs in 2018. The research respondents are the owners of MSMEs because they can provide information in accordance with the objectives of the research problem. The number of samples in this study was taken using Slovin’s formula, with a sampling error rate of 5%. The total number of samples obtained was 100 MSMEs. The sample was taken using random sampling method. Because the characteristics of MSMEs are homogeneous in terms of capital and employees.

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Figure 1 Conceptual Model
Indicators on the Partnership Strategy (Variable X1) consist of: an emphasis on high-quality MSMEs, long-term relationships between MSMEs and suppliers, joint problem solving, ongoing improvement programs with suppliers, as well as planning and setting common goals. The competitive advantage (Variable Y1) consists of the following indicators: Resources should add positive value, resources should be unique or scarce, resources should be difficult to imitate, and resources cannot be replaced with other resources. Indicators on Performance of MSME (Variable Y2) consist of Financial performance, Innovative performance, Production performance, and Marketing performance.

In assessing respondents’ answers, the variable was measured using a Likert scale with a range of 1-5. They indicate Strongly Disagree, Disagree, Neutral, Agree and Very Agree. The analytical method used in this study was Structural Equation Modeling (SEM), using the help of AMOS 6.0 software.

The presence or absence of the direct effect was tested by the t-test at a significant level \( \alpha = 5\% \). Meanwhile, investigating an indirect effect is conducted by comparing the total effect with the direct effect. If the total effect is greater than the direct effect, the competitive advantage variable as a variable mediates the effect of the partnership strategy on MSME performance.

**RESULTS**

**Instrument Testing**

The results of validity and reliability testing of the instrument used in this research are presented in Table 1 below:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Item</th>
<th>Correlation</th>
<th>Status</th>
<th>Coefficient</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>( R_{\text{count}} )</td>
<td></td>
<td>( \alpha )</td>
<td></td>
</tr>
<tr>
<td>Partnership Strategy</td>
<td>X1.1</td>
<td>0.715</td>
<td>Valid</td>
<td>0.795</td>
<td>Reliable</td>
</tr>
<tr>
<td></td>
<td>X1.2</td>
<td>0.689</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X1.3</td>
<td>0.731</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X1.4</td>
<td>0.731</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X1.5</td>
<td>0.473</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competitive Advantage</td>
<td>X2.1</td>
<td>0.715</td>
<td>Valid</td>
<td>0.890</td>
<td>Reliable</td>
</tr>
<tr>
<td></td>
<td>X2.2</td>
<td>0.899</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X2.3</td>
<td>0.772</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>X2.4</td>
<td>0.823</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance of MSMEs</td>
<td>Y1.1</td>
<td>0.754</td>
<td>Valid</td>
<td>0.840</td>
<td>Reliable</td>
</tr>
<tr>
<td></td>
<td>Y1.2</td>
<td>0.723</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Y1.3</td>
<td>0.776</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Y1.4</td>
<td>0.785</td>
<td>Valid</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The results of validity and reliability tests conducted on the question items show that all items of research questions are valid and reliable because they meet the criteria (the reliability number is > 0.6). The results of testing the validity (Corrected item-total Correlation) showed a value > 0.4.

**Analysis Results of Goodness of Fit in SEM**

The theoretical model in the conceptual framework of the study is considered fit if empirical data support it. The results of the goodness of fit overall model test are in accordance with the results of the SEM analysis. Whether empirical data support the hypothesis model or not is given in Figure 1.
Based on the results of Goodness of Fit Overall presented on Figure 1, it can be seen that all criteria show that the model is good and has met the cut-off value, so the model is categorized as suitable and feasible to use so that that interpretation can be made for further discussion.

Results of Hypothesis Testing

Structural Equation Model (SEM) analysis using AMOS 6.0 was used to test the hypotheses proposed by researchers. It was also used as a basis to test the Critical hypothesis ratio (Cr) of the output results in Weight regression. The research hypothesis will be accepted if p-value < of significance of 5%, then the null hypothesis is rejected. The results of hypothesis testing are presented in Table 2 below:

Table 2  Results of Hypothesis Testing

<table>
<thead>
<tr>
<th>Effect Between Variables</th>
<th>Estimation</th>
<th>Through Competitive Advantage</th>
<th>Total Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partnership Strategy → Competitive Advantage</td>
<td>0.283*</td>
<td>-</td>
<td>0.283</td>
</tr>
<tr>
<td>Partnership Strategy → Performance of MSMEs</td>
<td>0.336*</td>
<td>0.283 x 0.281 = 0.079</td>
<td>0.451</td>
</tr>
<tr>
<td>Competitive Advantage → Performance of MSMEs</td>
<td>0.281*</td>
<td>-</td>
<td>0.281</td>
</tr>
</tbody>
</table>

Note: * p < 5%

The effect of the partnership strategy on the performance of MSMEs produced an estimated value of 0.336, at a significance level of 5%; therefore, the better the partnership strategy undertaken by MSMEs, the better the performance of MSMEs. An indirect effect of partnership strategy on MSME performance through competitive advantage has a total coefficient of 0.451. It is greater than the direct effect of partnership strategy on MSME performance (amounted to 0.336). These results indi-
cate that competitive advantage can mediate the effect of partnership strategies on MSME performance.

DISCUSSIONS
Effect of partnership strategy on the performance of MSMEs

The results of hypothesis testing prove that the performance of MSMEs is influenced by the partnership strategy carried out by MSMEs in Malang. These results show that business actors who have good partnerships will form a broad production network and product distribution due to an emphasis on high product quality, long-term relationships with suppliers, joint problem solving with suppliers, ongoing improvement program with suppliers as well as planning and setting goals with suppliers. If producers and suppliers can implement competent partnership strategies, both parties can increase value, reduce costs and improve business performance.

Partnership strategy undertaken by MSMEs can improve financial performance with a return on total assets owned and operational activities. Performance improvement of innovations made by MSMEs with a pattern of partnership strategies with suppliers leads to efficient work process methods. MSMEs also can offer quality new products and services to consumers, and MSMEs can provide percentages for new products in each product portfolio. MSME production performance is formed through a partnership strategy with suppliers through effective production volume elasticity, production speed and product delivery accuracy to customers and can reduce production costs, total sales and have a good market share. Partnership strategy improves the marketing performance of MSMEs by maintaining quality matches until the products are sold. MSMEs can increase total sales and have a good market share.

This result is consistent with Anoraga’s (2002) opinion that partnership is a form of cooperation of two or more mutually beneficial entrepreneurs. A partnership occurs when there is a common desire to support and complement each other to achieve a common goal. A business partnership is carried out between small businesses and large business sectors. With this partnership, small businesses are expected to live side by side and parallel to large business units. Entrepreneurs that have good partnerships will form a broad production network and product distribution (Saparuddin and Bado, 2011). These results corroborate the studies which were conducted by Jabar et al. (2011), Saparuddin and Bado (2011), Supriyadi and Ekawati (2014), and Yasa et al. (2013) that partnership strategy has a significant positive effect on business performance.

Competitive advantage mediates the influence of partnership strategy on the performance of MSMEs

Based on the analysis results, it was found that competitive advantage can mediate the effect of the partnership strategy on the performance of MSMEs. It means that partnership strategy through an emphasis on high product quality, building long-term relationships with suppliers, joint problem solving with suppliers, continuous improvement program with suppliers as well as planning and setting goals with suppliers makes MSMEs have a competitive advantage. It is indicated by several things: 1). The resources of MSMEs add positive value by improving the skills of MSME owners in both production and sales; 2). MSME owners can produce unique or rare products, difficult to replicate, and cannot be replaced with other sources. Therefore, performance of MSMEs is improved.

The results of this study are in accordance with a research which was conducted by Respatya (2001) that both product and service companies should begin to pay attention to a concept of competitive advantage so that they can survive and ultimately make a profit. Meyskens (2010) argued that partnership diversity is positively related to competitive advantage. Wu et al. (2011) revealed that partnership has a positive correlation with competitive advantage. Meanwhile, competitive advantage pushes a company to survive and make a profit. That is demonstrated in research which was conducted by Meutia (2013) that competitive advantage has a significant influence on business performance. Majeed (2011) stated that competitive advantage has a positive effect on performance.
Conclusions

The partnership strategy undertaken by MSME in Malang contributes to MSME performance. Competitive advantage can mediate the effect of the partnership strategy on MSME performance in Malang. Partnership strategy is carried out with an emphasis (focus) on product quality, fostering long-term relationships, continuous improvement programs as well as planning and setting goals with suppliers. Further research is expected to study other variables that influence the competitive advantage of MSMEs, for example, learning orientation, environment, entrepreneurial orientation, and supply chain management. MSME owners should expand their partnership strategy, not only with suppliers but also fellow MSME owners and related institutions, so they can work together in improving performance and achieving competitive advantage. For the government of Malang City, the partnership program the government and agencies (education and department of cooperatives and UMKM) can guide, facilitate and educate MSMEs as well as provide capital in the form of assets, funds or training or seminars held to increase competitive advantage so that it can develop into productive and competitive business actors.

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