The Influence Analysis of Industry Attractiveness and Capabilities on the Transient Competitive Advantage of Micro, Small and Medium Enterprises in Indonesia

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Abstract---The business of Small and Medium Enterprises in Indonesia (SME; Indonesian: Usaha Kecil Menengah/UKM) in Indonesia has given positive impacts towards the economic growth of the people.The analysis of Competitive Advantage of Micro, Small and Medium Enterprises (MSME, Indonesian: Usaha Mikro, Kecil, dan Menengah/UMKM) in Indonesia can be the base for developing MSME/UMKM businesses by finding dominant factors explaining the competitive advantage through the analysis process. This research is aimed to explain the influence of Industry Attractiveness and Business Capability on Competitive Advantage of MSME/UMKM in Indonesia. The research method applied is descriptive verificative with survey approach. Through on-line survey there were 52 data of MSME with those who chose SME or the people with a higher position than them as the observed units. The second order structural equation modelling is used to prove the research hyphothesis that Industry Attractiveness and Business Capability influence the Competitive Advantage of MSME/UMKM. The second order modelling applied in this research helps to find the most dominant dimension explaining every research variable and also the most important indicator constructing every dimension used to measure the research variable. The second order method with repeated measurement approach is easy to apply with the help of plspm packages on an open source program R. This method finds that all dimensions and indicators are valid with standardized loading factor value greater than the minimum limit determined by various literatures and the most influential variable in Competitive Advantage of MSME/UMKM is Business Capability.

Keywords: PLS, Second order, MSME/UMKM, SME/UKM

I. INTRODUCTION

The success of a company's business will be influenced by its industrial environment. Industrial Revolution 4th(4IR) has created not only new chances for business, government, and individuals; but also new differences and polarisation within and between economy and society. Such condition will further create a more intense competition, especially in business (Global Competitiveness Report 2018). To anticipate this condition, the government of Indonesia will apply some policies, and some of them are by setting up MSME/UMKM and creative industry as the main aggregator; and focusing on leading sectors driving the Indonesian economy which have the potentials to absorb large labor force such as: manufacturing industry, agribusiness, and tourism (Kementrian Koordinator Bidang Perekonomian Indonesia 2018). The policies are in line with priority programs at the Ministry of SME Cooperation

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(Kementerian Koperasi UKM). namely: increasing competitiveness and productivity of MSME/UMKM, strengthening the institution and expanding the market (Kementrian Koperasi UKM,2018).

At the moment, MSME/UMKM have shown important roles in Indonesian economy. It can be seen from the contribution of MSME/UMKM towards the Gross Domestic Product (GDP) which reaches the percentage of 61.41%. The percentage of Indonesian MSME/UMKM has increased from 1,67% to 3.1% in early 2017, contribution towards economic growth comes to 99%, and absorption of labour up to 96.71% (Laporan Tahunan Annual Report of Menteri Koperasi dan UMKM 2017). The existence of MSME/UMKM is powerful because they spread over the whole country and dominate about 99% of business activity in Indonesia with more that 98% micro business. Productive sector of MSMEUMKM can absorb more than 107,6 million of Indonesian people and contributes 60,6 % towards the Indonesian GDP. The power of MSME/UMKM in building Indonesian economy is due to some advantages i.e. : specific focus ability, national flexibility, low cost, fast innovation (Himpunan Pengusaha Pribumi Indonesia (HIPPI), 2018).

The competitiveness index of Indonesia at the moment is the 45th out of 140 countries within Global Competitiveness Index 2018, moving up from previous level of the 47th . However, Indonesia is still below Malaysia (25), Rusia (43), and Thailand (38) where the components studied in the index are, among others: institution, infrastructure, readiness of information and communication technology, macro economy stability, health, skills, market segmen, labour force, finance system, business dynamic, and innovation capacity, (Laporan World Economic Forum /WEF report, Global Competitiveness Index 2018). The Indonesian government stated that Indonesia has a fast growing potential market and can be the center of innovation to keep us with the country's economy and the key to success of the economic growth in the future. (Minister of Industry of Indonesia,2018). Yet, the position of Indonesia at global innovation index ranks 85th in the world and 14th in SEAO (South East Asia), still below Malaysia, and Singapore , in which the   criteria assessed in innovation index cover : institution, human capital, infrastructure, market sophistication business sophistication, knowledge and technology and creativity   (Global Innovation Index, GII report 2018).

At the moment Indonesian MSME/UMKM faces some obstacles in running the business, where the identification result of secondary data from experts in general shows some obstacles such as access to capital and technology, brand identity (packaging, uniqueness and specificity, product competitiveness especially in quality and price, human resource capacity, innovation and creativity, marketing market intelligence, on line marketing, business competition) regulation and bureaucracy.

To create continuous competitiveness, business practitioners must have the capability to respond fast to the environment (Altscshuller et al, 2010). However,   competitiveness is temporary and will be more effective by emphasizing on the temporary profit exploitation to benefit for longer period, (Prof Rita McGrath,2013).

The research result of Hosseini & Sheik (2012) who conducted a study on 86 business leaders in food industry in Iran showed that there is a relationship between environment uncertainty and competitive advantage and business performance. While research done by Wu (2010) on 253 businesses in Taiwan showed there is a connection between environment turbulence, dynamic capability, and competitive advantage.

The Indonesian government has issued various policies to increase business capacity of MSME/UMKM but in reality – considering the current condition and the analysis conceptually, and the previous research result; the business performance of MSME/UMKM has not met the expected level. It is assumed that MSME/UMKM has not yet been able to optimally adjust to their dynamic business environment and improve their capability so that they are not yet able to create competitiveness. This research is aimed to investigate how industrial environment and capability influence the temporary competitive advantage among MSME/UMKM in Indonesia .

II. THEORETICAL FRAMEWORK

To create competitive advantage, the power of industrial environment must be taken into consideration. Benoit Chevalier & Lenos Tri Georgis (2011-88) stated that what triggers profitability is: firstly, whether the company is in an attractive industry or not which can be seen through 5 Porter's strength; further, by looking at the competitiveness level of the company within the industry from the view point of cost and revenue compared to its competitors.

To create competitive advantage, companies have to be able to respond to their business environment and adjust their capability to the demand of their business environment J. Davis Hunger,Thomas L Wheelen (2011:58) stated

that company capability is the ability to evaluate resources and capability based on the function of company business which covers: marketing, finance, research, and development, human capital, and information system.

Porter (1980) stated that companies are considered having business advantages if they are able to perform above average or profit above normal rate (rent) continuously. McGrath (2013) completed Porter's opinion, saying that companies have to be more competitive with transient competitive advantage rather than continuous competitive advantage because continuous competitive advantage will be lessened by the change on environment which is uncertain and unstable; so that determining the strategy must be based on temporary business advantage by exploiting short term chances fast and creatively, reallocating resources to organisation elements, crating innovation advantage and effective leadership pattern and mind set.

III. METHODOLOGY

To answer the research aim, descriptive and verificative method is applied through survey technique The descriptive and verificative method has been chosen as it is used to explain the causality connection between Industry Attractiveness and business capability towards Competitive Advantage on MSME/UMKM.

III.I. Variable Operation

There are three research variables operated i.e.: industry attractiveness, business capability and competitive advantage. The operation of the variables is presented in Table 1 as under:

Tabel 1: *Variable Operation*

Variable	Dimension	Indicator
Industry Attractiveness	Threat from new comers	- Product differentiation is the value received by customers as a signpost among various products and services.
		- Economic scale is efficiency achieved by companies which have entered the industry because they are able to produce big volume - Government policy is limitation and control from the government related to license requirements to raw materials and tax incentive. - Capital requirement is the need to invest big finance resources in order to be able to compete.
	The bargaining power of supplier	- The number of industry supplier - The cost of changing supplier - Suppliers become competitors - Substitute products from supplier
	The bargaining power of buyers	- The cost of shifting buyers - Purchase volume
	Industry Competition	- The number of competitors - Growth of industry - Industry demand (new comers) - Competition intensity - Price war intensity - Competitor's strength
Business Capabilty	Marketing Function	- Determining price service - Formulating company promotion program - Setting up company's product quality

	The function of Finance Management	- Cash flow management (capital availability)
		- Operational cost management
		- Knowledge to analyse company's finance
	Function of Human Capital Management	- Recruitment of human capital
		- Management of employees' remuneration
		- Human capital development
		- Training for human capital
Competitive Advantage	Creating Balance	- Balance between stability and innovation
		- Flexibility
		- Focus on market exploration
		- Bureaucracy
		- Innovation culture
	Resources relocation	- Resources are managed by central management
		- Management by focusing on searching new business chances to develop
		- Make changes aggressively and proactively towards old competitive old assets
		- Conduct access to assets rather than buying assets
		- Resource efficiency in all organization elements
	Innovation Advantage	- Conduct assessment (evaluation) on the current condition and decide growth gap
		Creating harmony between senior management and commitment towards innovation
		- Preparing the process of innovation management
		- Preparing the process of innovation management
		- Implementing real program: demand identification, market size, prototyping, business model design
	Leadership pattern	- Listen, understand, respond to information that is difficult to accept in intense competition
		- Responsive
		- Risk taking
		- Trying new things to learn
		- Sharing knowledge to the organization.

III.II. Research Respondents

The total respondents collected in this research are 52 MSME/UMKM. The number represents MSME/UMKM in Indonesia sufficiently. Survey was done within the period of 2018 through online survey

III.III. Characteristics Responden Respondent Characteristics

Respondent Characteristics are important part of research data analysis. The respondent characteristics of this research are presented in Table !

Table 2: *Sample characteristics*

Demography	Category	Frequenci	Percentage (%)
The growth of UKM assets	Not yet reached one year	2	3.85

	Below 10%	4	7.69
	10 to 30%	41	78.85
	Above 30%	5	9.62
Respondents' Education	Master's Degree (S2)	15	28.85
	Doctorate's Degree(S3)	3	5.77
	Bachelor's Degree (S1)	34	65.38
Respondents' Position	General Manager	4	7.69
	Manager	16	30.77
	Owner	28	53.85
	Senior Manager	4	7.69

N=52
Data Source : respondent data which have been anlyzed by author

III.IV. Partial Least Square-Path Modeling

Partial Least Square Path Modeling (PLS-PM) Model is used to test the hypothesis whether there is influence of Industry Attractiveness and capability on the Competitive Advantage of MSME/UMKM (Henseler, Ringle, & Sinkovics, 2009). The application of this method is based on some methodological considerations. Firstly, this research involves structural model which is a relationship among variables. Secondly, the variables involved are latent variables, i.e.: the variables which are measured using dimensions and indicators; and the number of research sample is not big enough. Further, the application of PLS-PM does not need assumption, like in the application of covariance structured base method, which is known as moment structured model. The basic principle of PLS-PM implementation is to test the relationship between latent variable and its indicator, by minimazing error variance between exogeneous variance and endogeneous variance (Meznar & Nigh, 1995). The implementation of PLS proved to provide better result that multiple regression analysis technique which assumes zero error (Henseler, Ringle, & Sinkovics, 2009). The reasons explained above become the base to implement the PLS-PM as an alternative structural equation modelling method with valid result especially for research in marketing and business.There are two PLS-PM models, i.e.: measurement model and structural model. Measurement Model, also called outer model, describes relationship between latent variables and the related measurements observed (items and indicators). The structural model, on the other hand, also called inner model, determines relationship among different latent variables (Edwards & Bagozzi, 2000). Modelling is done through two stages. The first step is conducting measurement modelling using PLS algorithm. The second step, structural modelling is estimated using ordinary least square (OLS) method and the test is based on Bootstrap method (Chin, 1998). PLS-PM is a method suitable to be implemented in second order modelling because it is easy to obatin solution from the parameter estimation without complex assumptions.
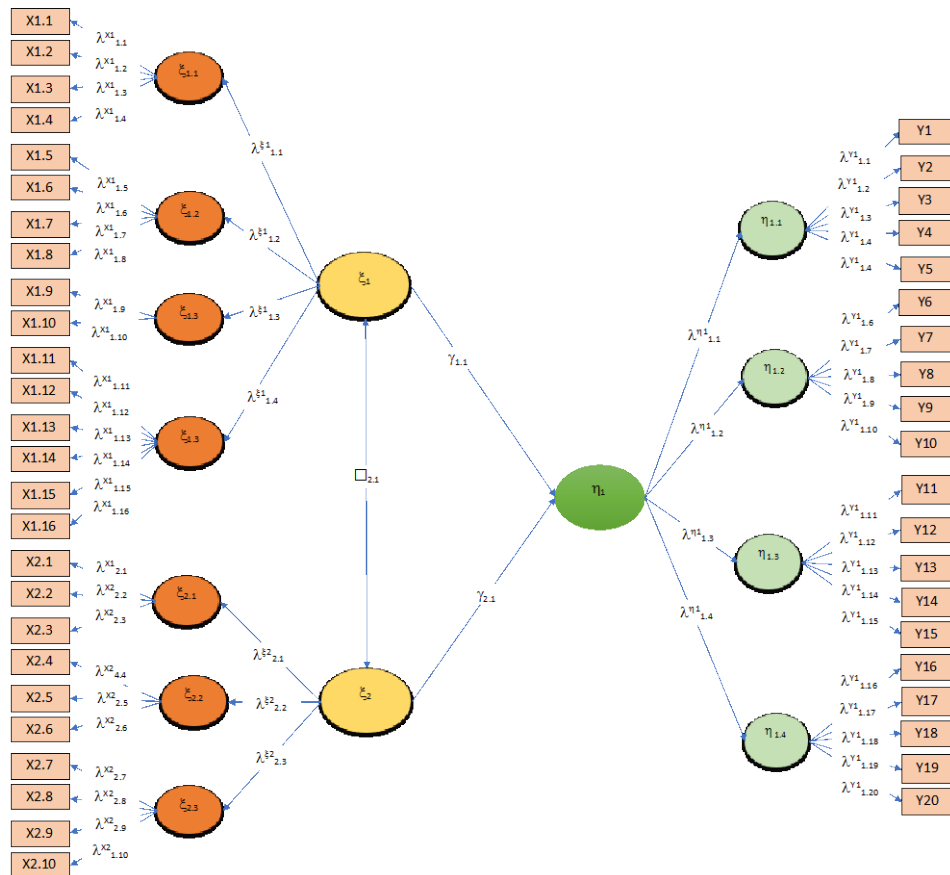
Figure 1:*Second Order Model*

The influence of company industri attractiveness and business capability on the competitive advantage is presented in Figure 2. Every research variable is shown to be measured in two steps. The first step is measured using the dimensions; and at the second step, the dimensions are measured using several indicators. Second order modelling in this research is using repeated measurement method. Second order modelling is considered capable of explaining the relationship among variables in details and more clearlly. The analysis is done using software R with package PLS-PM. The next stage is presenting the main result of this research.

IV. RESULTS AND DISCSUSSION

Based on data of 52 respondents, PLS-PM modelling was conducted, resulting in the following measurement and structural models.

IV.I. Measurement Model Evaluation

The first stage done before explaining the measurement and structural model, the models' goodness of fit is analysed based on Goodness of fit index. Table I present the GoF absolute value. The value which is greater than 0.50 shows that the model suits the data well.

Tabel 3:*Goodness of fit index*

	GoF
Absolute	0.639

Table 1 shows a high value for GoF. The value is close to 1, so that it can be concluded that it suits the data.

Measurment model analysis is aimed to find the validity and reliability of indicators in measuring the dimensions and dimensions in measuring the reasearch variable which is done with two approaches. The first, calculating composite reliability (Fornell & Larcker, 1981), which must be higher than 0,70 (or at least not less than 0,60). The

value of composite reliability is greater than 0.700 indicates that every research item provides high reliability and high covergence validity. Still related to reliability, by using Average Variance Extracted (AVE), the value of AVE must be greater than 0.500. AVE is also often used to evaluate discriminant validity. The second, analysing the standardized loading factor to test the strength of each item for every indicator. The value must be above 0,70 (or at least less than 0,40, Henseler, Ringle, & Sinkovics, 2009: 299). If one or some items observed have standarized loading factor value less than 0.4, composite reliability must be evaluated first. If the value of compostie reliability is less than 0.600, the item can be expelled from the analysis However, if the composite reliability value is less than , 0.400, it may remain for analysis.

Tabel 2 presents measurement model statitics covering the standardized loading factor, composite reliability and AVE. The values of Standardized loading factor range from 0.611 to 0.935. The lowest value is less than 0.700, however indicators with standardized loading value 0.611 remains in the analysis because the AVE value is greater than 0.500. As shown in Tabel 2, the AVE values range from 0.603 to 0.847.

Tabel 4:*Measurement Model Statistics*

Code	Indicator	Standarized Loadind Factor	Communality	Composite Reliability	AVE
Industry Attractiveness				0.877	0.641
Threat from new comers		0.795	0.632	0.9	0.694
X1.1	Product differentiation which is a product and service currently delivered by business practitioners to customers which are different from one another.	0.818	0.669		
X1.2	Economic scale or level of easiness for newly come companies producing products in a large number of quantities at more competitive price than it is from the existing and experienced companies who have entered the industry earlier	0.858	0.736		
X1.3	The implementation of easiness level in giving license to future new comers who will enter the industry	0.854	0.729		
X1.4	Capital requirement which must be provided by new comers in the industry	0.8	0.64		
Bargaining Power of supplier		0.803	0.645	0.912	0.722
X1.5	The number of supplier of the industry	0.795	0.632		
X1.6	Cost of changing supplier	0.879	0.773		
X1.7	Suppliers become competitors	0.875	0.766		
X1.8	Substitute products from supplier	0.848	0.719		
Bargaining power of buyers		0.722	0.521	0.917	0.846
X1.9	Cost of changing buyers	0.917	0.841		
X1.10	Purchase Volume	0.923	0.852		
Industry Competition		0.876	0.767	0.942	0.729
X1.11	Number of competitors	0.795	0.632		
X1.12	Industry growth	0.886	0.785		
X1.13	Industry demand (new customers)	0.801	0.642		
X1.14	Competition Intensity	0.908	0.824		
X1.15	Price war intensity	0.873	0.762		
X1.16	Competitor strength	0.855	0.731		
Business capability				0.91	0.772
Marketing function		0.805	0.648	0.821	0.605

X2.1	Determining service price	0.851	0.724		
X2.2	Formulating company promotion program.	0.716	0.513		
X2.3	Setting up company's product quality	0.761	0.579		
Finance Management Function		0.934	0.872	0.87	0.692
X2.4	Cash flow management (Capital availability)	0.884	0.781		
X2.5	Management of operation cost	0.873	0.762		
X2.6	Knowledge of analyse company's finance	0.729	0.531		
Function of Human capital management		0.892	0.796	0.892	0.779
X2.7	Recruitment of human capital	0.866	0.75		
X2.8	Employees' remuneration management	0.935	0.874		
X2.9	Employees' development	0.844	0.712		
X2.10	Training for employees	0.615	0.378		
Competitive Advantage				0.927	0.645
Creating Balance		0.886	0.785	0.882	0.604
Y1	Balance of stability and innovation	0.893	0.797		
Y2	Flexibility	0.819	0.671		
Y3	Focus on market exploration	0.732	0.536		
Y4	Bureaucracy	0.611	0.373		
Y5	Innovation Culture	0.801	0.642		
Resources relocation		0.874	0.764	0.883	0.603
Y6	Resources managed by central management	0.787	0.619		
Y7	Management which focuses on searching business chances to grow	0.848	0.719		
Y8	Make changes aggressively and proactively on old competitive assets	0.803	0.645		
Y9	Make access to assets rather than buying assets	0.69	0.476		
Y10	Resources efficiency to all organization elements	0.747	0.558		
Innovation Advantage		0.924	0.854	0.907	0.661
Y11	Conduct assessment (evaluation)on current condition and decide growth gap	0.848	0.719		
Y12	Create harmony between senior management and commitment towards innovation	0.886	0.785		
Y13	Prepare the process of innovation management	0.763	0.582		
Y14	Prepare the process of innovation management	0.78	0.608		
Y15	Conduct concrete program: demand identification, market size, prototyping, business model	0.782	0.612		
Leadership pattern		0.803	0.645	0.921	0.703
Y16	Listen, understand, and respond information difficult to accept in intense competition condition	0.86	0.74		
Y17	Responsive	0.923	0.852		

Y18	Risk Taking	0.639	0.408		
Y19	Trying new things to learn	0.892	0.796		
Y20	Sharing knowledge to the organization	0.847	0.717		

For industry attractiveness, the most dominant dimension is the dimension of product bargaining power with the substitute product supplier as the most important indicator. For capability variable of MSME/UMKM business, the most dominant is the dimension of finance management function with cashflow management as the most important indicator. Further, for compatitive advantage variable, the most dominant dimension is innovation advantage with creating harmony between senior management and commitment towards innovation as the most important indicator.

Besides analysing internal reliability of measurement model, we also analyse the discriminant validity by comparing the correlation of latent variable with the square root value of AVE. This method was first introduced by Fornell-Larcker (1981) with a simple thought that indicators must be able to explain dimensions rather than explaining the dimensions or other resesearch variables. This criterion is verified if the square root of AVE for each research variable is far greater that the correlation of Pearson variable and/or the dimensions.To guarantee convergence validity of one construct, the AVE must be greater than 50, which indicates that the research variables explain at least 50% of the indicator variance (Götz, Liehr-Gobbers, & Krafft, 2009; lihat Tabel 2). As reported in Tabel 2 and 3, the result supports the convergence validity and discriminant of each reflective indicator . The advantage of second order method implementation is that , we can find the most dominant dimension when measuring every research variable so that the right strategies can be formulated.

The most dominant dimension in measuring the Industry Attractiveness variable is the dimension of competition intensity. Competition intensity is determined to be able to create industry attractiveness of SME/UMK. The most dominant dimension in measuring business capability variable is the function of Finance Management; while the most dominant dimension in measuring competitive advantage dimension is innovation advantage.

Tabel 3:*Test of Discrimant Validity*

	IA	K	KB	IA1	IA2	IA3	IA4	K1	K2	K3	KB1	KB2	KB3	KB4	AVE
IA	1														0.801
K	0.496	1													0.879
KB	0.564	0.592	1												0.803
IA1	0.795	0.488	0.467	1											0.833
IA2	0.803	0.481	0.473	0.531	1										0.85
IA3	0.722	0.455	0.387	0.523	0.535	1									0.92
IA4	0.876	0.281	0.47	0.553	0.553	0.516	1								0.854
K1	0.563	0.805	0.611	0.472	0.582	0.533	0.341	1							0.778
K2	0.421	0.934	0.496	0.432	0.426	0.427	0.201	0.706	1						0.832
K3	0.356	0.892	0.472	0.395	0.311	0.285	0.211	0.508	0.763	1					0.883
KB1	0.548	0.452	0.886	0.368	0.483	0.349	0.506	0.574	0.35	0.309	1				0.777
KB2	0.536	0.582	0.874	0.512	0.46	0.383	0.394	0.561	0.539	0.453	0.763	1			0.777
KB3	0.418	0.557	0.924	0.303	0.356	0.308	0.364	0.524	0.468	0.477	0.759	0.764	1		0.813
KB4	0.462	0.462	0.803	0.444	0.352	0.304	0.376	0.471	0.36	0.391	0.578	0.528	0.688	1	0.838

The analysis result shows that every correlation value among contructs is lesser than the square root of the AVE, which in turn, indicates that the measurement model has good discrimant validity.

IV.II. Descriptive Analysis

Tabel 4. *Descriptive Analysis*

Code	Indicator	Mean	Sd	Min	Median	Max
Industry Attractiveness		3.575	0.872	1	3.5	5
Threats from new comers		3.486	0.887	1	3.25	5
X1.1	Product differentiation which is a	3.462	0.896	2	3.5	5

	product and service currently delivered by business practitioners to customers which are different from one another.					
X1.2	Economic scale or level of easiness for newly come companies producing products in a large number of quantities at more competitive price than it is from the existing and experienced companies who have entered the industry earlier	3.615	0.820	1	4	5
X1.3	The implementation of easiness level in giving license to future new comers who will enter the industry	3.423	0.936	1	3	5
X1.4	Capital requirement which must be provided by new comers in the industry	3.442	0.895	2	3	5
Bargaining Power of supplier		3.370	0.915	2	3	5
X1.5	The number of industry supplier	3.365	0.817	2	3	5
X1.6	The cost of supplier change	3.288	0.893	2	3	5
X1.7	Suppliers become competitor	3.462	1.019	2	3	5
X1.8	Substitute product from supplier	3.365	0.929	2	3	5
Bargaining power of buyers		3.404	0.861	2	3.75	5
X1.9	Cost of buyer change	3.288	0.848	2	3	5
X1.10	Purchase volume	3.519	0.874	2	3.5	5
Industry Competition		3.859	0.836	2	4	5
X1.11	Number of competitor	3.865	0.886	2	4	5
X1.12	Industry growth	3.788	0.825	2	4	5
X1.13	Industry demand (new customers)	3.750	0.837	2	4	5
X1.14	Competition intensity	3.942	0.777	2	4	5
X1.15	Price war intensity	3.942	0.826	2	4	5
X1.16	Power of competitor	3.865	0.864	2	4	5
Business Capability		3.139	0.925	1	3	5
Marketing Function		3.314	0.948	1	3	5
X2.1	Setting up service price	3.365	0.950	1	3	5
X2.2	Formulating company promotion program .	3.558	0.895	2	4	5
X2.3	Setting up company product quality	3.019	1.000	1	3	5
Function of Finance Management		3.109	0.945	1	3	5
X2.4	Cash flow management (capital availability)	3.231	0.962	1	3	5
X2.5	Operation cost management l	2.942	0.978	1	3	5
X2.6	Knowledge to analyse company finance	3.154	0.894	2	3	5
Function of Human Capital Management		3.024	0.890	1	3	5
X2.7	Recruitment of human capital	2.865	0.886	1	3	5
X2.8	Management of employee's remuneration	3.000	0.886	1	3	5

X2.9	Employees' development	2.865	0.971	1	3	5
X2.10	Employees' training	3.365	0.817	2	3	5
		3.522	0.863	1	3.4	5
Competitive Advantage						
Creating Balance		3.550	0.823	1	4	5
Y1	Balance of stability and innovation	3.635	0.793	2	4	5
Y2	Flexibility	3.673	0.834	2	4	5
Y3	Focus on market exploration	3.654	0.837	2	4	5
Y4	Bureaucracy	3.135	0.793	1	3	5
Y5	Innovation Culture	3.654	0.861	2	4	5
		3.438	0.834	1	3	5
Resources Relocation						
Y6	Resources managed by the central management	3.212	0.977	1	3	5
Y7	Management focus on searching business chances to grow	3.538	0.803	2	4	5
Y8	Change old competitive assets aggressively and proactively	3.288	0.848	1	3	5
Y9	Conduct access towards assets rather than buying new assets	3.327	0.810	2	3	5
Y10	Resource efficiency on all organization elements	3.827	0.734	2	4	5
		3.492	0.846	2	3.3	5
Innovation Advantage						
Y11	Conduct assessment (evaluation)on current condition and decide growth gap	3.538	0.851	2	3.5	5
Y12	Create harmony between senior management and commitment towards innovation	3.423	0.915	2	3	5
Y13	Prepare the process of innovation management	3.365	0.793	2	3	5
Y14	Prepare the process of innovation	3.615	0.820	2	4	5
Y15	Conduct concrete program: identifying demand, market size, prototyping, business model design	3.519	0.852	2	4	5
		3.608	0.950	1	3	5
Leadership Pattern						
Y16	Listen, understand, and respond information difficult to accept in intense competition condition	3.538	1.019	1	3	5
Y17	Responsive	3.673	0.901	2	4	5
Y18	Risk-taking	3.404	0.955	1	3	5
Y19	Trying new things to learn	3.577	0.957	2	3	5
Y20	Sharing knowledge to the organization	3.846	0.916	2	4	5

Every indicator, dimension, and variable has an average value which ranges from 2.86 up to 3.94 with a median 3 generally; so that it can be concluded that the majority of respondents provide good response on every item of the research variables. This result is also supported the majority median 4 or higher.

IV.III. Evaluation of Structural Model

After measurement model is analysed and it is found out that all indicators and dimensions are valid and reliable; the structural model is finally analysed. Structural model analysis covers the analysis of model capability of explaining the variables being studied, which is also known as predictability analysis; and to test the research hypothesis. The capability level of the model in explaining research variable competitive advantage is explained by the determination coefficient (R^2). Determination coefficient is also used as a measurement to find out the

predictability of a model. As a measurement of predictive power, the value of R^2 can be interpreted in the same way as it is obtained in double regression analysis. The value of 0,447 for a full model shows that the model is "strong" (Chin, 1998: 323). Further, the verification of model capability is conducted to predict endogenous variable by calculating Q^2 Stone-Geisser. A positive value of Q^2 proves that the value observed is reconstructed well and that the model has predictive relevance (Henseler, Ringle, & Sinkovics, 2009). The value 0,02 shows little predictive capability; 0,15 indicates moderate predictive capability; while 0,35 shows high predictive capability. Hence, it can be concluded that the model which is developed has strong predictive capability. The value of Q^2=0.447 explains that the predictive capability of this model is at the category "strong"

Tabel 5:*Predictability Analysis*

Endogenous Variable	R^2	Stone-Geisser's Q^2
Competitive Advantage	0.447	0.447

Tabel 5 reports the predictive values for Competitive advantage variableas the only endogenous latent variable. From Tabel 5, we can conclude that endogenous latent variable Competitive Advantage can be predicted well with the model developed. All endogenous variable in this research show the positive value of Q^2 , which proves that industry attractiveness variable and business capability variable of SME/UKM have the ability to predict competitive advantage variable very well. Significance evaluation of path among latent variables is required to find out how far each predictive variable contributes to endogenous variables. This research not only observes the significance of the relationship among variables, but also evaluates conformity of the influence direction of the industry attractiveness and business capability variables. These two variables are supposed to have a positive mark, or in other words improvement in industry attractiveness and business capability of SME/UKM can increase the competitive advantage of MSME/UMKM.

Tabel 6 reports the coefficient of structural model β for every inner model path, and the value of test-t and its significance. It also provides the summary of support in our number 1 and 2 hypothesis.

Table 6: *Path Significance of Inner Model Relationships.*

Hypothesis	From		To	Coefficient β	p.value t-statistics (2 tailed)	Hypothesis supported? Y (yes) / N (no)
H1a	Industry Attractiveness	→	Competitive Advantage	0.358	0.005	Y
H1b	Capability of UKM			0.414	0.001	Y

The analysis results finds out that research variables Industry Attractiveness and capability of MSME/UMKM influence competitive advantage. The most influential variable is business capability of SME/UKM with the value of influence 0.414 deviation standard. The complete model is presented in the following path diagram:
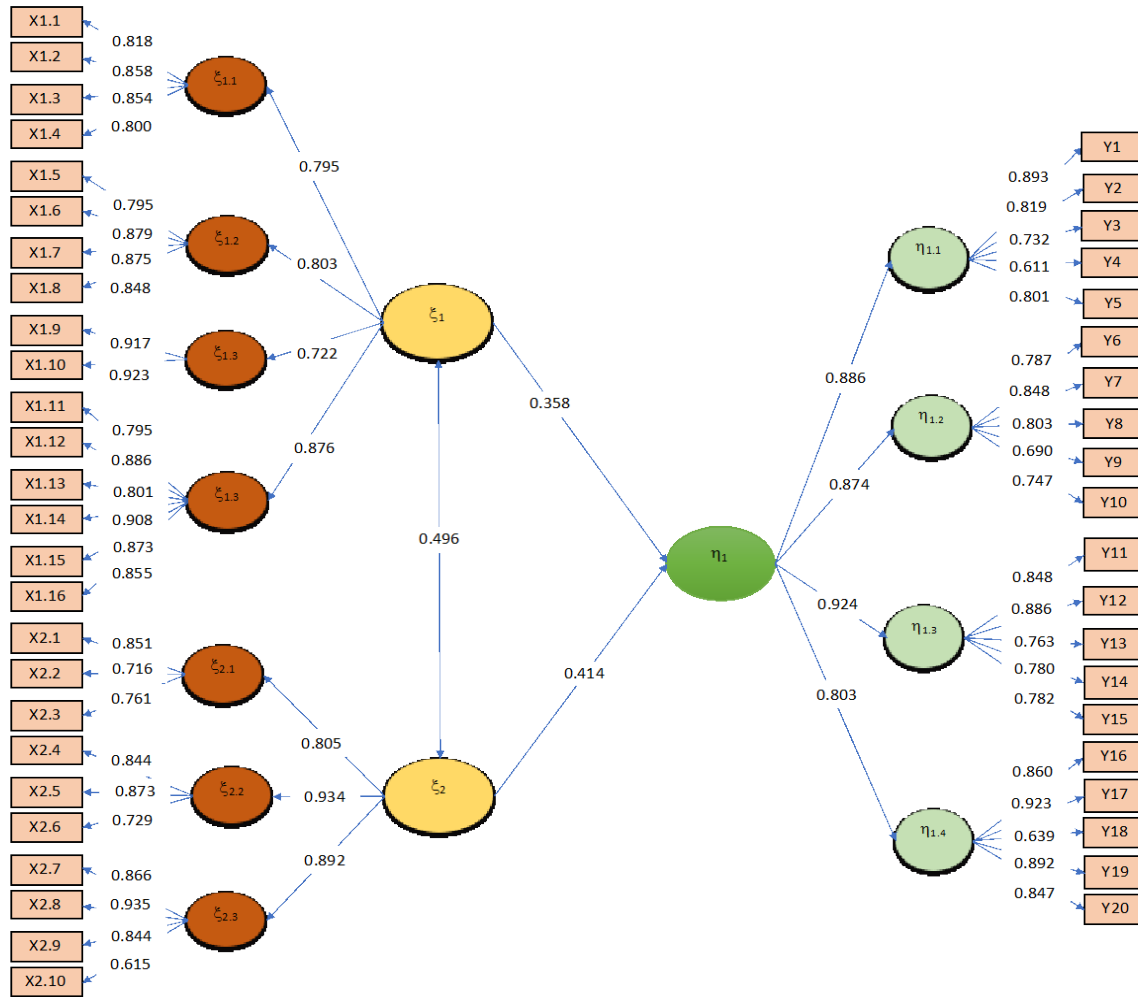
Figure 4. *Partial Least Squares Model*

Figure 4 explains the inner model estimation in a path diagram of the hypothesis that there is an influence of industry attractiveness and business capability of SME/UKM variables on the competitive advantage of SME/UKM in Indonesia. It does not only show that there is a strong influence from the industry attractiveness and capability variables on the competitive advantage, this model also explains that there is a positive relationship between industry attractiveness and business capability This relationship indicates that improvement in industry attractiveness tends to be in line with the business capability.

Importance and Performance Analysis

After the most dominant variable in influencing competitive advantage is discovered , the following is the presentation the the importance and performance analysis to find out which dimensions that have to be the priority of improvement in order to increase the level of competitive advantage.
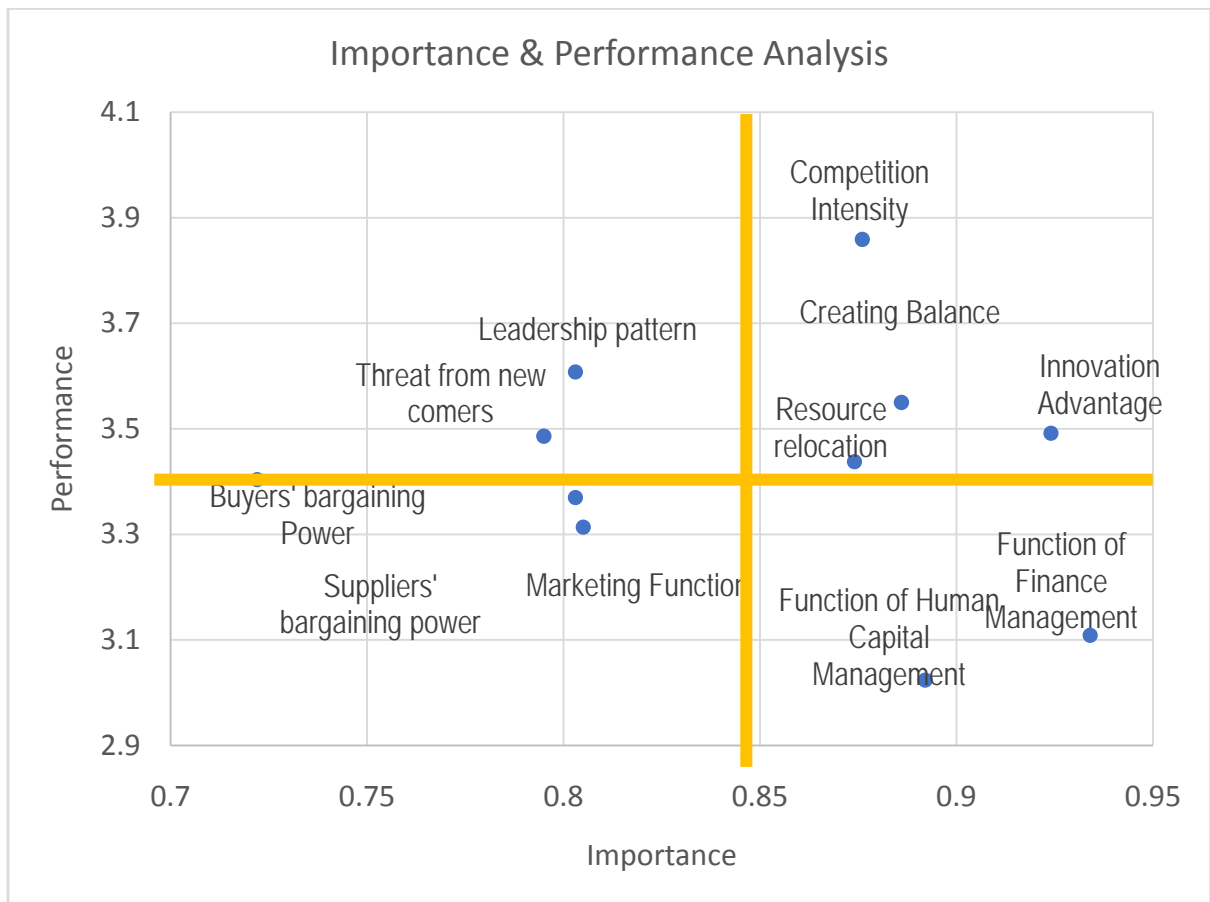
Based on the picture above, it is shown that two dimensions having a high degree of importance and low performance are the function of Human Capital management and the function of finance management. These dimensions must be made the focus on improving the competitive advantage of SME/UKM. The dimensions with a high degree of importance and performance include competitors' identity, creating work balance, resource relocating, and innovation advantage.

V. CONCLUSION

Second order modelling which is implemented in this research, helps us find the most dominant dimension in explaining every research variable and the most important indicator in constructing every dimension used to measure the research variables. The implementation of second order method with repeated measurement approach is very easy with the help of plspm packages from open source program R. This method shows that all the dimensions and indicators are valid, having the standardized loading factor greater than the minimum limit determined in various literatures. Second order modelling makes us possible to signify and understand research variables more accurately and in a better way .Through the PLS analysis, a strong support on the research hypothesis proposed is identified The research finding is confirming that Industry Attractiveness and business capability variables influence the competitive advantage of SME/UKM positively and significantly. This research can be used as the base of developing the theory of MSME/UMKM performance in Indonesia. Capability variable of SME/UKM is the variable having an important role in improving coompetitive advantage of MSME/UMKM.

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Expert's statement ;
    -    President Of the Republic Indonesia (2019)
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