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# CHANGE OF BUSINESS ENVIRONMENT: COMPETITIVE ADVANTAGE OF THE INTERNATIONAL MARKET

*Cambio del entorno empresarial: ventaja competitiva en el mercado internacional*

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### ABSTRACT

This study explores how the dimensions of entrepreneurship and entrepreneurial finance affect competitive advantages in Sumatra Utara. The study was conducted among the Handicraft Associations of Sumatra Utara. Risk-taking and competitive aggressiveness is negatively related to differentiation and cost leadership strategies. Both cost differentiation and leadership strategies are positively related to performance. This study shows results that help comprehensively understand the implementation of entrepreneurial policies on SME performance. It recommends that the SMEs in Sumatra Utara should pay proper attention to the expansion of their tourism business in other cities such as Semarang and Bandung.

**Keywords:** Entrepreneurial orientation, entrepreneurial finance, SME performance, competitive advantage.

### RESUMEN

Este estudio explora cómo las dimensiones del espíritu empresarial y las finanzas empresariales afectan las ventajas competitivas en Sumatra Utara. El estudio se realizó entre las Asociaciones de Artesanos de Sumatra Utara. La asunción de riesgos y la agresividad competitiva se relacionan negativamente con las estrategias de diferenciación y liderazgo de costos. Tanto la diferenciación de costos como las estrategias de liderazgo están relacionadas positivamente con el desempeño. Se muestran resultados que ayudan a comprender de manera integral la implementación de políticas empresariales sobre el desempeño de las PYMES. Se recomienda que las PYMES de Sumatra Utara presten la debida atención a la expansión de su negocio turístico en otras ciudades como Semarang y Bandung.

**Palabras clave:** Orientación emprendedora, financiamiento emprendedor, desempeño PYME, ventaja competitiva.

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## **INTRODUCTION**

Creative industries play a role in creating jobs and contributing to human resource development. Even with its contribution to national income, creative industries are less studied than large companies. Creative industries provide many opportunities to develop their businesses, but they fail to develop the competitive advantages needed to achieve the opportunities.

Creative industries often have problems with resources and capital or entrepreneurial finance flexibility and adaptability in facing changes that lead to greater uncertainty for creative industries. Therefore, entrepreneurs must be innovative and initiative in anticipating uncertainty. Entrepreneurs with entrepreneurial orientation should be more active in giving attention to and effort in obtaining opportunities in international markets. The characteristics of entrepreneurial orientation are risk-taking, proactive, and innovation (REZAZADEH & NOBARI: 2018, pp. 479-507). So, Indonesian companies are required to have such competitive advantages not only to face the free market in ASEAN but also to survive or even grow on a global scale. To have competitive advantages, companies must improve their competitive capabilities (Hendijani & Saei: 2020, pp. 176-197).

To optimize the company's capability, related organizational culture must be maintained (Brettel et al.: 2015, pp. 868-885). This is supported by a lot of evidence showing that entrepreneurial orientation and SME performance are positively related (Semrau et al.: 2016, pp. 1928-1932). Competitive advantages are the ability of a company to strengthen the beneficial value of products for customers more than its competitors (Satyagraha, 1994). Competitive advantages are also effective for small and medium enterprises (SMEs). This shows that some advantages can encourage SMEs to survive in a crisis. This increasingly tight competition requires companies to have competitive advantages to survive and develop their business with the consideration that entrepreneurial activities continuously develop entrepreneurial cultures as a capability to enter world markets.

## **LITERATURE REVIEW**

With the rise of the globalized world economy, the construction markets in most countries have begun to enter the world market. (Woodcock et al.: 1994, pp. 253-273) explained that the right strategy to enter the international market is one of the most important international business strategies because it influences the success of the overall investment.

In an increasingly tight competition environment, innovation determines the performance of companies. Sustainable innovation in a company is a basic requirement to have competitive advantages (Bhegawati & Yuliasuti: 2019, pp. 71-89). To obtain business opportunities, an entrepreneur needs a proactive and initiative action by developing, introducing, and improving his/her companies' products or services 1. (Nakku et al.: 2020, pp. 2-31). Proactive companies tend to be initiators and will gain market positions with competitive advantages such as abnormal returns, distribution channels, and brand recognition.

Risk-taking explains the uncertainty in a large investment in a business with a high probability of failure. At the same time, it also allows entrepreneurs to profit and succeed (Calic & Shevchenko: 2020, pp. 204-220). All companies will face risks at a certain level. The range is from safe risks that involve low uncertainty and small resource commitments to high risks which involve high uncertainty and large resource commitments.

To maintain business development in Indonesia, both entrepreneurs and the government need to contribute to invest capital and strengthen regulations (Southiseng & Walsh: 2010, pp. 57-72). The programs include assistance programs such as financial support and credit, technical and training, consultation services, infrastructure support, market research (Ombi et al.: 2018, pp. 117-130). Thus, this research will focus on financing support for SMEs to strengthen their businesses by ensuring their competitiveness in the market.

Competitive advantages can be obtained in various ways, such as by offering unique products or services, offering products or services at minimum cost, and focusing on specific segments. Companies need various

strategies to have competitive advantages (Abidin et al.: 2014, pp. 15– 32). Competitive strategies aim to reach favorable and defensible positions against the factors that determine industrial competitions (Porter: 2011, pp. 96-120).

Market orientations in small companies prove a strong and consistent influence from the entrepreneurial orientation on various performance indicators of SME performance (Pelham & Wilson: 1996, pp. 27-43). Pelham and Wilson argue that in an environment with tight competition, some SMEs will compete by market-oriented activities and behaviors, while other companies compete by cost control and discount.

## **METHODOLOGY**

The research focused on Creative Industry. 150 of 300 random creative industry entrepreneurs with international market orientations in North Sumatra were chosen as samples by the Slovin method. The data were collected by a survey method. The questionnaires were closed questions with modified Likert-scale options. To analyze the data, this study used structural equation modeling-partial least squares (SEM-PLS) involving WarpPLS software.

## **RESULTS**

The validity and reliability testing based on Loading Factors and Average Variance Extracted (AVE) and Reliability Testing based on Composite Reliability (CR) yield some results (See Tables 1 and 2).

**Table (1).** Validity and Reliability Testing based on Average Variance Extracted (AVE) and Composite Reliability (CR)

Indicator	AVE	CR
Innovation	0.664	0.956
ProActiveness	0.551	0.93
Risk Taking	0.634	0.95
Competitive Advantage	0.591	0.97
International market entry	0.58	0.906
Financial Decision	0.56	0.897
SME Performance	0.613	0.979
Financial Access	0.686	0.916

Based on the AVE values, the recommended AVE value is above 0.5 (Mahfud and Ratmono, 2013). All AVE values > 0.5 mean that they are valid. Based on CR values, the recommended CR value is above 0.7 (Mahfud and Ratmono, 2013). All CR values > 0.7 mean that they are reliable.

To evaluate the relationship between variables, hypothesis testing must be performed on the path coefficient between variables. The testing of this hypothesis is intended to prove the truth of the alleged previous research and to test the direct and indirect effects (see Table 2).

Table (2). Results of Direct and Indirect Effect Tests

Factors	Path Coefficient	P-Values	Significance
Innovation - Competitive Advantage	0.273	0.001	Significant
Pro-activeness - Competitive Advantage	0.122	0.194	Insignificant
Risk Taking - Competitive Advantage	0.327	0.019	Significant
Innovation - International Market Entry	0.189	0.02	Significant
Pro-activeness - International market entry	0.233	0.031	Significant
Risk Taking - International Market Entry	0.052	0.349	Insignificant
Competitive Advantage - International Market Entry	0.287	0.006	Significant
Competitive Advantage - Financial Decision	0.428	0.001	Significant
International Market Entry - SME Performance	0.305	0.001	Significant
Financial Decision - SME Performance	0.229	0.006	Significant
Innovation - International Market Entry	0.078	0.038	Significant
Pro-activeness - International Market Entry	0.035	0.194	Insignificant
Risk Taking - International Market Entry	0.094	0.028	Significant
Innovation - Financial Decision	0.117	0.01	Significant
ProActiveness - Financial Decision	0.052	0.205	Insignificant
Risk Taking - Financial Decision	0.140	0.010	Significant
Innovation - SME Performance	0.058	0.042	Significant
Pro-activeness - SME Performance	0.071	0.057	Insignificant
Risk Taking - SME Performance	0.016	0.368	Insignificant
Competitive Advantage - SME Performance	0.185	0.002	Significant

Table 2 indicates that innovation and risk-taking positively and significantly affect competitive advantages. Pro-activeness positively and insignificantly affects competitive advantages. Innovation and pro-activeness positively and significantly affect international market entry. Risk-taking positively and insignificantly affects international market entry. Competitive advantages positively and significantly affect international market entry and financial decisions. International market entry and financial decisions positively and significantly affect SME performance.

Indirectly, innovation positively and significantly affects international market entry through competitive advantages. Pro-activeness positively and insignificantly affects international market entry through competitive advantages. Risk-taking positively and significantly affects international market entry through competitive advantages. Innovation positively and significantly affects financial decisions through competitive advantages. Pro-activeness positively and insignificantly affects financial decisions through competitive advantages. Risk-taking positively and significantly affects financial decisions through competitive advantages. Innovation positively and significantly affects SME performance through the international market entry. Pro-activeness

positively and insignificantly affects SME performance through the international market entry. Risk-taking positively and insignificantly affects SME performance through the international market entry. Competitive advantages positively and significantly affect SME performance through financial access.

## **DISCUSSION**

This research indicates that several entrepreneurial orientation factors are important in influencing proactive companies to anticipate changes in needs in the market. Entrepreneurial orientation includes innovation, proactivity, and organizational risk-taking tendencies (Yamin: 2020, pp. 313-326; Wiklund & Dean: 2005, pp. 71-91). This is in line with the research findings of (Du et al.: 2018, pp. 1583-1595), indicating that manufacturing companies in different industries show that customers are much involved in developing new products for company integration that will have an impact on customers. Besides, customers need to have an impact on fewer profits and a decrease in overall market share. Therefore, this result is in line with (Swink & Song: 2007, pp. 203-217).

Innovation has a positive and significant correlation with competitive advantages and international market entry. This is proven by the company's ability to produce innovative products to reach a larger market. Companies that have innovative product creativity can outperform competitors so that they have a competitive advantage. A competitive advantage is achieved by having unique products, competitive product prices, and inimitable products. SME entrepreneurs can implement business strategies by producing more unique, attractive, and value-added handicraft products to enter the export market to increase competitive advantage. This result is in line with Bhegawati & Yulastuti (2019).

The international market entry shows a significant positive correlation with SME performance. Several studies stated that to minimize weaknesses in the internationalization process, the government and communities can mediate to connect SMEs and potential buyers in the international market (Alikhanov & Khudiyev: 2020, pp. 620-626). Competitive advantages are not only beneficial for business owners but also for improving knowledge, special skills, and resources for SMEs. A strategy in entering the international market is used by companies to increase company values (Zeebaree & Siron.: 2017, pp. 43-52). In the future, the important role of business organizations in comprehensive economic growth can be carried out from a cultural perspective and national network. This result is in line with Gitau et al. (2016). Therefore, according to the previous research, the government's support for financial access is to improve the competitiveness of SMEs in Indonesia (Agyapong: 2010, pp. 196-205).

From the above discussions, with entrepreneurial orientation, the ability of SMEs to identify the opportunities is about being able to take advantage of areas, which often become their main market for the number of entrepreneurs in the context of their private businesses. By considering additional factors in internal systems such as networking systems/partnerships, as well as external factors such as economic change, consumer preference, and competitive intensity, a more comprehensive understanding can be achieved. SMEs with entrepreneurial orientation can gain more insight by exploring regulations, program support, training, and infrastructure from financial access. Then, these internal and external considerations depend on further analysis, such as the specific organizational contexts (e.g. company size, age, and owned industry). (Brettel et al.: 2015, pp. 868-885)

## **CONCLUSION**

This study shows that the relationship between entrepreneurial orientation, financial access, competitive advantage, and international market entry is in line with the previous research. Therefore, companies need to increase domestic and international sales, both among producers or between producers and the community.

Besides, they also need to increase consumer protection, improve fair business competition, and be more innovative. This study also indicates that competitive advantages in North Sumatra significantly affect international market entry. This is to explain that the more SME entrepreneurs explore the international market, the more competitive advantages of their business will increase.

This study suggests that SMEs in North Sumatra, Semarang, and Bandung should run their business by using innovation and proactivity and should take risks outperforming in the international market. So, they can achieve optimal results, improve performance, and have high competitiveness, especially to face the Asean Economic Community.

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