



Model of Innovation Capability and Competitive Advantage of Tourism SMEs During Covid-19 Pandemic

Muhammad Feriady✉, Nina Farliana

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Economic Education Department, Faculty of Economics, Universitas Negeri Semarang, Semarang, Indonesia

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*Entrepreneurial Intention;
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Abstract

This study aimed to determine the role of innovation capability in mediating the internal factors of MSMEs towards competitive advantages during the Covid-19 pandemic. This study used a quantitative approach, involving 243 MSMEs in the tourism sector in Semarang Regency, Central Java, Indonesia as research respondents. Methods of data collection used a questionnaire. The data analysis method used partial least square structure analysis using SmartPLS. The results of this study found a strong role of innovation capability in mediating entrepreneurial orientation and social capital on the competitive advantage of tourism MSMEs. There was a positive and significant effect between innovation capability and competitive advantage with an estimated weight of 45 percent of innovation capability which could explain the variation of competitive advantage. The competitive advantage of MSMEs during the pandemic was determined by social capital and also entrepreneurial orientation. The recommendation that can be given from this research is the model of innovation capability should be more exploration for research in another sector of MSMEs.

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✉ Correspondance Address:
Gedung L, Fakultas Ekonomi, Universitas Negeri Semarang,
Kampus Sekaran, Gunungpati, Semarang, Indonesia, 50229
Email: mferiady@mail.unnes.ac.id

INTRODUCTION

The impact of the COVID-19 pandemic on MSMEs in the tourism sector is very significant. BPS data showed a decline in MSMEs in the accommodation and transportation sector reaching 30.2 percent in the second quarter of 2020. Furthermore, the food and beverage sector experienced a decline of 22.03 percent (BPS, 2021). Data from the Ministry of Cooperatives and MSMEs also stated that there were more than 37 thousand MSMEs that were seriously affected by the pandemic (Kemenkop, 2020). This indicates the need for serious handling of the impact of the pandemic on MSMEs in the tourism sector.

Aspects of innovation and creativity are important factors so that MSMEs are able to face the pandemic. Saparingga & Yahya (2019) emphasized the importance of innovation as one of the important factors for MSMEs. Meanwhile, Ardiansyah (2019) explained that the main problem for MSMEs at this time was related to the absorption of technology. Furthermore, Suci (2017) explained that the problem of MSMEs is still classic, which is related to capital, marketing, and also business management. The importance of innovation in the development of MSMEs during this covid-19 pandemic needs to be studied more deeply to find an appropriate model for the development of tourism MSME innovations in Indonesia.

Regarding the importance of innovation for MSMEs. Kim & Shim (2018); Müller (2019); Papa, et al (2018), argued that innovation is a way to improve the quality and competitiveness of MSMEs, as well as being able to become a tool to boost MSME performance. This is in line with the opinion of Hsieh & Chou (2018) who emphasized that in facing changes in the business world, innovation is very important to deal with these changes.

The innovation development model in MSMEs has so far emphasized innovation capacity and its relationship to performance and competitiveness (Moussa & El Arbi, 2020; Sulisty & Ayuni, 2020). Furthermore, the model also places social capital as a predic-

tor that affects the innovation capability and competitiveness of MSMEs. Social capital is an important factor in company innovation, especially to make changes and adjustments during the COVID-19 pandemic.

Innovation capability is an important factor that determines the sustainability of an organization in the face of uncertainty (Ahn & Kim, 2017; Ganguly, et al, 2019; Hussein, et al, 2016). Furthermore, the innovation capability possessed by the organization also affects organizational performance and the organization's competitive ability (Moussa & El Arbi, 2020; Sulisty & Ayuni, 2020). Innovation capability is defined as the organization's ability to innovate. Meanwhile, innovation has the meaning of a process for making changes and novelties.

The relationship between social capital and innovation capability as revealed in the research of Yesil & Dogan (2019) placed social capital as the main factor that determined innovation with a significant effect. Meanwhile, Akhavan & Mahdi (2016); Ganguly, et al (2019) built a model of the relationship between social capital and innovation capability with an indirect effect, but instead placing the knowledge-sharing variable as an intervening variable, this is based on previous research studies that have not suggested a direct relationship between social capital and innovation capability. This indicates that there is still a gap to examine the direct relationship of social capital to innovation capability.

Furthermore, knowledge-sharing is also very necessary for organizations to respond to various changes, especially during the pandemic. Aulawi, et al (2009); Iqbal, et al (2011); Le & Lei (2019) explained that knowledge-sharing behavior is one of the important factors that determine organizational innovation capability. With the knowledge sharing owned by MSMEs, the tourism sector is expected to be able to increase the readiness of MSMEs in facing change.

Entrepreneurship orientation is also an important factor to increase MSME innovation (Sulisty & Ayuni, 2020). Furthermore,

Ferreira, et al (2020) placed the important role of entrepreneurial orientation in moderating the innovation capability factor for competitive advantage. Mohammad, et al (2018); Omar & Nazri (2016) explained on the contrary that entrepreneurial orientation did not have a direct relationship to innovation capability, but had an effect on competitive advantage and also the performance of MSMEs.

In this condition, it is necessary to further investigate the role of entrepreneurial orientation in the model of innovation capability and competitive advantage. Based on this description, the following research questions can be derived:

RQ1: What is the structural model for developing innovation capabilities and competitive advantage for tourism MSMEs in tourist villages in Central Java?

RQ2: What is the role of social capital and entrepreneurial orientation variables in the model?

The purpose of this study was to determine and analyze the role of MSME internal factors on competitive advantage during the Covid-19 pandemic mediated by the innovation capability variable.

Innovation capability is defined as the ability of an organization or individual organization to create new products, new services, and new ideas to support the organization's ability to compete (Drucker, 2014; Le & Lei, 2019). Meanwhile, Zouaghi, et al (2018) explained that innovation capability is an important factor to create superior performance in the organization. From this understanding, it can be seen that innovation capability in addition to having the power of creativity and innovation to win the competition, is also used to boost organizational performance.

Organizational innovation capability can be divided into two forms, the first is the overall organizational capability and the second is the individual capability (Le & Lei, 2019). In this case, individual capabilities can be determined by leadership and organizational conditions, or also internal factors of the individual (Drucker, 2014). Ferreira, et al

(2020); Moussa & El Arbi, (2020) argued that the innovation capability of employees is the beginning of company innovation and organizational competitive advantage. Furthermore, Do Khoi Nguyen & Hui (2019) explained the important aspects of innovation capability in mediating cultural factors towards competitive advantage.

Based on this construct, it can be assumed that there is an important role for innovation capability in increasing the competitive advantage of SMEs in the tourism sector with the following hypothesis formulation:

H1: Innovation Capability has a significant effect on competitive advantage

Knowledge-sharing (KS) is the activity of organizational members in sharing information, ideas, ideas related to assignments, information, improvements, and suggestions from each other to other members, both explicitly and implicitly (Eze, et al, 2013; Kumar & Rose, 2012). Information management within the organization is important because of the strong support for information exchange with the acceleration of organizational innovation (Liao, et al, 2019). Le & Lei (2019); Pee & Min (2017); Wu & Lee (2017) explained that knowledge sharing will maximize individuals in determining goals in the organization and subsequently is an important part in managing organizational management. Al-Husseini & Elbeltagi (2015); Kurniawan, et al (2020), explained that KS can also be interpreted as the awareness of organizational members to understand information that requires effort and readiness to respond and understand information from various sources.

Wang, et al (2017) explained knowledge sharing is an important factor for organizations. The existing information flow will translate the information into a more operational one. Quoting from Wang, et al (2017) described that individuals involved in KS are generally individuals who are ready for the future of the organization. Ganguly, et al (2019); Kim & Shim (2018); Sulistyono & Ayuni (2020) explained the close relationship of the Knowledge sharing variable to innovation capability

ty. Meanwhile Yang, et al (2018) described the role of knowledge-sharing in mediating collaborative cultural factors on innovation capability. Based on this construct, the following hypothesis can be formulated:

H2: Knowledge sharing has a positive effect on innovation capability

Entrepreneurial orientation is a concept in entrepreneurship research that is currently widely used to explain modern business phenomena Anderson, et al, 2015; Wales, et al, 2020). Lumpkin & Dess (1996) explained the important aspects of companies that have an entrepreneurial orientation and relate them to the innovation potential of a company. Cho & Lee (2018) explained the important aspect of entrepreneurial orientation as a very influential factor in the performance of a company. With a good entrepreneurial orientation, the company's performance will increase.

Entrepreneurship orientation as stated by Porter (2008) was defined as the company's ability to win the competition through the use of entrepreneurship. Furthermore, Müller (2019) defined entrepreneurial orientation as the organization's ability to explore potential and find new opportunities and dare to take risks for these choices. Further, Wales, et al (2020) described individual entrepreneurial orientation is an individual's ability to use entrepreneurial power to win the competition.

Aljanabi's (2018); Sulisty & Ayuni's (2020) findings explained that there was a close relationship between Entrepreneurial Orientation and Innovation Capability. Furthermore, Fellnhofer (2019); Zhai, et al (2018) described the important effect of entrepreneurial orientation on innovation performance and competitive advantage. On the other hand, another construct conveys the effect of innovation on entrepreneurial orientation (Ribau, et al, 2017). Based on the research gap, the following hypothesis can be formulated:

H3: Entrepreneurial orientation has a positive and significant effect on Innovation Capability

H4: Entrepreneurial orientation has a positive and significant effect on competitive advantage.

tage.

METHODS

This study tried to develop a conceptual model for the innovation capability of the tourism sector MSMEs in the post-covid-19 pandemic, by using a quantitative research approach. The model building in this study referred to the social capital theory construct model from Bueno, et al (2004); Dastourian, et al (2017); Nahapiet and Ghoshal (1996), the individual innovation capability model developed by Drucker (2014); Le & Lei (2019) and also the development of the concept of entrepreneurial orientation by Covin, et al (2006).

The population in this study were MSMEs in the tourism sector in Central Java Province, Indonesia with specifications of having a minimum of 10 employees, with a total sample of 243. Sampling in this study used a random sampling technique. Data collection techniques used a questionnaire, with an ordinal scale. Data analysis in this study used Structural Equation Modeling (SEM) analysis based on Partial Least Square (PLS-SEM) using assistance SmartPLS3.

The measurement of the innovation capability variable in this study referred to the opinion of Ahn & Kim (2017); De Jong & Den Hartog (2007); Nham, et al (2020) on individual innovation capabilities: (1) willingness to express ideas, (2) willingness to improvise at work, (3) creativity. Entrepreneurial orientation referred to the opinion of Choi, et al (2018); Covin, et al (2006); Lumpkin & Dess (1996) consisting of: proactive nature, risk-taking, competitive aggressiveness, and autonomy.

The measurement of Social Capital in this study was adapted from Nahapiet and Ghoshal (1996); Sulisty & Ayuni (2020) who explained three dimensions of social capital, namely: (1) the structural dimension (network ties, appropriate network configuration, and organization), (2) the cognitive dimension (code and language, shared narrative) and (3) the relational dimension (trust, norms,

obligations, and identification). Knowledge sharing in this study was measured by using indicators: (1) willingness to share reports, (2) sharing methods, (3) sharing experiences or knowledge, and 4) sharing resources (Liao, et al, 2019; Rafique, et al, 2017; Wang, et al, 2017). Competitive advantage was measured by using indicators: (1) Price Leading, (2) Service Quality, (3) Product Quality.

RESULTS AND DISCUSSION

Outer Model Testing

Outer model testing needed to be done to confirm the composition of the variables that made up the latent variable of the construct variable. This was used so that the variables in the model were feasible to test the relationship between variables. Testing the outer model in this study can be seen through the measurement results of convergent validity, discriminant validity, discriminant reliability,

and Cronbach alpha (Ghozali, 2018).

In Figure 1, it can be seen that the loading factor value of each construct variable on the instrument variable showed results > 0.6, this indicated that the variables in the model were quite good with the various constructs that composed it (Ghozali, 2018). Furthermore, measurements of Average Variance Extracted (AVE), Composite reliability, and also Cronbach alpha needed to be carried out to determine the quality of the developed model. The measurements can be seen in Table 1.

Based on Table 1, it can be seen that there were no variables that showed unfavorable symptoms in the measurement of AVE, Cronbach's alpha, and also AVE. While Table 2 explained that there was no cross-loading value that exceeded the cross-loading value on each criterion so that discriminant validity was declared to meet.

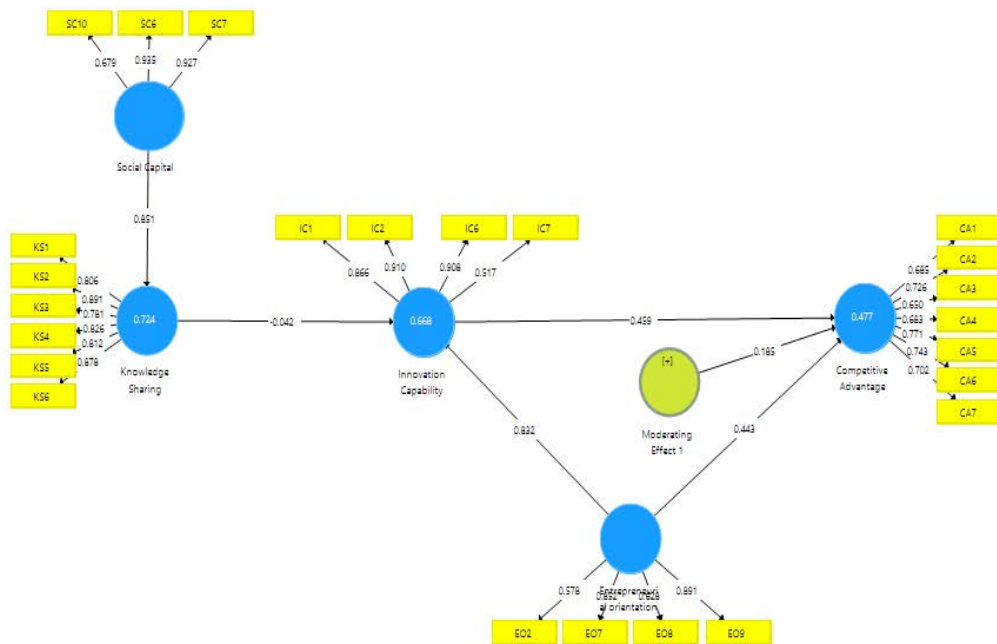


Figure 1. Model of Innovation Capability of Tourism MSMEs during the Pandemic

Table 1. Testing Cronbach’s alpha, Composite Reliability and AVE

	Cronbach’s Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Competitive Advantage	0.837	0.845	0.876	0.504
Entrepreneurial orientation	0.728	0.783	0.832	0.562
Innovation Capability	0.822	0.883	0.885	0.667
Knowledge Sharing	0.911	0.916	0.931	0.693
Moderating Effect 1	1.000	1.000	1.000	1.000
Social Capital	0.808	0.806	0.887	0.724

Source: Output of SmartPLS3, 2021

Table 2. Discriminant Validity

	Competitive Advantage	Entrepreneurial orientation	Innovation Capability	Knowledge Sharing	Moderating Effect 1	Social Capital
Competitive Advantage	0.710					
Entrepreneurial orientation	0.577	0.750				
Innovation Capability	0.536	0.817	0.817			
Knowledge Sharing	0.241	0.368	0.264	0.833		
Moderating Effect 1	-0.054	-0.522	-0.618	-0.268	1.000	
Social Capital	0.372	0.507	0.409	0.851	-0.347	0.855

Source: Output of SmartPLS3, 2021

Hypothesis Testing

Table 3 showed the relationship between variables in the model and also the level of significance of their effect, as for table 3 as follows. While measurement of R Square Coefficient of Determination and the magnitude of the effect between variables can be seen in Table 4.

Based on the analysis of the constructs of each variable, the result showed that there was suitability between the latent variable and the construct variable that formed the latent variable. This means that the indicators used to explain the variables in this study were ap-

propriate. This suitability can be seen from the loading factor value of each indicator > 0.7 (Ghozali, 2018).

Furthermore, the hypothesis testing in this study found that there was a positive and significant effect between Innovation Capability and Competitive advantage with an estimated weight of 0.459 or 45 percent of innovation capability which could explain the variation of competitive advantage. These results confirmed previous findings by Ferreira, et al (2020); Puspita, et al (2020); Sulisty & Ayuni, 2020), which explained the close relationship between innovation capability and

Table 3. Path Coefficient

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
Entrepreneurial orientation -> Competitive Advantage	0.443	0.448	0.142	3.126	0.002
Entrepreneurial orientation -> Innovation Capability	0.832	0.827	0.068	12.210	0.000
Innovation Capability -> Competitive Advantage	0.459	0.456	0.172	2.666	0.008
Knowledge Sharing -> Innovation Capability	-0.042	-0.047	0.064	0.653	0.514
Moderating Effect 1 -> Competitive Advantage	0.185	0.176	0.070	2.629	0.009
Social Capital -> Knowledge Sharing	0.851	0.854	0.037	22.723	0.000

Source: Output of SmartPLS 3, 2021

Table 4. R Square Value

	R Square	R Square Adjusted
Competitive Advantage	0.477	0.456
Innovation Capability	0.668	0.660
Knowledge Sharing	0.724	0.721

Source: Output of SmartPLS 3.0, 2021

the company’s competitive advantage. Furthermore, research findings by Chamsuk, et al (2015); Karia & Asaari (2016) theoretically used the Resource-based View Theory (RBV) approach which positioned innovation capability as an important factor in business continuity.

The relationship between entrepreneurial orientations was described in this study by using two relationship patterns, the first was its position in affecting competitive advantage and the second was as a factor affecting innovation capability. The relationship between entrepreneurial intention and innovation capability in this study was a significant positive effect with an effect of 0.832 or 83 percent of innovation capability was affected

by entrepreneurial orientation. These findings were in line with Sulistyو & Ayuni (2020).

The relationship between entrepreneurial orientation and competitive advantage in this study had a significant effect with a magnitude of 0.443 or 44.3 percent of the variation in competitive advantage described in this model was affected by entrepreneurial orientation. This was in line with the opinion of Pratono, et al (2019); Zeebaree & Siron (2017), which explained that there was a very strong effect of entrepreneurial orientation on competitive advantage. Furthermore, this study also investigated the role of entrepreneurial orientation as a moderating variable between innovation capability and competitive advantage. The result of this study showed that there was a moderating effect of entrepreneurial orientation on the relationship between the two. These results confirmed the findings presented by Ferreira, et al (2020).

CONCLUSION

The findings of this study explained the model of competitive advantage of tourism MSMEs during the COVID-19 pandemic. The existence of a strong effect between ent-

repreneurial orientation and innovation capability emphasized the importance of MSMEs to have these components to survive during the pandemic. A recommendation that can be given in this research is the need for efforts to adjust products and services by tourism business actors during the pandemic. The next recommendation is the development of an innovation capability model that should be further explored for other research in other MSME sectors.

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