

Innovation Strategy Based on Shiwam Satyam Sundharam to Increase Competitive Advantage in Wood Crafts in Gianyar Regency

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Abstract

Balinese handicraft products are synonymous with soul and art based on local wisdom values that become local knowledge and local skills as a form of originality that is not owned by other regions so that it will be easier for companies to achieve sustainable competitive advantage (Ife, 2002; Mardatillah et al., 2020). Wood handicraft SMEs in Bali Province are known to have a high artistic spirit, creativity and innovation and have their own characteristics or uniqueness. The artistic spirit is passed down from generation to generation and is an integral part of the daily activities of the craftsmen. This research uses quantitative research methods, which are based on the positivism paradigm. The analysis continued at the quantitative analysis stage based on multivariate analysis using structural equation modeling (SEM) based on Partial Least Square (PLS). Problems in the competitive advantage of wood handicraft SMIs in Bali can be seen from their low production value when compared to other existing industries. Bali as a craft center is certainly a large market for consumers both at home and abroad. This of course makes wood handicraft SMIs require a competitive advantage that can be highlighted and become a differentiator with other similar industrial products. This research was conducted on wood handicraft SMIs in Gianyar Regency. This is done because Gianyar is famous for its many wood craftsmen who have a high artistic spirit and creativity. The population of this study was all wood handicraft SMIs in Gianyar Regency which amounted to 476 businesses.

Keywords: IKM, Wooden Crafts, Shiwam Satyam Sundharam

1. Introduction

This study was conducted on the woodcraft SMEs in Bali Province, particularly in Gianyar Regency, which is known for its rich arts culture. Woodcraft SMEs are the most prevalent industry in Bali Province in 2021, with a total of 2,961 business units. In contrast, the industry with the least number of businesses is the painting craft industry. Although woodcrafts are the most numerous among other industries, this is not followed by a high production capacity. This is evidenced by the relatively low production value of woodcrafts, which amounted to IDR 770,298,491 million in 2021, a figure that is relatively small compared to the production values of other industries such as food and beverage, textiles, weaving, and similar industries. This also indicates that woodcraft SMEs still face many challenges in their production processes. Despite the small value, the woodcraft industry is included among the top ten leading commodities in Bali, supporting the realization of Bali's handicraft exports. This shows the empirical reality of the existence of woodcraft SMEs in Bali Province, which remains highly potential and competitive for further development. Below is the data for woodcraft exports in Bali Province.

Based on Table 1, the development of woodcraft exports in Bali Province from 2012 to 2022 can be seen. Export value is one of the indicators used to assess the performance of SMEs. The number of woodcraft exports has fluctuated, with the highest recorded in 2018, at USD 111,083,379.47, which grew by 0.35 percent from the previous year, while the lowest was in 2021, with USD 24,098,025.09, experiencing a negative growth of 0.33 percent from the previous year.

Bali's handicraft products are closely associated with the soul and art rooted in local wisdom, which forms the local knowledge and skills as a form of originality that cannot be found in other regions. This gives companies a better chance to achieve sustainable competitive advantage (Ife, 2002; Mardatillah et al., 2020). The woodcraft SMEs in

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Bali Province are known for their high artistic spirit, creativity, and innovation, each having its own distinct characteristics or uniqueness. This artistic spirit has been passed down through generations and has become an inseparable part of the daily activities of the craftsmen.

Table 1. Development of Realized Woodcraft Exports in Bali Province 2012-2022

No	Year	Woodcraft Export Value (US\$)	Export Growth Percentage (%)
1	2012	71,493,259.98	-
2	2013	90,618,136.91	0.27
3	2014	73,243,286.90	(0.19)
4	2015	74,149,072.98	0.01
5	2016	81,012,474.49	0.09
6	2017	82,549,212.46	0.02
7	2018	111,083,379.47	0.35
8	2019	52,509,571.99	(0.53)
9	2020	36,195,023.93	(0.31)
10	2021	24,098,025.09	(0.33)
11	2022	37,823,186.38	0.57

Source: Department of Industry and Trade, Bali Province, 2023

Based on interviews with cultural experts, it was mentioned that one of the strengths of Bali's woodcraft products is their aesthetic appeal. Aesthetics, from a Hindu perspective, refers to the sense of beauty guided by the values of Hinduism based on the teachings of the Vedic scriptures, which include purity (shiwam), encompassing divine values and including yadnya and taksu; truth (satyam), which includes honesty, sincerity, and earnestness as taught in Hinduism; and balance (sundharam), which includes harmony between similarities and differences, closely related to the concept of Rwa Bhineka, where the two elements of the physical and metaphysical world always exist and influence each other. The process of making woodcrafts is also closely linked to traditional beliefs, such as selecting an auspicious day to begin production, and certain woods are considered unsuitable for use in woodcraft production, as outlined in the Janantaka lontar, which specifically discusses traditional Balinese building materials, including the types, characteristics, functions, and classifications of wood.

2. Literature Review

2.1. Grand Theory: Resource-Based View (RBV)

In broad terms, the Resource-Based View (RBV) posits that a company's competitive advantage comes from valuable, rare, inimitable, and non-substitutable resources (Barney, 1991 and 2001; Grant, 1991; Peteraf, 1993; Wernerfelt, 1984). These resources include all assets, capabilities, organizational processes, company characteristics, information, knowledge, and so on, which are within the company's control for implementing strategies to achieve effectiveness and efficiency.

2.2. Supporting Theory: Porter's Five Forces Model

Porter's Five Forces, often referred to as Porter's Five Forces Analysis, is a model created by Michael Porter to describe a framework for analyzing business strategy development or the competitive environment that contributes to competitiveness and competitive advantage. This model can be used to examine competitive advantages and the five forces that influence a company's competitiveness.

2.3. Competitive Advantage

In facing competition, a company must plan offers that better satisfy its target consumers compared to the offerings of competitors. Therefore, in addressing competition, companies should not only consider the needs of their target consumers but also think about strategies to outperform competitors. According to Porter, competitive strategy is

about finding a profitable competitive position within an industry, the fundamental arena where competition takes place. Competitive advantage is the company's ability to achieve higher performance than other companies in the same industry or market, based on its characteristics and resources.

2.4. Competition Intensity

Marketing will always be intertwined with competition. Indirectly, competition itself is necessary in a business arena. Competition will push business players to continuously improve. According to Porter (1985), competition is at the core of a company’s success or failure. In this case, competition determines the accuracy of a company's activities that can support its performance. According to Hoque (2011), market competition is one of the key elements of a company’s external environment. Market competition is viewed through five sources: competition for raw materials, components, and equipment; competition for technical manpower; competition in promotion, advertising, and distribution; competition in product quality and variety; and price competition in line with the company’s main business.

2.5. Innovation Strategy

One of the generic strategies developed by Porter (1985) and widely implemented is differentiation, where companies strive to create a new product in their industry through various dimensions that will be valued by buyers. The dimensions and attributes selected by the company must be different and superior to those of its competitors to meet consumer needs. One of the ways to create new products and competitive advantages is innovation.

2.6. Aesthetic Theory

Aesthetics comes from the Greek word "aisthetika," which means things that can be perceived by the senses. Therefore, aesthetics is often interpreted as a sense of perception (Sony Kartika, 2004). Djelantik (2004) further elaborates that aesthetics is the study of everything related to beauty and aspects of what is considered beautiful.

3. Research Method

The population for this study consists of all woodcraft SMEs in Gianyar Regency, totaling 476 businesses. The sample size for this study was determined using the Slovin formula, resulting in a sample size of 83 respondents. Primary data collection was conducted through a research instrument in the form of a questionnaire, where questions or statements were given to the owners of woodcraft SMEs as respondents. For validity and reliability testing, this study used tools to measure whether the research instrument (questionnaire) was valid. Validity testing was carried out using SPSS 23 for Windows software. Descriptive analysis was used to determine the characteristics of the respondents and to describe the respondents' views on the indicators of each research variable.

Table 2. Criteria for Describing Research Variables

Criteria	Competition Intensity	Entrepreneurial Orientation	Innovation Strategy	Competitive Advantage
1.00 - 1.79	Very Low	Very Low	Very Low	Very Low
1.80 - 2.59	Low	Low	Fairly Good	Low
2.60 - 3.39	Medium	Medium	Good	Medium
3.40 - 4.19	High	High	Good	High
4.20 - 5.00	Very High	Very High	Very Good	Very High

Source: Data Processed, 2024

Inferential analysis was used to test the hypotheses formulated in this study. To generate a viable model (fit), data was analyzed using Structural Equation Modelling (SEM) with a Partial Least Squares (PLS) approach, with calculations assisted by the Smart PLS software.

4. Results and Discussions

The data processing technique applied in this study used PLS (Partial Least Square) with the SEM (Structural Equation Modeling) method, implemented in two stages to assess the FIT model of the study (Imam & Latan, 2014). The stages are as follows:

4.1. Testing Data Quality Through Outer Model (Measurement Model) Assessment

The data analysis technique using SmartPLS has several criteria for evaluating the outer model or measurement model, including: convergent validity, discriminant validity, and consistency reliability (Hair, 2010).

4.2. Convergent Validity

The initial step taken is a measurement aimed at determining the extent to which the measurement positively correlates with alternative measurements on the same construct. Evaluation can be performed using the loading factor data from the analysis (Vinzi et al., 2010). For the initial stage of research, the loading factor threshold is set at 0.7. After setting the loading factor limit of 0.7, an analysis of the processed data using SmartPLS can be seen in Table 3.

Table 3. Outer Loading (Measurement Model) Results

No	Competition Intensity	Entrepreneurial Orientation	Innovation Strategy	Competitive Advantage
X1.1	0.695			
X1.2	0.665			
X1.3	0.372			
X1.4	0.940			
X1.5	0.916			
X1.6	0.993			
X2.1		0.982		
X2.2		0.971		
X2.3		0.982		
X2.4		0.951		
X2.5		0.943		
X2.6		0.833		
M1			0.907	
M2			0.679	
M3			0.981	
M4			0.971	
M5			0.971	
M6			0.697	
M7			0.905	
Y1				0.701
Y2				0.815
Y3				0.902
Y4				0.760
Y5				0.960
Y6				0.949
Y7				0.917

Based on the Table 3, it can be seen that several indicators meet the significance threshold of 7%, with loading factors above 0.7. Therefore, the construct is considered valid and meets the validity criteria since the loading factors are

above 0.7. The next step is to assess convergent validity through the AVE (Average Variance Extracted) value. According to Hair (2010), if a model has an AVE value above 0.6, it is considered to have high convergent validity. After eliminating loading factors below 0.6, the AVE values for the model are presented in Table 4.

Table 4. Average Variance Extracted (AVE)

Variable	Average Variance Extracted (AVE)
Competition Intensity	0.698
Entrepreneurial Orientation	0.766
Innovation Strategy	0.712
Competitive Advantage	0.687

Based on Table 4, the AVE (average variance extracted) values for each construct in the model are above 0.6. This result indicates that the data in this study meets the criteria for convergent validity. The combination of the outer loading assessment and the AVE test shows that the data in this study is valid and convergent, and meets the criteria to proceed to the next stage.

4.3. Discriminant Validity Test

The discriminant validity test is conducted to determine whether the indicators within a research variable have unique values and are only related to the indicators within the same variable, and not with indicators from other variables. To ensure that the research model has good discriminant validity, two steps must be conducted: cross-loading results and Fornell-Larcker criterion results. The cross-loading test results using SmartPLS in this study are as shown on Table 5.

Table 5. Cross Loading Results

No	Competition Intensity	Entrepreneurial Orientation	Innovation Strategy	Competitive Advantage
X1.1	0.778	0.574	0.013	0.255
X1.2	0.665	0.526	0.326	0.418
X1.3	0.576	0.518	0.428	0.466
X1.4	0.691	0.473	0.459	0.297
X1.5	0.754	0.347	0.465	0.308
X1.6	0.679	0.457	0.436	0.374
X2.1	0.427	0.705	0.422	0.377
X2.2	0.477	0.673	0.394	0.405
X2.3	0.453	0.672	0.438	0.389
X2.4	0.373	0.749	0.395	0.380
X2.5	0.475	0.735	0.425	0.231
X2.6	0.548	0.649	0.425	0.313
M1	0.423	0.428	0.662	0.447
M2	0.327	0.477	0.683	0.446
M3	0.401	0.370	0.748	0.377
M4	0.419	0.408	0.754	0.299
M5	0.419	0.408	0.754	0.299
M6	0.462	0.425	0.600	0.496
M7	0.483	0.453	0.652	0.369
Y1	0.481	0.513	0.384	0.598
Y2	0.049	-0.213	0.172	0.961
Y3	0.136	0.050	0.163	0.976
Y4	0.489	0.453	0.448	0.595

No	Competition Intensity	Entrepreneurial Orientation	Innovation Strategy	Competitive Advantage
Y5	0.331	0.245	0.332	0.848
Y6	0.402	0.423	0.437	0.684
Y7	0.322	0.372	0.442	0.750

Based on the Table 5, the method used is to measure the cross-loading, where the results must show that the indicators for each construct have higher values compared to indicators from other constructs. The next step is to test the research data using the second method, the Fornell-Larcker criterion, to obtain good discriminant validity for a research model. For the model to pass discriminant validity, the square root of AVE (average variance extracted) for each construct must be higher than the correlation of that construct with the latent variables of others. The Fornell-Larcker criterion results obtained in this study are presented in the Table 6.

Table 6. Fornell-Larcker Criterion Results

	Innovation Strategy	Competitive Advantage	Competition Intensity	Entrepreneurial Orientation
Innovation Strategy	0.923			
Competitive Advantage	0.617	0.847		
Competition Intensity	0.528	0.401	0.893	
Entrepreneurial Orientation	0.531	0.312	0.387	0.921

Based on the Table 6, we can conclude that all variables have higher values when explaining their own variables compared to other variables in the same column. For example, Competition Intensity has a value of 0.893, which is higher compared to other variables in the same column. Similarly, Entrepreneurial Orientation has a value of 0.921, which is lower than Competition Intensity, as shown in the column with Entrepreneurial Orientation. This table demonstrates that the research model has passed the discriminant validity criteria.

4.4. Composite Reliability

According to Hair (2014), the acceptable Composite Reliability (CR) value for research is between 0.70 and 0.80. A construct is considered to have high reliability if its value is above 0.70. The composite reliability values are presented in the Table 7.

Table 7. Cronbach's Alpha and Composite Reliability Results

Variable	Cronbach's Alpha	Composite Reliability
Competition Intensity	0.770	0.842
Entrepreneurial Orientation	0.859	0.890
Innovation Strategy	0.835	0.877
Competitive Advantage	0.669	0.774

Based on the Table 7, it can be concluded that all constructs are reliable, as both the Composite Reliability and Cronbach’s Alpha values are above 0.70. This indicates that all variables in this research model have internal consistency reliability. Based on the previous tables, it can be concluded that this study has good convergent validity, good discriminant validity, and good internal consistency reliability. Below is a summary table of the validity and reliability results.

Table 8. Summary of Outer Model (Measurement Model) Results

No	Indicator	Outer Loading	Cronbach's Alpha	CR	AVE	Discriminant Validity
1	X1.1	0.695	0.770	0.842	0.698	Yes
2	X1.2	0.665				
3	X1.3	0.372				

No	Indicator	Outer Loading	Cronbach's Alpha	CR	AVE	Discriminant Validity
4	X1.4	0.940				
5	X1.5	0.916				
6	X1.6	0.993				
7	X2.1	0.982	0.859	0.890	0.766	Yes
8	X2.2	0.971				
9	X2.3	0.982				
10	X2.4	0.951				
11	X2.5	0.943				
12	X2.6	0.833				
13	M1	0.907	0.835	0.877	0.712	Yes
14	M2	0.679				
15	M3	0.981				
16	M4	0.971				
17	M5	0.971				
18	M6	0.697				
19	M7	0.905				
20	Y1	0.701	0.669	0.774	0.587	Yes
21	Y2	0.815				
22	Y3	0.902				
23	Y4	0.760				
24	Y5	0.960				
25	Y6	0.949				
26	Y7	0.917				

4.5. Structural Model Testing (Inner Linear Model)

Data testing using the Structural Model (Inner Model) is performed to understand the relationships between constructs, significance values, R-squares, and the research model. This model will be evaluated using R-square for dependent constructs, T-test, and significance from the structural path coefficient parameters. The evaluation of the research model for competition and entrepreneurial orientation showed an R-square value of 57.8%. The Table 9 presents the R-square estimation results using the PLS method.

Table 9. R-Square Results

Variable	R-Square
Innovation Strategy	0.422
Competitive Advantage	0.481

The Table 9 shows that the R-Square for the Innovation Strategy variable is 0.422. This result indicates that 42.2% of the Innovation Strategy variable can be influenced by variables not included in this study. Meanwhile, for Competitive Advantage, the R-Square value is 0.481. This means that 48.1% of the Competitive Advantage variable can be influenced by variables such as competition intensity, entrepreneurial orientation, and innovation strategy, while 51.9% is influenced by variables not included in the study.

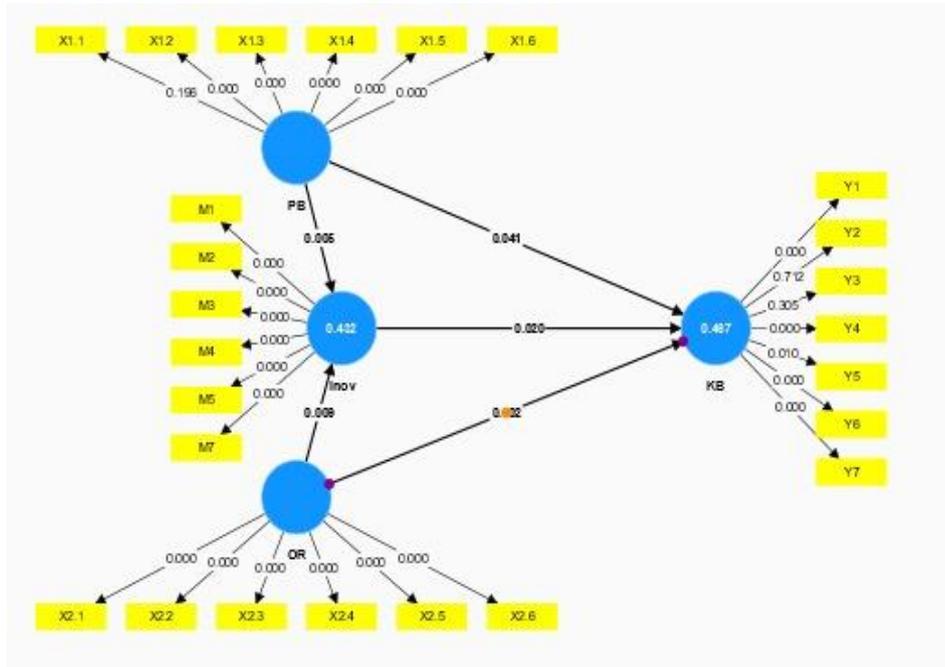


Figure 1. Structural Model Testing Algorithm
Source: Data processed by SmartPLS, 2024

4.6. Hypothesis Testing

The indicators used in hypothesis testing are the values found in the output path coefficients using SmartPLS with the bootstrapping method on the research data. The Table 10 show the output estimates for structural model testing.

Table 10. Hypothesis Testing Results

Path	Original Sample	T-Value	P-Value	Hypothesis
Competition Intensity > Competitive Advantage	-0.009	0.067	0.756	Rejected
Competition Intensity > Innovation Strategy	0.438	6.534	0.000	Accepted
Entrepreneurial Orientation > Competitive Advantage	0.332	3.691	0.000	Accepted
Entrepreneurial Orientation > Innovation Strategy	0.479	6.539	0.000	Accepted
Innovation Strategy > Competitive Advantage	0.396	3.298	0.019	Accepted
Competition Intensity > Innovation Strategy > Competitive Advantage	0.368	2.570	0.012	Accepted
Entrepreneurial Orientation > Innovation Strategy > Competitive Advantage	0.143	2.631	0.021	Accepted

5. Conclusion

Based on the research findings conducted by the author on woodcraft purchases in Gianyar Regency, the following conclusions can be drawn:

- No significant or positive effect of Competition Intensity on Competitive Advantage: This indicates that for woodcraft buyers in Gianyar Regency, Competition Intensity does not have a significant impact on the achievement of competitive advantage.
- A positive and significant effect of Competition Intensity on Innovation Strategy: This suggests that for woodcraft buyers in Gianyar Regency, the intensity of competition in woodcraft products is a factor driving innovation strategies, but it does not directly affect the achievement of competitive advantage.

- c. A positive and significant effect of Entrepreneurial Orientation on Competitive Advantage: This indicates that for woodcraft buyers in Gianyar Regency, the entrepreneurial orientation of woodcraft producers is a factor in achieving competitive advantage, considering other factors beyond the entrepreneurial orientation of the woodcraft producers.
- d. A positive and significant effect of Entrepreneurial Orientation on Innovation Strategy: This shows that for woodcraft buyers in Gianyar Regency, the entrepreneurial orientation of woodcraft producers is a contributing factor to the development of innovation strategies, although it does not directly lead to competitive advantage.
- e. A positive and significant effect of Innovation Strategy on Competitive Advantage: This indicates that for woodcraft buyers in Gianyar Regency, innovation strategies in woodcraft products are a factor in gaining competitive advantage.
- f. A positive and significant effect of Competition Intensity on Competitive Advantage through Innovation Strategy: This shows that woodcraft buyers in Gianyar Regency do consider Competition Intensity when achieving competitive advantage. Innovation strategy acts as a moderating variable, influencing the relationship between competition intensity and competitive advantage. Innovation strategy also fully mediates the indirect relationship between Competition Intensity and Competitive Advantage.
- g. A positive and significant effect of Entrepreneurial Orientation on Competitive Advantage through Innovation Strategy: Innovation strategy positively and significantly affects the relationship between Entrepreneurial Orientation and Competitive Advantage. Innovation strategy partially mediates the indirect relationship between Entrepreneurial Orientation and Competitive Advantage.

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