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By Mirhamida

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Abstract:

This study aims to analyze the influence of external integration and internal integration to product innovation and competitive advantage. The research was conducted on a sample of 180 manager small and medium enterprises (SMEs) in East Java clothing taken with stratified cluster sampling technique. Selection of sample was based on areas that have the potential development of the industry. Data collection was done by using questionnaire that has been tested for its validity and reliability. Data analysis used Structural Equation Modeling (SEM) analysis with help of AMOS program version 21.

Based on the analysis of SEM, it was found that the first, external integration influence on product innovation SMEs and affect the competitive advantage of SMEs. Second, the internal integration effect on product innovation SMEs and affect the competitive advantage of SMEs. Third, product innovation SMEs effect on the competitive advantage of SMEs.

In this respect, the company needs to build a collaboration of external integration and internal integration in order to improve product innovation and competitive advantage of SMEs.

Keywords: *external integration (EI), internal integration (II), product innovation (PI), competitive advantage (CA), small and medium enterprises (SMEs)*

1. Introduction

The business world is currently growing and more and more competitors are unavoidable. The existence of competition makes the company exposed to various opportunities and threats both from within the country and abroad. Competitors in the business of making employers are required to know and understand what is happening in the market and know what is needed by the consumer. Their business pressures of a strong competitor, indirectly affect marketing performance experienced by all companies not to mention small medium enterprises (SMEs). Because of this intense competition the company must have a CA in order to survive and continue to develop their business. Brun et al. (2008) states that CA is owned by a company can be expected to result in a consumer satisfaction, because the CA it has is a reflection that the products offered meet the needs and desires of consumers, and a positive score in the eyes of consumers. Porter (1996) explains that the CA is the heart of marketing performance to the competition. The setting is a good strategy the key to success for the company to be in the

forefront with anticipation in the market competition (Tarabieh et al. 2015). Innovation can be used as one of the strategies to achieve competitive advantage.

(Gray et al, 2002) suggests that the innovation capability of a company will guarantee the company's ability to compete. The success of the company in order to maintain sales of its products lies in its ability to innovate. Supply chain management (SCM) is the expansion and development of the concept and meaning of logistics management, whose role in regulating the flow of goods between the company and growing concerns to things that are required by the customer (Indrajit and Djokopranoto, 2006). Generally, there are two types of integration, namely the EI and II. EI is the integration of logistics activities which exceed the limits beyond the company. Meanwhile, the II of the cross-functional integration within an enterprise, as reflected by the level of activity of logistics functions, which are interconnected with the scope of other functions (Pituringasih, 2010). II shows the extent to which a company can build organizational practices, procedures and behavior in a synchronous process, collaborative and can be managed to meet the needs of customers (Paulraj et al., 2004).

Integration external and II is widely accepted because of its ability to improve operational performance, such as quality, cost, delivery, and flexibility (Wong et al., 2011; Prajogo and Olhager, 2012; Droge et al., 2012). However, results of several studies are still few studies linking of the EI and II towards PI and CA, especially SMEs in East Java.

Therefore in this study wanted to determine and analyze the influence of EI and II to PI and its impact on the CA of SMEs in East Java

2. Literature Review

2.1. Integrasi Eksternal dan Integrasi Internal

According Jebarus (2001) supply chain management (SCM) is a further development of distribution management products to meet consumer demand. By Indrajit and Djokopranoto (2006) SCM is the expansion and development of the concept and meaning of logistics management, whose role in regulating the flow of goods between the company and growing

concerns to things that are required by the customer. SCM is an approach used to achieve integration of more efficient organization of suppliers, manufacturer, distributor, retailer and customer.

From the explanation above researchers can conclude that SCM is a set of approaches to streamline and streamline the integration of suppliers, manufacturing, warehouse and storage, so that the goods are produced and distributed in the right amount, the right location, the right time, to minimize costs, lower volume waste and provide services to the customer's satisfaction. In this study, SCM split into two types of integration, namely the integration of external and II. EI refers to the extent to which a company can partner with other members of the supply chain (customers and suppliers) to develop strategies between organizations, practices, procedures, and behavior in the process of collaboration, synchronization, and can be managed to meet the needs of customers with indicators covering relations suppliers, raw material quality, supply, customer complaint, customer satisfaction, and customer relations. While the II shows the extent to which a company can build internal cooperation as reflected through information sharing of various departments within the company, such as production department, packing, warehousing, distribution, and transportation with indicators which include product development, production planning, quality control, quality production, distribution and quality of information (Paulraj et al., 2004, Vijayasathy, 2010, Droge et al., 2012).

While in this study indicators in use as a reference instrument making research, using instruments developed by (Aloini and Martini, 2013, Wong et al., 2011) for the integration of external variables with indicator (supplier relationships, quality of raw materials, supply risk, customer complaint, customer satisfaction, and customer relationship) and variable II with indicators (product development, production planning, quality control, quality of production, distribution, and quality information)

2.2. Product Innovation

Robbins and Coulter (2010) innovation is the process of turning creative ideas into a product or method useful work. PI by Kartikasari (2014: 56) is the result of development of new products by companies or industries, either existing or not. PI may include changes in design, components and product architecture. (Kasali 2010) describes the innovation is the ability to see things in a new way and sometimes unusual. Anshori (2010) argues that innovation is the summation to the question why and how. Hills (2008: 11) defines innovation as an idea, practice or object that is considered new by an individual or a unit other users. According Machfoedz (2004: 24) points out that the innovation of products consists of four elements, namely the discovery, development, duplication and synthesis.

From the explanation above the researchers to conclude that PI is a change that is related to increasing or improving existing resources, modify to make something of value creating new things are different, converting a material into a resource and combining each source power into a new configuration that is more productive.

While this research indicator in use is the discovery, development, duplication and synthesis developed by Machfoedz (2004)

2.3. *Competitive Advantage*

CA according to Goyal (2001) is the ability of a company to achieve economic gain in profits which can be achieved by competitors in the market in the same industry. Companies that have a CA has always had the ability to understand the changes in market structure and being able to choose an effective marketing strategy. Competitive strategy intended to maintain profitability and lasting position in the face of competition. Developing CA of the value created by the company that is able to customers or buyers. According to Kotler (2005: 68) is a CA over competitors gained advantage by delivering greater customer value, through lower prices or by providing more benefits that correspond with higher pricing. Measurement of CA in the study of Li et al., (2006) used a dimensional measurement of CA in research among others using delivery dependability, product innovation and time to market. Some of the indicators used to measure

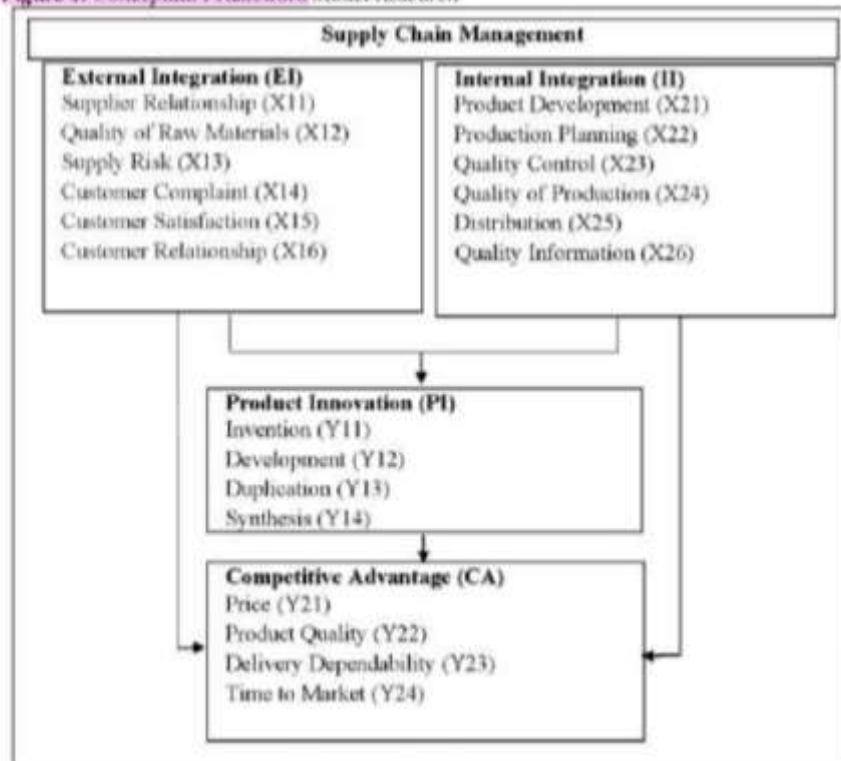
CA is the uniqueness of the product, product quality and competitive price (Setiawan et al, 2012: 14).

In this study were measured with a CA in price, product quality, delivery dependability and time to market. These measurements as it has been used in the study (Bashor and Purnama, 2017, Setiawan et al., 2012; Li et al, 2006 and Thatte, 2007)

3. Conceptual Framework

The conceptual framework of research is the result of inference from the generalization to a particular phenomenon, so it can be used to describe many other similar phenomena. Based on research issues and descriptions of the effect of SCM that includes EI and II to PI and its impact on the CA of SMEs in East Java. Then it can be used conceptual framework in Figure 1 as follows.

Figure 1: Conceptual Framework Model Research



4. Research Methods

Generally, this study aims to describe and analyze the influence of EI with indicators (supplier relationships, quality of raw materials, supply risk, customer complaint, customer satisfaction, and customer relationship) and II with indicator (product development, production planning, quality control, quality of production, distribution, and quality information) to PI with indicators (invention, development, duplication, and synthesis) and their impact on CA with indicators (price, product quality, delivery dependability, and time to market). In accordance with its objectives, this study was designed as an explanatory study. The results obtained in this study is expected to provide an explanation of how CA is influenced by several factors: product innovation, EI and II.

Total population in the study was the manager of clothing SMEs in the region of East Java province, consisting of 38 local District / City Government. While the sample is a number of 180 managers, according Ferdinand (2014) respondent sample size that fits in the SEM analysis was around 100 -200, further advised the respondent sample size of at least as much as 5 to 10 times of the number of indicators in the latent variable. While the sample of respondents in this study is 20 times the indicator variable 9 totaling 180 respondents. The sample selection is based on the local area that have potential industrial development (industrial centers). The Ministry has set a small industrial centers for the entire region, which can be used as a basis for determining the sample area. Prepared in accordance directory, the center of industrial development in the area, business groups Indonesia East Java small industrial clothing consists of five areas, namely Tulungagung district, Bangkalan, Mojokerto, Mojokerto and Sidoarjo. Data was collected by using a questionnaire that had been tested for validity and reliability. Analysis of the data used SEM analysis with the help of the AMOS program version 21.

5. Results

3.1. Results Test Validity

Test validity of the instrument was given to 180 respondents, and the results were analyzed using correlation product moment person. The results were compared with r_{table} of significance level of 5% with $n = 180$, and is known to $r_{table} = 0.1455$.

validity test results show the results of r_{count} of all item questionnaire of variables EI, IL, PI and CA has more value greater than $r_{table} = 0.1455$. Thus the whole item questionnaire to variable EI, IL, PI and CA are considered valid as a measuring tool and can be used to obtain the necessary data in this study.

3.2. Results Test Reliability

After a validity test is passed with the reliability test to determine the extent of the research instrument reliable. The criterion is if the alpha correlation result is greater than 0.600 then the instrument can be said to be reliable. Summary results of reliability tests demonstrate the reliability values of Cronbach's Alpha variables EI, IL, PI and CA have a greater value than $r_{table} = 0.600$. Thus the whole item questionnaire for variables EI, IL, PI and CA is considered to be reliable. "Reliabilities less than 60 are Generally Considered to be poor, Reviews those in the 0.7 range, to be acceptable, and Reviews those over 0.8 to be good" (Perniston et al., 2017).

3.3. Loading Factor Confirmatory Testing Results Analysis, Critical Path Ratio and Coefficient

This study used factor analysis and regression model with SEM. Based on the results of testing the model, then the loading factor obtained confirmatory and critical ratio as follows:

1) External Integration

This study used factor analysis and regression model with SEM. Based on the results of testing the model, then the loading factor obtained confirmatory and critical ratio as follows:

Table 1 : Regression Weight (Loading Factor Confirmatory) Standardized Estimate (SE) and Critical Ratio (CR) Indicators of Factor External Integration

No	Indicators	SE (Loading Factor) good of fit > 0.4	CR good of fit > 1.96	Probability (P) good of fit ≤ 0.05	Specification
1	Supplier Relationship	0.854	2.114	0.035	good of fit
2	Quality of Raw Materials	1.000		0.000	good of fit
3	Supply Risk	0.283	3.455	0.000	not good of fit
4	Customer Complaint	1.161	2.932	0.026	good of fit
5	Customer Satisfaction	1.209	2.932	0.003	good of fit
6	Customer Relationship	1.563	3.263	0.001	good of fit

Sources: Primary data are processed

Test results are in presented in table 1 shows that when seen from the loading factor confirmatory, that the above-mentioned sixth indicator value of 0.4 according to Ferdinand (2014) which allowed the value of loading factors included in the analysis model is greater than 0.4, Ferdinand further said while CR required for greater than 1.96 at the level of $\alpha = 0.05$ and the value of CR showed that all six indicators significantly with $CR > 1.96$ and the value of the probability (P) of 0.000, 0.001 and 0.003 less than 0.05. From the above test results obtained that the six indicators can be used as a measure of variables in explaining the EI of (supplier relationships, quality of raw materials, supply risk, customer complaint, customer satisfaction, and customer relationship). Of the six indicators that can explain only five indicator variables and of five indicators are best able to explain the variable is the customer relationship, and customer satisfaction, followed by customer complaint, then the quality of raw materials and the latest is a supplier relationship

2) Internal Integration

Results and critical confirmatory factor loading ratio on job satisfaction in the following carefully:

Table 2 : Regression Weight (Loading Factor Confirmatory) Standardized Estimate (SE) and Critical Ratio (CR) Indicators of Factors Internal Integration

No	Indicators	SE (Loading Factor) good of fit > 0,4	CR good of fit > 1,96	Probability (P) good of fit < 0,05	Specification
1	Product Development	1.000		0.000	good of fit
2	Production Planning	0.406	2.222	0.026	good of fit
3	Quality Control	0.800	4.329	0.000	good of fit
4	Quality of Production	0.914	2.234	0.000	good of fit
5	Distribution	0.908	4.360	0.000	good of fit
6	Quality Information	1.057	4.726	0.000	good of fit

Sources: Primary data are processed

Test results served in table 2 shows that when seen from the value of the loading factor, that the four indicators above 0.4 by Ferdinand (2014) which allowed the value of loading factors included in the analysis model is greater than 0.4, Ferdinand further said to (CR) required greater than 1.96 at the level of $\alpha = 0.05$ and if seen from table 2 shows that the value of its CR sixth significant indicator with $CR > 1.96$ and when seen at the level of $\alpha = 5\%$. It can be seen the value of the probability (P) 0.000 less than 0.05. From the above test results obtained that the six indicators, all of which can be used as a gauge in explaining jointly of II variables, namely: (product development, production planning, quality control, quality of production, distribution, and quality information) of the sixth indicator the most able to explain the II variable is quality information, and product development, followed by quality of production, quality control and then further distribution of the most recent and production planning.

3) Product Innovation

Results loading factor confirmatory and critical ratio of success in the meticulous effort are as follows:

Table 3 : Regression Weight (Loading Factor Confirmatory) Standardized Estimate (SE) and Critical Ratio (CR) Indicators of Factors Product Innovation

No	Indicators	SE (Loading Factor) good of fit > 0.4	CR good of fit ≥ 1.96	Probability (P) good of fit < 0.05	Specification
1	Invention	0.791	3.507	0.000	good of fit
2	Development	0.910	3.705	0.000	good of fit
3	Duplication	0.784	3.571	0.000	good of fit
4	Synthesis	1.000		0.000	good of fit

Sources: Primary data are processed

Test results is presented in table 3 shows that when seen from the loading factor, that these four indicators value above 0.4 and when seen from table 3 shows that the value of the four indicators CR significantly with $CR > 1.96$ and when seen at the level of $\alpha = 5\%$. It can be seen the value of the probability (P) 0.000 less than 0.05. From the above test results showed that the four indicators, all of which can be used as a measure of PI in explaining variables, namely: (invention, development, duplication, and synthesis). Four indicators are jointly able to explain the variable PI and of these four indicators are best able to explain the variable is synthesis, then development followed and the most recent invention is duplication.

4) Competitive Advantage

Results loading factor confirmatory and Critical ratio of success in the meticulous effort are as follows:

Table 4 : Regression Weight (Loading Factor Confirmatory) Standardized Estimate (SE) and Critical Ratio (CR) Indicators Of Factor Competitive Advantage

No	Indicators	SE (Loading Factor) Good Of Fit > 0.4	CR Good Of Fit ≥ 1.96	Probability (P) Good Of Fit < 0.05	Specification
1	Price	1.000		0.000	Good Of Fit
2	Product Quality	0.144	2.616	0.009	Not Good Of Fit
3	Delivery Dependability	1.368	7.214	0.000	Good Of Fit
4	Time To Market	0.148	2.534	0.011	Not Good Of Fit

Sources: Primary data are processed

Test results is presented in table 4 shows that when seen from the loading factor, that not all the indicators above the value of 0.4 and if seen from table 4 show that the CR value of the four indicators with CR > 1.96 and if seen at the level of $\alpha = 5\%$. It can be seen the value of the probability (P) 0.000 and 0.003 less than 0.05. From the above test results showed that of the four indicators, only two of which can be used as a measure of CA in explaining variables are delivery dependability and price. Both indicators are jointly able to explain the variable and the CA of both indicators are most able to explain the variable is the delivery dependability, and then price.

3.4. Testing Results Alignment Model

3.3.

Based on the model test the first stage turns out not been obtained coefficients Chi-Square (which requires a small number or a non-significant), GFI, AGFI, TLI and CFI (which do not meet the required more than 90) and the coefficient of P-Value is still far below the figure of 0.05 (level of significance required). Results harmony detailed model of the final stage can be seen in Table 5 below.

Table 5 : Results of End Stage Model Test Conformity

Model Conformity	Criteria	Coefficient
Chi Square	Small	128,609 good of fit
Significamed Probability	$\geq 0,05$	0,121 good of fit
CMIN/DF	$< 2,00$	1,159 good of fit
GFI	$\geq 0,90$	0,928 good of fit
AGFI	$\geq 0,90$	0,901 good of fit
TLI	$\geq 0,95$	0,941 good of fit
CFI	$\geq 0,95$	0,952 good of fit
RMSEA	$\leq 0,08$	0,029 good of fit

Sources: Primary data are processed

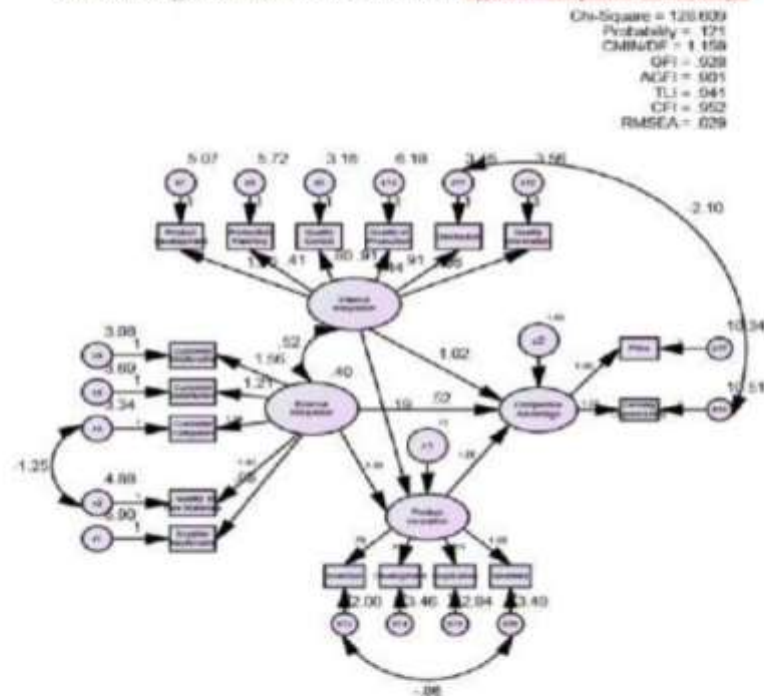
Table 5 is a simulation result the final stage, with attention to Table 5, it can be declared a model of structural models have the Conformity of the best models in terms of the acquisition coefficient of P-Value World, CMIN / Df smallest, GFI's largest, AGFI greatest, The TLI, CFI RMSEA largest and smallest. Determination of the model as the best model was based on insufficient alignment coefficients and generates a pattern model of the relationship between the significant variables. After successfully finding a new model of finding the next step to test the model confirmatory factor analysis was used to determine how much the relationship between the latent variables with indicator variables. The confirmatory test is done by comparing the coefficient factor loading factor (lambda) and significant at $\alpha = 5\%$, as shown in the following presentation.

5.6. Testing Results (Confirmatory factor analysis)

Having to do tests on the foregoing assumptions and found that the model has a good alignment, then analyzed the data to get a clear picture of each variable. The results of the analysis will be undertaken for each variable in the study can be described as follows:

The test results confirmatory factors and influence the path coefficient EI variables with indicators (supplier relationships, quality of raw materials, customer complaint, customer satisfaction, and customer relationship), II with indicators (product development, production planning, quality control, quality of production, distribution, and quality information) to PI with indicators (invention, development, duplication, and synthesis) and their impact on CA with indicators (price and delivery dependability). Broadly speaking, it can be seen in figure 2 below.

Gambar 2 : Confirmatory Factor and Coefficient Line Effect of Variable External Integration, Internal Integration and Product Innovation Against Competitive Advantage



Sources: Primary data are processed

5.7. Hypothetical Testing Results

Results of calculations as presented in table 6

Table 6 : Results of Testing Influence of Variables External Integration, Internal Integration and Product Innovation Against Competitive Advantage

NO	Variabel		Coefficient	SE	CR	P	Specification
1	Product_Innovation	←	1.000			0.000	Significant

	External_Integration					
2	Product_Innovation ← Internal_Integration	0.190	0.653	3.242	0.021	Significant
3	Competitive_Advantage ← External_Integration	0.518	2.690	2.236	0.041	Significant
4	Competitive_Advantage ← Internal_Integration	0.034	1.015	3.983	0.004	Significant
5	Competitive_Advantage ← Product_Innovation	1.245	2.265	2.705	0.048	Significant

Sources: Primary data are processed

Judging from table 6 above, it was found that 1). EI significant effect on PI with coefficient 1,000 lane 2). II significant effect on PI with the coefficient of 0.190 lane 3). EI significant effect on the CA with coefficient 4 0.518 lines). II significant effect on the CA with path coefficient value of 0.034 and 5). PI significant effect on the CA with path coefficient value of 1.245.

6. Discussion

6.1. Effect of External Integration and Internal Integration of the Product Innovation

From table 6, it can be concluded that the test results with SEM analysis performed using AMOS 21 shows EI significant positive effect on PI.

This finding indicates that the results were in line with what is expressed by Wu (2013) found that EI and II affect on innovation products. Wong et al., (2013), which states that the EI has a positive influence on PI. Furthermore, Wong et al., (2013) Stated that EI has the ability to acquire information, knowledge sharing, coordination efficiently, and facilitate new PI with collaboration between external parties. EI also helps improve the capabilities and resources that are usually owned by other parties, such as suppliers and customers (Aloini and Martini, 2013), where the staff of the purchasing department and manufacturing need to work with suppliers to

ensure suppliers understand the design and manufacturing process of new products in accordance with needs.

According to Song et al., (2017) stated that the importance of EI, integration moderate the relationship between customer and business performance, the relationship between supplier integration and operational performance, and the relationship between time to market and business performance. In addition, the integration of customers and suppliers improving operational performance and business completely by reducing time to market, while improving customer integration fully operational performance by shortening the time to market. Gatz EI allows companies to gain knowledge about the needs of consumers (Ragatz et al., 1997). Through the integration of the value chain upstream (Ettlie and Reza, 1992). In addition EI support supplier involvement in new product development process (Ragatz et al., 1997; Koufteros et al., 2005), which allows the company to focus on digging new products and technological knowledge of the supplier (Petersen et al., 2005) that complements internal capabilities (Ragatz et al., 1997).

Better regarding the influence of II to PI. According Dangelico et al., (2017) the EI of resources, integration of internal resources, and the development of resources and reconfiguration) affecting changes / updates to the ability regular-oriented sustainability (ability of innovation and design capabilities). The results of the study support research Yee & Ooi (2008) and share information among supply chain partners, and establish supply chain collaboration (Schmelzle and Tate, 2017; Cilibertietal, 2016).

This study is in line with the theory of ambidexterity, that the EI and II complement each other to facilitate business processes. As it is known, that the EI known to be more effective in influencing the time-based performance and flexibility as well as building cooperation with suppliers and customers (Ettlie and Reza, 1992). While the II is superior in terms of quality, costs, as well as communication, collaboration and sharing of information between departments within the company (2010, Wong et al.,2009). The decision of new product development in the company relies on information obtained from suppliers and customers, known as the EI, and the

information will be converted into a reference or insight that is very useful when going on PI internally when supported by effective interaction between the EI and II. When EI and II interact, knowledge or assets owned by the supplier and the customer will be incorporated into the PI efforts. Therefore, to ensure the development of effective innovation, companies are advised to increase its internal capacity to absorb knowledge and external information (Tracey, 2004). These findings have important implications for research and practice in the field of supply chain integration and PI.

6.2. Effect of External Integration and Internal Integration to Competitive Advantage

From table 6, it can be concluded that the test results with the analysis seem who performed using the amos 21 shows that the EI and II significant positive effect on the CA

These findings indicates that the results were in line with what is Liu et al., (2017) based on the analysis of the relationship between integration between departments and service innovation has a significant positive correlation level. Integrating resources and internal and external competence, adopted a "direct innovation" and the flow of knowledge within the organization, complementary competencies and fast and seamless communication with customers to enable organizations to obtain external knowledge and improving innovative development to maintain a competitive advantage. In the era of economic globalization with the knowledge and network economy, growth companies are facing new challenges. In such a situation, companies should emphasize on the integration of the internal network resources and reduce business risk by developing the external network relationships to improve performance. Forms of II that can provide sustainable and synergistic effect of warding off competition for now. Gunaratne & Hoover (2001) states have competitive products and services and the supply chain right to the customer is not enough in today's market environment, the supply chain should be on the right customers. Relational customers combined with the operations of the company and the customer's operations will create a supply chain demand. Business success SMEs

sustainable depends on many other factors such as the ability of the supplier and customer integration (Tehseen and Ramayah 2015).

This research support study Li et al. (2006) found that the integrity of the implementation of external and internal integrity can lead to improvement of excellence compete and improve organizational performance. To build CA depends not only on internal factors but also influenced by external factors (Restrepo et al., 2016). Survival and growth of SMEs can be difficult in the current competitive business environment and global market. This can be a real challenge to deliver the right products and services at the most appropriate time and at the lowest possible cost to the right customers. These challenges emphasize the importance of managing cross-border relationships between business partners. To gain competitive advantage, SCM is an effective tool for SMEs (Thoet et al., 2017). Sales et al., (2016) research results show that many factors are driving the development of Product Innovation, both internal and external to the company. Among the internal factors, the most important is the prospect of competitive advantage, cost reduction, market gains, increased reputation and innovation opportunities. Among the external factors, the most important is the environmental regulations - current and / or anticipated - and market demand. In terms of results, this study provides evidence that the most relevant is the cost savings, the achievement of competitive advantage, increase market share, increase sales, increase turnover, higher profits, better reputation, increased exports and higher productivity. According to Quang et al., (2016) from the perspective of supply chain management, the specific critical dimensions are: procurement, internal logistics and distribution. Therefore, there is a need to change the thinking of today's organizations that are focused on the enterprise, and develop it into an inter-organizational behavior involving customers, suppliers and other stakeholders.

Today, the knowledge economy is rather focused on the development of an integrated system that is recognized as one of the most effective forms of integration. In turn, the process, based on interdependence and cooperation of economic entities, determine the likelihood of a

stable economic relations, the synergistic effect and the growth of CA (Pustynnikova & Uskova 2017).

Findings Sales et al., (2016) building collaborative networks and to improve the flow of knowledge, both inside and outside the company, cross-functional integration and the development of resources and the ability to influence the success of the development of PI. The development of PI, which in turn will increase the CA (Garengo& Panizzolo, 2013). According peneltian Carraresi et al., (2016) results show that the ability of marketing, networking, and innovation directly and positively affect performance. SMEs benefit from the sale of its products in the national market. Network capability plays a dual role: It has a direct positive influence on the performance and also an indirect effect on the ability to obtain information about the market and supply chain agents. Market and consumer information obtained is invaluable in enhancing marketing capabilities and improve performance.

6.3. Effect of Product Innovation to Competitive Advantage

From Table 6, it can be concluded that the test results with SEM analysis performed using AMOS 21 shows that the PI affect positive significant to the CA.

These findings show that the results are in line with what was expressed by Kennedy et al., (2017) PI has a significant and positive impact on CA. Carraresi et al., (2016) the results of his research shows that the ability to innovate is directly and positively affect performance. Bermúdez et al., (2017) the concept of open innovation chain. This concept will be an alternative for the growth of small and medium-sized companies, ranging from the integration of their actors to solve the real needs of the market. Khan et al., (2017) Innovation is important for SMEs to survive in the market and maintain a competitive advantage. The ability to obtain information about the market and supply chain agents. Market and consumer information obtained is invaluable in enhancing marketing capabilities and improve performance. On the other hand company that have more capacity to innovate will be able to develop a CA in order to achieve the performance (Daneels, 2002). These advantages can not be separated from the development of

product innovations produced, so it will have the advantage in the market which in turn will win the competition. Innovation enables companies to create and deploy their ability to support the business and long-term performance (Teece, 2007). Successful innovation can make companies more difficult external environment mimic and allow to maintain excellence (Garcia-Morales et al., 2006). Therefore, innovation will affect the company's CA and performance. Under conditions of a rapidly changing environment, saying that the CA is determined by the creativity and innovation that can satisfy the desires of customers better than the competition. Gray et al (2002) says the innovation capability of a company will ensure the company's ability to compete. (O'Regan and Ghobadian, 2005), see the innovation is a new idea that can create added value for the company

Through innovation, the company hopes to create a product that is completely new, or other previously or create a product which is an improvement of the product who have been there before. In consuming a product, consumers are not only limited to see the value or function of a product that is needed, but consumers also pay attention to whether the selected products add value or advantages compared with other similar products. Desire is what should be understood by the manufacturer as the foundation for the innovation process. By innovating companies will be successfully responding to their environment and develop skills where this can have an impact on the overall marketing performance. Utaminingsih (2016) stated that the innovation positive and significant effect on the performance of marketing. Usvita (2015) states that the CA of a positive significant effect on the performance of marketing. Research (Titahena et al., 2012) found empirical evidence that states that there is a significant positive relationship and support of the existence of a relationship between a CA to marketing performance. This means that when the CA of the performance of the marketing rise will increase and vice versa Innovation is one of the key aspects of the performance of the company, if the environment is increasingly fierce competition. Another opinion is from (Gray et al, 2002) suggests that the innovation capability of a company will guarantee the company's ability to compete. O'Regan and Ghobadian, (2005) to see the innovation is a new idea that can create added value for the company. Robbins and

Coulter (2010) innovation is the process of turning ideas - creative ideas into a product or method useful work. Kasali (2010) describes the innovation is the ability to see things in a new way and sometimes unusual.

According Hubeis (2005: 69) explains that PI is a change that is related to increasing or improving existing resources, modify to make something of value creating new things are different, converting a material into a resource and combining each source power into a new configuration that is more productive, either directly or indirectly in an effort to gain a competitive advantage. Innovation can also be created as the company saw a lot of competitors are emerging that the company is able combine competitors excellence into a new advantage for the company. CA has been achieved by the company should be maintained due to their advantages more and more competitors who pay attention to the point unguarded firms, therefore the company should continue to be consistent in maintaining its superiority (Russell & Millar 2014). CA can also be seen through customer evaluations that can be created by firms through service facilities that can accommodate all sorts of complaints or suggestions aimed at consumers to the company for the sake of improvement toward a higher quality. The setting is a good strategy the key to success for the company to be in the forefront with anticipation in the market competition (Tarabieh et al., 2015). At this time the innovation has become an important factor for companies to ensure the sustainability and even the survival of the company in the global business (Costa & Ramos, 2015)

7. Conclusion

Based on the results of research and discussion that has been done above, it can be summed up as follows:

1. EI represented by (customer relationship, and customer satisfaction, followed by customer complaint, then the quality of raw materials and most recently supplier relationship) influence on PI represented by (synthesis, then development, followed by his most recent invention and are duplications) and of the EI effect on the CA represented by (delivery dependability, and then price). EI (integration of customers and suppliers) increase operational performance and

business completely by reducing time to market, while the integration of customers improve operational performance completely by shortening the time to market

2. II represented by (quality information, and product development, followed by quality of production, then quality control further distribution of the most recent and production planning) effect on PI represented by (synthesis, then development, followed by his most recent invention and are duplications). And II affect the CA represented by (delivery dependability, and then price). EI and II is widely accepted because of its ability to improve operational performance, such as quality, cost, delivery, and flexibility. So as to enhance the innovation capability and its ability to compete.
3. PI represented by (synthesis, then development, followed by his most recent invention and are duplications) affect the CA represented by (delivery dependability, and then price). The innovation capability of a company will guarantee the company's competitive ability and success of the company in order to maintain sales of its products lies in its ability to innovate.

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