Strategic Model in Increasing the SMEs Competitive Advantage in South Sulawesi

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Abstract. The study of SMEs development has become an interesting issue in the field of education including because of its great contribution to society and nation. The research objectives are to describe 1) the effect of government intervention toward the increase of Small and Medium Enterprises (SMEs) innovation capabilities and competitive advantage in South Sulawesi; 2) the effect of non-market capabilities toward non market strategies and competitive advantage of SMEs in South Sulawesi; 3) the effect of non-market capabilities toward government intervention. The data used is the primary data which was obtained from interviews with 40 respondents in Makassar, Parepare, Sidenreng Rappang and Bantaeng. The sample from which data collection done is selected using purposive sampling method. Results are presented in descriptive and inferential statistics. The research results show that innovation, government intervention, nonmarket strategies and capabilities are prerequisite to improve SMEs competitiveness. In addition, the small business competitiveness will significantly change when the innovations undertaken are influenced by government intervention.

Keywords: strategic model, competitive advantage, small and medium enterprises (SMEs)

INTRODUCTION

The development of SMEs is one of the important issues of every country around the world. In some countries such as Thailand, Malaysia, and also some European countries focus on developing partnerships between MSMEs and multinational companies or large industries that already have enough resources to compete globally. Various cooperative initiatives to improve the performance of SMEs were conducted by each government of ASEAN (Yunita et al., 2015). However, academics and practitioners have no agreement on the determinants of increasing competitiveness of SMEs in Indonesia and other countries.

The generally accepted understanding of competitiveness can be related to a concept of competitive advantage. A competitive advantage is what makes an entity's goods or services superior to all of a customer's other choices (Porter, 1985). To create a competitive advantage (Amadeo, 2018) states firm should be clear about benefit, target market and competition as determinants.Benefit. What is the real benefit the product provides? It must be something that customers truly need and that offers real value. That means being constantly aware of new trends that affect the product, especially new technology. 1) Target market. Who are the customers? What are their needs? It is important to know exactly who the buyerers, and how to better their life. 2) Competition. Have to identify real competitors? It is more than just similar companies or products. It includes anything else the customer could do to meet the need.

The abovementioned determinants are in-need of company’s strategic resources. Meanwhile, the strategic resources or factors in achieving above-average returns for the firm according to Barney (1986) is not perfect due to the dynamics of the business environment. Firms will either overestimate or underestimate the future value generated by strategic resources in implementing a strategy. Therefore, a firm that has a more accurate prediction over the future value generated by its strategic resources will be able to gain above-average returns either because of its more superior ability in estimating the future value of a strategy or due to its good fortune resulting from the incorrect estimation of the future value of pursuing a particular business strategy on the part of its competitors (Barney, 1986).

Different macro environments are important considerations for companies to improve performance through
appropriate strategies. In a stable market environment with certainty and slow pace of change, companies try to find the best fit between the existing market opportunities and company capabilities while formulating strategies. Companies take sector structure and competitive conduct as it is and then they choose a strategy that adapts to the market environment. Much less attention is devoted to assessing strategies that might fundamentally shape sector structure and conduct to create changes that play to a company’s advantages. This emphasis on adapting rather than shaping is natural in stable business environments, where key elements of sector structure and conduct—such as technology platforms, regulations, competitors, and customer purchasing patterns—appear to be locked-in and difficult to change (Yılmaz, 2009).

In terms of competitiveness, strategic resources and macro environments, Indonesia is known to be one of the markets for the world's companies because of its potential economic resources. Performance achieved cannot be separated from the contribution of all existing business institutions in the national economic structure. However, when compared with other business institutions, the Small and Medium Enterprises have the highest contribution to the national economic conditions (Suhartini and Yuliawati, 2015). Martowardjo (2013) argues that SMEs contribute up to 99% for the economic development of Indonesia and the remaining 1% in the form of large businesses. SMEs are one sector that can survive in a depressed global economic situation. Other achievements indicate that MSMEs are important economic actors in absorbing workers in ASEAN. SMEs include micro businesses covering 96% of the total business in ASEAN countries, its contribution in the formation of added value is still limited, and SMEs contribute 42% of the total GDP of ASEAN countries. In general, the contribution of ASEAN SMEs to the value of exports and global and regional production networks (Global Value Chain) is lower than the large ASEAN companies. In general, the performance of SMEs in Indonesia is still relatively low compared to ASEAN countries with relatively similar level of development, especially in terms of productivity, export contribution, participation for global and regional production and contribution to added value.

Some studies show that the ability of SMEs to compete in the global era depends on several things, internal factors such as business scale, stakeholders personality, educational background and corporate culture that can be reflected from the level of productivity and innovation of the company as well as external factors, factors from the outside of the company such as access to capital and the policy environment (Agbola, 2013; Houssin, 2013; Ahomka, 2015).

To improve the competitiveness of Indonesian SMEs in general and to increase SMEs participation in Global Value Chain (GVC), the factors that determine the competitiveness of SMEs as well as the level of participation in GVC need to be the government's attention. Global Value Chain (GVC) is a revolution of production systems in the 21st century where the production and distribution of goods is jointly organized by several countries. In GVC, one production stage of a unified production process is conducted in one country while the next stage is done in another. GVC is possible because of the revolution of communications and logistics technology and the decline of trade barriers between countries that make goods and services move almost unimpeded from one country to another. Several factors that determine the competitiveness of SMEs can be grouped into 2 major groups, namely internal and external factors. Internal factors include aspects that can improve the productivity of Indonesian SMEs, which are human resources, marketing strategies, and innovation (Safitri and Sakapurnama, 2016). While external factors are various aspects outside SMEs that can affect and support the competitiveness of SMEs. These factors are ease of doing business, access to finance and capital, market access, infrastructure, and macroeconomic conditions (Suhartini and Yuliawati, 2015; Anton et al., 2015).

Competitiveness can be classified into three levels, which is company level, industry and country (Porter, 1990). The measure of competitiveness at the enterprise level is measured through profitability, exports, and market share. The size of competitiveness for industry level includes company profitability, industrial trade balance, and balance sheet (inbound and outbound) of foreign investment (JMOP, 2003). Competitiveness seems to be a term and an easy-to-find study at every level of corporate and geographical organization. The absence of agreement both in the field of research and academic related to the determinants of organizational competitiveness becomes one of the determinants of organizational competitiveness. At the (national) state level, competitiveness reflects the community's ability to achieve constant and high standards of living. The standard of living of all countries can be achieved through continuous improvement of productivity (Porter, 1990).

SMEs and cooperatives sectors are one of the sectors that can accommodate more workers, amidst the economic downturn caused by bankruptcy of the corporate sector. Therefore, with the increasing volume of labor segment on the perpetrators of SMEs and Cooperatives, the improvement of product competitiveness will be maintained, as long as the government as the owner of authority in the management of policies related to the management of SMEs and Cooperatives, is really serious to provide training and quality improvement of human resources in the sector of SMEs and Cooperatives. In order to face the ASEAN free market competition, all segments should get the attention of the government. In this regard, the quality of human resources of SMEs and cooperatives is important, as this segment is the main factor of determining the success of a business unit in enhancing the competitiveness of the product in the face of free market competition from other countries.

Wignaraja (2012) argues that the low participation of SMEs in Global Value Chain (GVC) due to limited resources such as finance, information, management capacity and technology and also the access to market information. The low contribution is due to the lack of optimal GVC support, which is the infrastructure and the use of communication and information technology, reliability and efficiency of logistics services, high trade barriers, relatively high wage rates compared to ASEAN countries and strict requirements for an access to bank financing. In addition, business operators in Indonesia are struggling to meet the international product standards due to difficulties.
in obtaining local raw materials in accordance with global consumer demand.

GVC participation enhances the possibilities for access to new types of production and to upgrade towards higher value-added activities. If and when they are able to participate in the international production networks of MNCs, the benefit for developing economies will be critical as it will unlock their development disadvantages arising from being a small domestic market as well as from insufficient capital and the lack the experience to meet international standards. In fact, the competitiveness improvements can be felt beyond the GVC-participating firms and export sectors. Local firms, in general, can achieve greater success in their own markets by combining domestic and imported intermediate inputs (APTI Report, 2015).

Business strategies in GVCs are dynamic. Participating firms have to be able to adjust quickly to changes in demand factors such as consumers' tastes and purchasing power, and supply factors affecting competition between producers at each stage of production. For emerging economies that, in general, started their participation in GVCs in the low-skilled, labour-intensive segments, economic growth and expansion of relatively labour-intensive segments will be followed by increasing real wages. Preserving a country's participation in GVCs for long-term development then requires upgrading, or moving up the value chain, which is also desirable from the perspective of higher benefits that will be received by an economy when it can participate in a higher value-added GVC segment.

Humphrey and Schmitz (2002) stated, there are four types of upgrading for enterprises within a value chain: a) Process upgrading – transforming inputs into outputs more efficiently by recognising the production system or introducing superior technology; b) Product upgrading – moving into more sophisticated product lines in terms of increased unit values; c) Functional upgrading – acquiring new, superior functions in the chain, such as design or marketing; d) Intersectoral upgrading – applying the competences acquired in a particular function to move into a new sector.

The ability of SMEs to survive and grow depends on internal factors that affect productivity and innovation of the company and external factors (Nicolescu, 2009). Internal factors in the view of Resources Based View (RBV) is called by the term of resource which consists of tangible and intangible resources. The resource-based view of the firm originated from the work of Edith Penrose (1959) and, up to the early 1980s, the focus of strategic management has been on the industrial organisation model, drawing from the theory of competitive advantage (Porter, 1980, 1985) (Wernerfelt, 1984; Peteraf, 1993). The growth and prominence of the resource-based view has been accelerated with the development of the two models of sustainable competitive advantage (Barney, 1991; Peteraf, 1993). Foss and Knudsen (2000) acknowledge these two frameworks as the authoritative summary of the resource based view perspective of sustainable competitive advantage (Ong et al., 2010). Companies will gain sustainable competitive advantage if they have valuable resources.

Valuable resources enable firms to exploit opportunities and neutralise threats in the business environment (Barney, 1991). In order for the valuable resources to yield a competitive advantage, they have to be rare. This prevents competing firms from implementing the same strategy, thereby creating a pure competitive market (Barney, 1991). Imperfectly imitable resources will ensure that valuable and rare resources in the firm cannot be obtained by competitors (Barney, 1991). Unique historical conditions, causal ambiguity, social ambiguous time compression diseconomies, asset mass efficiencies, interconnectedness of asset stocks, and asset erosion are among the conditions for imperfectly imitable resources (Dierickx and Cool, 1989; Barney, 1991). Substitutability refers to the availability of equivalent valuable resources that will be an obstacle that threatens the ability of the resource to create value for customers (Barney, 1991; Dierickx and Cool, 1989). These substitute resources can be either similar or different in nature. However, substitutability of a firm's resources is always a matter of degree (Barney, 1991).

SMEs as corporate organizations that still need government support to interact with other business organizations will be vulnerable to changes in government policy. In other words, performance achievement and competitiveness of SMEs cannot be separated from the real role of the government in the field of production, human resources, marketing, finance, and technology. Nevertheless, research on the impact of government involvement in performance improvement and corporate competitiveness remains an interesting study for continuous research.

Tian (2002) examined the relationship between the external environment as measured by shareholding by the government and the firm's performance as measured by the value of the company's stock in China. The results show that the value of the firm actually decreases when the government intervention in the form of ownership is small, whereas when government ownership (country) grows larger, the value of the company increases. Eniola and Entebang (2015) argue that the performance or competitiveness of enterprises is determined by internal and external factors including government policies or competition.

Nevertheless, improper government involvement will not lead to the success of SMEs. It needs a problem-oriented approach in order to face the SMEs. For business owners, the government efforts to intervene in the form of policies and other engagements should be well utilized. Company-owned resources should be directed to the acquisition of benefits or opportunities of any government policy and its changes. However, not all corporate organizations such as SMEs can take advantage of these opportunities because it requires different capabilities with competitors or other SMEs which is called as the non-market capabilities which often likened to political connection or non-market actions.

Baron (1995) stated, the environment of business is composed of market and nonmarket components, and any approach to strategy formulation must integrate both traditional market and nonmarket considerations in order to control a firm’s opportunities. Nonmarket environment consists of social, political and legal agreements that structure interactions that are intermediated by the public, stakeholders, government, the media and public institutions.

Nonmarket actions and competences as a means to
complement market strategies, since many nonmarket issues arise from market activity (Baron, 1995). Baron highlights the relevance of effectively dealing with governments, interest groups, activists and public issues, related to over traditional market strategies targeting operational efficiency, internal organization, supply chain management, distribution channels and alliance networks. The nonmarket environment as consisting of social, political, and legal arrangements that structure interactions among companies and their public, dividing a corporate strategy into a competitive (market) and public (nonmarket) component (Baron, 1995; Baron, 2003).

Non-market strategies involve strategic choices and actions intended to manage and optimise relationships with stakeholders outside of the traditional concept of the market, particularly in political and social arenas. Non-market strategies involve firms developing and deploying a range of different and complex resources and capabilities which complement the conventional resource base upon which firm level competitive advantage is traditionally based. Several companies along a wide range of industries invest effort in monitoring and researching emerging drivers of change in their business environment, focusing in; new technologies, events of social, economic, political and the ecological scene (Vecchiato & Roveda, 2010). Business organizations compete for their share not only in the market place, but also through efforts in the political arena aiming to manipulate regulations, laws and other institutions that govern the marketplace (Henisz & Zelner, 2003). Non-market strategy is an essential way for entities to get competitive advantage and it is becoming a relevant problem in the studies of strategic management. This field of Non-market strategy covers primarily corporate political strategy, social public and media strategy, corporate social responsibility strategy (Xie, Jin, & Jin, 2009).

Non-market strategy refers to a firm’s concerted pattern of actions to improve its performance by managing the institutional or societal context of economic competition (Baron, 1995; Lux, Crook, & Woehr, 2011). Two parallel strands of nonmarket strategy research have emerged largely in isolation. The first strand examines strategic corporate social responsibility (CSR), while the other focuses on corporate political activity (CPA). Strategic CSR refers to corporate actions that appear to advance some social good that allows a firm to enhance organisational performance, regardless of motive (McWilliams & Siegel, 2001; McWilliams, Siegel, & Wright, 2006). CPA concerns corporate attempts to manage political institutions and/or influence political actors in ways favorable to the firm (Hillman et al., 2004; Lux et al., 2011).

The nonmarket environment structures a firm’s interactions with its nonmarket stakeholders. They include but are not limited to government actors and institutions, nongovernmental organizations, social and environmental activists, and local communities. Drawing on the five main theories, the literature explores how firms adapt to external demands, adhere to prevailing institutional pressures and norms, handle institutional contradictions to elevate their sociopolitical legitimacy, and secure critical resources from salient stakeholders.

Companies that have unique resources enable the creation of capabilities and distinctive competencies. In the long run the company can innovate activities and products where these innovations can encourage competitive advantage, especially if the resource is non market capabilities. Innovation performance depends on specific actions that are employed in order to increase the innovative capability (Jayaram et al., 2013). Despite the above fact, many scholars (Paladino, 2007; Akgün et al., 2009; Çokpek and Knudsen, 2012; Ganter and Hecker, 2014) argue that the understanding of the actions, processes and strategies that lead to improved innovation performance are not examined to their full extent (Jayaram et al., 2013).

Tidd et al., (2006) explained that innovation contributes to achieving a competitive advantage in several aspects. The most important characteristics of innovations include: 1) A strong relationship between market performance and new products. 2) New products help maintain market shares and improve profitability. 3) Growth also by means of non-price factors (design, quality, individualisation, etc.). 4) Ability to substitute outdated products (shortening product lifecycles). 5) Innovation of processes that lead to production time shortening and speed up new product development in comparison to competitors.

This study will analyze the determinants of SMEs competitiveness in relation to non-market capability, non-market strategies and innovation. South Sulawesi was chosen as a research location because of the very high growth of MSMEs, reaching 1 million, for the past few years. The existence of such a large MSMEs is believed to be able to excite a populist-based economy. One of the efforts taken by the government is mentoring to training MSMEs as an initial stage as well as encouraging SMEs to be more productive. In addition, the local government is also ready to facilitate MSME players by participating in various exhibitions to helping product marketing. The goal is that the marketing of South Sulawesi’s superior MSME products become wider.

**METHODOLOGY**

This research uses quantitative approach where the primary data used in the analysis is obtained using questionnaire from 4 (four) regencies/cities in South Sulawesi Province. These regencies are Makassar, Parepare, Bantaeng and Sidenreng Rappang. Each district/city is represented by 10 respondents who are SMEs practitioners and selected using purposive sampling.

This research uses five variables, namely government intervention, non-market capability, non-market strategies, innovation and competitiveness. Government intervention is the perception of SMEs owners to some form of government involvement as either the central government or local government. The forms of involvement are in the field of production, marketing, finance, education and training. Non market capability is the perception of SMEs owners to their ability to interact with the government in enabling them to get benefit from the relationship. Non market strategies are respondents’ perceptions of strategies or ways used by SMEs to take advantages from the relationships and communication with stakeholders such as by lobbying. Innovation is the perception of SMEs owners on their ability to innovate products or services. Competitiveness is the perception
of SMEs owners on their ability to get advantages compared with other businesses practitioners.

This research uses qualitative and quantitative data for this study. Qualitative data consists of the interviews with SMEs owners and other informants needed and have knowledge in accordance with research objectives. Quantitative data consists of data in the form of numbers such as SMEs profiles within a few years. The data is obtained either directly from the informant or respondent (primary data) as well as data in the form of publication or other acquisition that has been done by the other party (secondary data). In conducting data analysis, this research emphasizes quantitative analysis. Data analysis with quantitative approach is divided into descriptive statistical analysis and inferential statistic.

Th descriptive statistical analysis is used to describe research variables. The data that has been collected through a questionnaire and tabulated in the table and descriptive discussion is presented in the form of frequency distribution as well as statistics on average. These questionnaires are based on the Likert scale of 5 degrees. Their reliability was computed by Chronbach’s α value (0.70) which indicates their high reliability. In addition, inferential statistical analysis is performed to establish causal relationship which make the inferential statistical method used in the analysis of this research data is the Structural Equation Modeling (SEM) variance-based known as the Partial Least Square (PLS) method.

Based on the theoretical basis and conceptual framework, the hypothesis are as follows: 1) H1: Government intervention significantly affects on innovation and competitive advantage; 2) H2: Non market capabilities significantly affects on government intervention, innovation and non market strategies; 3) H3: Innovation mediate the effect of government intervention on innovation and competitive advantage.

This study uses research variables as follows: 1) Government intervention is the perception of SMEs owners about some forms of government intervention both central and local governments. These forms of involvement include in the fields of production, marketing, finance, education and training; 2) Nonmarket capability is the perception of SME owners on their ability to interact with the government so as to enable them to benefit from the relationship; 3) Nonmarket strategies are respondents' perceptions of the strategies or ways used by MSMEs to utilize relationships and communication with stakeholders, for example by lobbying; 4) Innovation is the perception of the owners of SMEs in their ability to innovate products or services; 5) Competitiveness is the perception of SME owners of their ability to have advantages compared to other businessman.

RESULTS AND DISCUSSION

Descriptive statistics of research variables provide an overview or option of a data. Descriptive statistics in this study is seen from the minimum (Min), maximum (Max), and average (Mean). Based on the data collected, the explanation of the results from respondents' answers are shown in the following Table 1:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government intervention (X1)</td>
<td>1.50</td>
<td>4.50</td>
<td>2.80</td>
</tr>
<tr>
<td>Non Market Capabilities (X2)</td>
<td>1.80</td>
<td>4.60</td>
<td>2.91</td>
</tr>
<tr>
<td>Innovation (Y1)</td>
<td>2.00</td>
<td>4.80</td>
<td>4.06</td>
</tr>
<tr>
<td>Non Market Strategies (Y2)</td>
<td>1.20</td>
<td>3.80</td>
<td>2.29</td>
</tr>
<tr>
<td>Competitive advantage (Y3)</td>
<td>3.00</td>
<td>4.83</td>
<td>4.10</td>
</tr>
</tbody>
</table>

Table 1 shows descriptive statistics of the variables used in this study. For the first independent variable, Government Intervention (X1), the minimum value of the average answer is 1.50 and a maximum of 4.50, with an average value of 2.80. Based on the average value, respondents perceive government intervention is moderate. The second independent variable, Non Market Capabilities (X2), has a minimum value 1.80, maximum value of 4.60 and average value of 2.91. The value suggests that respondents perceives nonmarket capabilities of SMEs as medium. Thus, it shows SMEs owners' moderate ability to get benefit from their relationship with government.

Innovation (Y1), the first dependent variable has a minimum value of 2.00, a maximum value of 4.80, and an average value of 4.06. This means respondents perceive innovation as something that they are capable of performing.

The second dependent variable, non market strategies, shows a minimum value of 1.20, value of 3.80, and an average value of 2.29 means average respondents perceives that they have limited strategy to take advantage from their relationship with government and other stakeholders.

Competitiveness (Y3), which is the third dependent variable, has a minimum value of 3.00, a maximum value of 4.83, and an average value of 4.10. This means that respondents regard their strong ability to obtain advantages relative to their business competitors.

Based on SEM analysis on the tables and graphs, the relationship between government intervention and innovation, the value of inner loading coefficient of 0.186, with p-value of 0.229. Because p-value < 0.05, Hypothesis 1 is accepted so that there is a non-significant direct effect between government intervention on Innovation. Since the inner loading coefficient is positive, it indicates that both relations are positive. That is, the higher/lower the government intervention, will not lead to significant
changes in the higher/lower Innovation. Government intervention provided in the form of technical assistance and capital has not been able to encourage the innovation of products or services. In fact, government intervention in the form of technical and marketing assistance is more significant.

### Tabel 2. Results of the Hypothesis Testing

<table>
<thead>
<tr>
<th>Relation</th>
<th>Path Coefficient</th>
<th>p-value</th>
<th>Remark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Intervention -&gt; Innovation</td>
<td>0.186</td>
<td>0.229</td>
<td>Non significant</td>
</tr>
<tr>
<td>Government Intervention -&gt; Competitiveness</td>
<td>-0.152</td>
<td>0.246</td>
<td>Non significant</td>
</tr>
<tr>
<td>Non Market Capabilities -&gt; Innovation</td>
<td>0.356</td>
<td>0.003</td>
<td>Significant</td>
</tr>
<tr>
<td>Non Market Capabilities -&gt; Government Intervention</td>
<td>0.534</td>
<td>0.000</td>
<td>Significant</td>
</tr>
<tr>
<td>Non Market Capabilities -&gt; Non Market Strategies</td>
<td>0.494</td>
<td>0.000</td>
<td>Significant</td>
</tr>
<tr>
<td>Innovation -&gt; Competitiveness</td>
<td>0.499</td>
<td>0.001</td>
<td>Significant</td>
</tr>
<tr>
<td>Non Market Strategies -&gt; Competitiveness</td>
<td>0.375</td>
<td>0.020</td>
<td>Significant</td>
</tr>
</tbody>
</table>

Source: Data processed by the author (2017)

*Significant level α = 5%

In testing the relationship between government intervention and competitiveness, the value of inner loading coefficient is -0.152, with p-value of 0.246. Since p-value < 0.05, Hypothesis 1 is accepted so that there is a non-significant direct effect between Government Intervention on Competitiveness. That is, the higher/lower the Government Intervention, will not lead to significant changes in the higher/lower competitiveness. The role of government intervention can be found on improving technical efficiency by a sound legal environment, education, and rural policy.

In testing the impact of nonmarket capabilities on innovation, we obtained the value of inner loading coefficient of 0.356 with p-value of 0.003. Because p-value < 0.05, Hypothesis 2 is accepted. This means Non Market Capabilities is significantly affected innovation. Since the inner loading coefficient is positive, it indicates that both relations are positive. That is, the higher the nonmarket capabilities will result in higher innovation. Nonmarket capabilities such as the ability to lobby or build networks with other institutions will encourage the formation of innovation.

In testing the direct influence of Non Market Capabilities on Government Intervention, we obtained the value of inner loading coefficient of 0.534 with p-value of 0.000. Because p-value < 0.05, Hypothesis 2 is accepted so that there is a significant direct effect between Nonmarket capabilities on government intervention. Since the inner loading coefficient is positive, it indicates that both relations are positive. That is, the higher the nonmarket capabilities, will result in the higher the government intervention. It can be found in companies that are able to establish communication with policy makers as the government will have the ability to influence the government to provide a number of production facilities.

In testing the direct influence between nonmarket capabilities on nonmarket strategies, inner loading coefficient value of 0.494 with p-value of 0.000. Because p-value < 0.05, Hypothesis 2 is accepted so that there is a significant direct effect between nonmarket capabilities on nonmarket Strategies. Since the inner loading coefficient is positive, it indicates that both relations are positive. That is, the higher nonmarket capabilities, will
result in higher nonmarket strategies. This means the nonmarket strategy can only be obtained if the company has nonmarket capabilities. Lobbying strategy as a form of nonmarket strategy will only be owned by companies whose resources also have the ability to interact interpersonally.

In testing the direct influence of innovation on competitiveness, we obtained inner loading coefficient value of 0.499, with p-value of 0.001. Because p-value < 0.05, Hypothesis 3 is accepted so that there is a significant direct effect between Innovation on Competitiveness. Since the inner loading coefficient is positive, it indicates that both relations are positive. That is, the higher the innovation, will also result in the higher competitiveness. Therefore, the strategy of a company should give the opportunity of suggesting a more different value than its rivals or presenting a wide range of benefits. A company should carry out more different activities than its competitors or perform similar activities in different forms in order to establish sustainable competitive advantage.

In testing the direct influence between nonmarket strategies on competitiveness, the value of inner loading coefficient is 0.375, with p-value of 0.020. Because p-value < 0.05, Hypothesis 3 is accepted so that there is a significant direct effect between nonmarket Strategies on Competitiveness. Since the inner loading coefficient is positive, it indicates that both relations are positive. That is, the higher the nonmarket strategies, will result in the higher competitiveness. Competitiveness as stated by Porter (1990) will be obtained if the company is unique compared to competitors. The uniqueness of the company can be obtained through nonmarket strategies.

In addition, the research also tests of indirect influence (the influence of mediation variable) using Sobel test. The results are shown in Table 3.

<table>
<thead>
<tr>
<th>Relationship</th>
<th>Coefisien</th>
<th>P-value</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Intervention -&gt; Competitiveness through Innovation</td>
<td>0.093</td>
<td>0.180</td>
<td>Non-Significant</td>
</tr>
</tbody>
</table>

The graphic that shows the result from the influence of mediation testing are shown on Figure 2.

Based on Table 3 and Figure 2, it shows that the influence of Government Intervention Interaction (X1) on Competitiveness (Y3) through Innovation (Y1) yields a coefficient value of 0.093 with p-value of 0.048. Because p-value (0.180) <0.05 then hypothesis 8 is accepted so that Government Intervention (X1) has no significant effect on Competitiveness through Innovation. Interaction coefficient value which marked positive indicates the relationship of both is also positive. Thus, the higher/lower innovation will result in a significant change in the government intervention effect on competitiveness. The company’s ability to produce innovative products or services will strengthen government involvement in creating competitiveness of government involvement that is realized in the form of technical assistance such as production equipment encouraging innovation and competitiveness.

**CONCLUSION**

SME plays a major role in the development of national economy, which in turn requires them to have sustainable competitiveness. As small businesses face competitiveness issues, which include several aspects, namely government intervention, innovation ability, non market capabilities and non market strategies, they need
to design strategies in accordance with environmental changes. Using SMEs in South Sulawesi, this study aims at shedding light on the relationships between government intervention, innovation, competitiveness, non market capabilities and non market strategies for Indonesian context.

The results of this study show that: (1) government intervention affects innovation and competitive advantage of the SMEs; (2) non market capabilities affects government intervention and non market strategies; and (3) innovation mediates government intervention on innovation and competitive advantage.

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