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MSME Business Performance: The Role of Competitive Advantage, Supply Chain Management Practices and Innovation

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Abstract

To obtain business performance that can maintain business continuity, MSMEs must build supply chain management, competitive advantage, and innovation in running their business to get and improve business performance. This study seeks empirical evidence on how supply chain management, competitive advantage, and innovation can create a good business performance for MSMEs. This study uses a quantitative approach using a questionnaire as a data collection tool. The population of this research is Snack Food SMEs assisted by the Department of Trade, Cooperatives, and SMEs of Padang City, with a total sample of (10 X Indicator = 180). Of the 180 questionnaires distributed, returned only 155, so the research response rate was 86.11%. Questionnaires that can be used in data analysis are 130 questionnaires, or 83.87% of the returned questionnaires. The data that has been collected was analyzed using a multiple regression analysis approach with SPSS software. The results show that (1) business performance is significantly affected by competitive advantage, (2) SCM Practices significant effect on business performance, and (3) innovation has a significant effect on business performance. In Padang City snack SMEs, competitive advantage, SCM Practices and innovation have an influence of 87.7% on MSME business performance. The results show that MSMEs that want good business performance must be able to apply supply chain management practices, create innovation, and have a competitive advantage in the market.

Keywords: *Business Performance, Competitive Advantage, Supply Chain Management Practices, and Innovation*

INTRODUCTION

The contribution of Micro, Small and Medium Enterprises (MSMEs) to Gross Domestic Product (GDP) in 2020 is a the lowest since 2010 at 37.3 percent. This contribution decreased by 38.14 percent compared to the previous year. This is due to the impact of the Covid-19 pandemic. With the number of MSME actors reaching around 60 million business units in terms of workforce, MSMEs absorb 97% of the total national workforce. This is evidence that MSMEs have a very important and strategic role in Indonesia's economic development.

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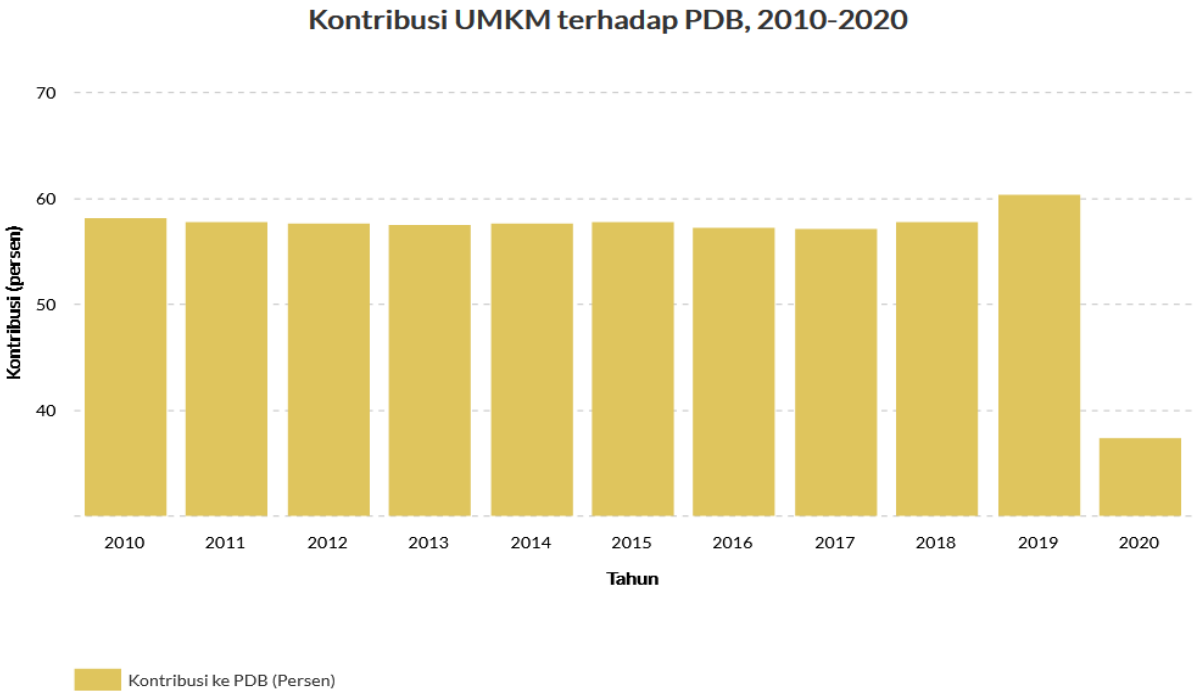

Figure 1. Contribution of SMEs to GDP
Source: Ministry of Cooperatives and Small and Medium Enterprises

The city of Padang, the capital city of West Sumatra province, has a relatively rapid growth rate of MSMEs. In the city of Padang, increasing the progress of MSMEs continues to be developed by the local government through the Cooperatives and MSMEs Office and other related institutions. The number of MSMEs in the City is around 80,000 business units. Data on the growth of the quantity of Micro, Small, and Medium Enterprises (MSMEs) in Padang City, can be seen in table 1 below:

Table 1. Number of SMEs in Padang

Year	Number of MSMEs in Padang City
2013	38,770
2014	74,062
2015	76,236
2016	78,306
2017	81,182

Source: Padang City Cooperatives and SMEs Office, 2019

There are several types of SMEs in the city of Padang. Some of them received a direct coaching program from the government through the Padang City Cooperatives and UMKM Service. The following is the data for UMKM assisted by the Cooperatives and UMKM Office of Padang City:

Table 2. Number of MSMEs Assisted by the MSME Office of Padang City

No	Districts	Type of Business					Total
		KUL	IMR	IKT	WSA	PKL	
1	Padang Barat	77	53	19	76	32	257
2	Padang Timur	45	63	28	91	41	268
3	Padang Selatan	84	46	12	138	31	311
4	Koto Tangah	46	78	56	130	39	349
5	Lubuk Begalung	64	70	27	168	70	399
6	Pauh	36	39	33	92	58	258
7	Lubuk Kilangan	16	35	52	73	24	200
8	Kuranji	50	83	22	75	39	269
9	Padang Utara	33	39	14	86	38	210
10	Nanggalo	25	21	8	65	13	132
11	Bungus Teluk Kabung	40	12	5	69	42	168
Total		516	539	276	1063	426	2820

Source: Padang City Cooperatives and SMEs Office, 2019

notes:

KUL : Culinary
IMR : Snack Food Industry
IKT : Handicraft Industry
WSA : Convenience Store
PKL : Street vendors

The data above shows that the Padang City Cooperatives and MSMEs Office provides direct guidance and assistance to 2820 MSME units. Then the type of Culinary MSMEs and the snack food industry is one of the types of MSMEs that get the most quotas which become MSMEs assisted by the Padang City Cooperatives and MSMEs Service. Some of the reasons why the culinary and snack industry was developed by the government, including this industry, are related to supporting the development of the tourism sector. This is evidenced by the government's investment in building and improving existing infrastructure in order to improve the quality of the West Sumatran tourist area, especially the city of Padang so that the intensity of visitors or tourists continues to increase. The impact of the development of this regional tourist area triggers business people, especially businesses related to their market with tourism activities, such as MSMEs in the snack food industry, especially business players in the culinary sector for souvenir products from West Sumatra (Positive Click, 2018).

Business performance is a measure that describes the achievements of the activities carried out by the company's management over a certain period. Business performance shows results in how well the company is in achieving its financial and market objectives to determine the effectiveness of its operations. Periodic performance appraisal allows the company to know the current position of the company compared to the targets or targets that have been set. As a reference for comparison with competitors, assessing business performance can also be used (Lewis, 2000).

At this time, several measurement tools used to measure business performance. The Balanced Scorecard and Success Dimensions are performance measurements tools that MSMEs can use. But both of these measuring tools have limitations. Dynamic Multi-Dimensional Performance (DMP) becomes a future-oriented measuring tool to complement the Balance-Scorecard and Success Dimensions. Dimension of DMP are Financial , Market/Customer, Process, People Development, and Future measure (Maltz et al., 2003). The DMP method has a measurement for human resources in developing MSME businesses. Therefore, the DMP method is considered for measuring MSME business performance.

According to the Padang City Cooperatives and MSMEs Service, as one of the institutions responsible for the prospects for MSMEs in Padang City, it is explained that the performance of MSMEs in Padang City is quite good. The city of Padang received the 2019 Natamukti award which is a form of appreciation for regional heads who are successful in building governance and independence of MSMEs in their regions, successful in promoting local MSMEs, encouraging the improvement of the quality of local MSME products, and building an MSME ecosystem in their area (Harian Haluan.com, 2019).

Although the snack food industry SMEs are one of the flagship programs of Padang City to be developed, the number of productions of the snack food industry is still categorized as low. The average production of the snack food industry for the last three years is around 1.99%. That way, it can be said that the Snack Food Industry of MSME products in the city of Padang is still running slowly in terms of production. The problems of MSMEs in running their business are very diverse. Usually, the MSMEs problems are financial and non-financial problems. The problems faced by SMEs in the Snack Industry in Padang City include the difficulty of obtaining capital, unorganized business management, as well as operational problems such as the production system so that it has an impact on quality and price. Then from the marketing aspect, the problems faced are the limited ability of MSMEs to access and utilize information which has an impact on the constraints of promoting products and distribution. Regarding product development, the level of product innovation of MSMEs is still low. In addition, MSMEs are also lacking in establishing relationships with customers.

Based on this, MSME problems are considered very diverse, starting from problems that come from upstream such as raw material problems to downstream business activities such as consumer satisfaction with MSME products. Therefore, it is necessary to have a strategy that is a solution to increase MSME productivity in operational activities in order to survive in the market, and be able to face competition, threats, and be able to reach and take advantage of opportunities.

To achieve the company's goals and implement its strategy, companies must consider supply chain management issues in their business activities (Heizer et al., 2017). Many previous studies have stated the important role of companies in supply chain management(Chen & Paulraj, 2004). Supply chain management can help companies to improve business performance and maintain a competitive advantage. Many scholars say that the current competitive conditions are no longer between business organizations but competition between supply chain companies (Aramyan et al., 2007).

Supply Chain Management manages raw materials into goods in process and finished goods, then send these products to consumers through the distribution system. This activity includes purchasing between vendors and distributors. (Heizer et al., 2017). Supply Chain Management aims to manage relationships with suppliers, share levels and manage the

quality of information between suppliers and companies, manage customer complaints so that they can build good long-term relationships with customers (Al-Douri, 2018).

Various researchers have proposed various models of supply chain management practices including *Supply Chain Management Practices* (SCMP). SCMP is an activity that can help companies to achieve business performance in the supply chain through integrated activities in managing, coordinating, and sharing information between suppliers and customers. SCMP aims to bridge the gap between Supply Chain Management theory and its application to the real world (Gawankar et al., 2017).

Theoritical Review

Business Performance

What is meant by business performance is the company's ability to optimize market share and the level of profit it wants to achieve (Al-Douri, 2018). Business performance for companies is the basis for measuring their work's success over time (Reza Abdi & Labib, 2016). Business performance can be calculated from productivity, quality, timeliness, cycle time, resource utilization, and cost (Bhasin, 2008). In this study, business performance is measured using the Dynamic Multi-Dimensional Performance model, which considers human resources as an effective practice in achieving business performance and physical capital. Performance measurement using the DMP model has used the Balanced Scorecard and the Dimensions of Success as the basis.(Bhasin, 2008).

Dynamic *Multi-Dimensional Performance* dimensions (Bhasin, 2008) (1) *Financial*, represents the traditional approach to organizational success. The indicators used are sales, total revenue and profit. (2) *Customer*, the company's ability to maintain relationships with consumers with indicators used in the form of customer satisfaction levels, market share growth, and unfulfilled orders. (3) *Process* reflects the company's efficiency and sees improvement. The indicators are the duration of time required for new products to enter the market, the quality and depth of product standardization, and the quality of the processing process. (4) *People Development* recognizes the important role of stakeholders in the success of the company. With indicators such as, training for workers (days per year), encouragement to employees to suggest and test new ideas, quality of leadership development, and the number of senior employees remaining on the job. (5) *Future*, the company's ability to prepare for the company's future using indicators in the form of a percentage of new product sales (<5 years in the market), understanding and ability to predict market trends, company's ability to anticipate and prepare for unexpected changes from the external environment, and the company's investment in research and research. Development (R&D).

Competitive Advantage

When a company can produce something competitors are not doing, it can be called competitive advantage. (Boyer & Lewis, 2009) explains that competitive advantage is the ability of a company to create value that existing competitors cannot imitate. (Bratić, 2011) in his research that competitive advantage is the company's ability to create a position that can be defended against competitors. (S. Li et al., 2006) defines competitive advantage as the ability of an organization to create a defensive position against their competitors. Competitive advantage implies the creation of a system that has unique advantages over competitors.

Competitive advantage is a strategy that a company can implement to achieve its ultimate goal of improving the company's performance that generates profits. Competitive advantage enables a group of businesses in an industry to achieve superior business performance (Wright et al., 1995). (Heizer et al., 2017; L. X. Li, 2006; Mulyanto & Sugiarti, 2016; Purnama & Setiawan, 2003) stated that competitive advantage positively affects company performance.

Competitive advantage is measured using indicators of product differentiation, cost leadership, and the level of reach (Kamukama, 2013). The first hypothesis of the study is:

H1: Competitive advantage has a significant impact on MSME business performance

Supply Chain Management Practices

Supply *chain management practices* (SCMP) are defined as the overall integrated activities along the supply chain carried out by companies to promote effective supply chain management by applying multi-dimensional concepts. (S. Li et al., 2006). According to (Wong et al., 2005) *SCMP* are defined as a multidimensional concept which is an important practice in manufacturing companies by considering the seven dimensions of *Supply chain management practices* that have been developed, tested and validated in the literature. Various researchers have represented *supply chain management practices* from various perspectives, but all of them are united in their ultimate goal is to improve business performance (Kim, 2006). Supply *chain management practices* can increase productivity and reduce inventory and waiting times and the long-term goal is to increase market share and integration (Reza Abdi & Labib, 2016).

(AL-Shboul et al., 2018), They develop and validate multidimensional models for supply chain management practices: strategic supplier partnerships, customer relationships, information sharing, information quality, internal lean practices, and delays covering both upstream and downstream aspects of the supply chain, the flow of information across the supply chain, and internal processes of the supply chain.

Based on a review of previous studies, there are several dimensions that are generally used by some researchers as *SCMP constructs* (Nasir & Morgan, 2017). (1) *Strategic Supplier Partnership (SSP),* directing MSME actors to prioritize long-term relationships or cooperate in terms of business development. Especially in terms of the supply of raw materials for production, some MSME actors get them from non-permanent suppliers or prefer to buy in the market for reasons of relatively stable raw material availability. (2) *Information Sharing Level (ISL)* is defined as the extent to which critically important information is communicated to supply chain partners. Increasing information integration will encourage the formation of *strategic supply chain partners* for companies. (3) *Quality of Information Sharing (QIS),* ensuring that the information shared is quality information in achieving an effective SCMP, and it is suggested that organizations should ensure that the information flows properly without any delays and minimum distortion. (4) *Customer Relationship Management (CRM*) is an action in establishing relationships from upstream to downstream of the supply chain. (5) *Internal Lean Practice (ILP)* focuses on resolving all aggravating and disruptive aspects across a product's value stream, improving systems within the organization, as well as along its supply chain network. (6) *Postponement (PO),* is intended to encourage the completion of the final product and delivery to the final customer to reduce inventory and minimize the risk of unsold products. (7) *Total quality management*

(TQM) is a management philosophy that emphasizes the need to meet customer needs as well as the importance of doing things right the first time. Based on this explanation, the second hypothesis of this research is:

H2: SCMP has a significant impact on MSME business performance

Innovation

Innovation is a change to the process or knowledge development towards better results. (Gray et al., 2006) said the innovation ability of a company will guarantee the company's competitive ability. According to (Yeh-Yun Lin & Yi-Ching Chen, 2007), To face competition and win a competition in the market, the company's ability to generate innovation is one of the determinants of improving company performance. (O'Regan et al., 2005) see innovation as a new idea that can create added value for the company. Due to the intense competition in the market, globalization, and the explosion of technology in recent years, innovation and differentiation is considered a necessity for every company. Innovation is a strategy that companies can use in facing business competition. The innovation strategy directs the company to prioritize improving product and process innovation rather than defeating by destroying its competitors.

(Liao et al., 2007) developed three indicators used to measure innovation which were then compiled into statements, including: (1) Product innovation, which consists of product development, speed in launching products compared to competitors, R & D ability is better than competitors. competitors and skills development in changing products; (2) process innovation, consisting of innovation in the development of manufacturing processes or operating procedures, flexibility in providing products and services and benefits of manufacturing processes or operating procedures to generate imitations from competitors; and (3) Management innovation, which consists of performance sharing innovation, adoption of staff welfare system, adoption of financial management system, ability to recruit staff, and adoption of performance appraisal method. The three research hypotheses are:

H3: Innovation has significant impact on MSME business performance

Based on the explanation of the theory and previous research above, the conceptual framework of this research is as follows:

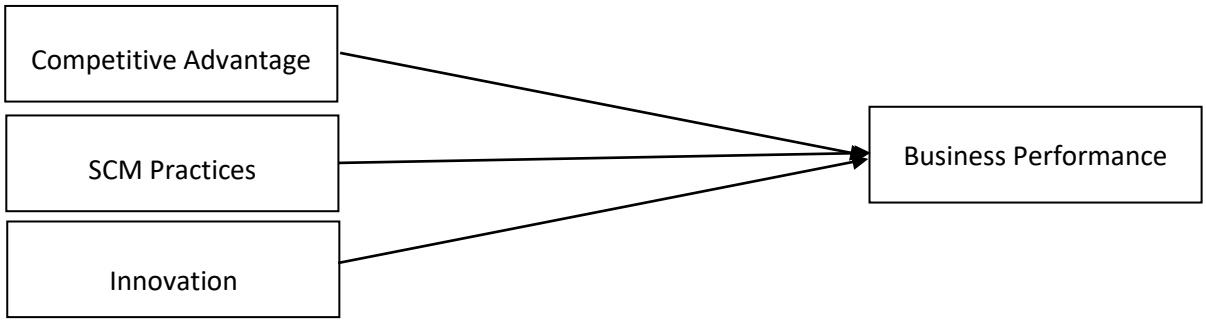

Figure 2. Conceptual Framework

RESEARCH METHODS

This study uses a quantitative approach using a questionnaire as a data collection tool. The population of this research is Snack Food SMEs assisted by the Department of

Trade, Cooperatives, and SMEs of Padang City, with a total sample of (10 X Indicator = 180). Of the 180 questionnaires distributed, returned only 155, so the research response rate was 86.11%. Questionnaires that can be used in data analysis are 130 questionnaires, or 83.87% of the returned questionnaires. Purposive sampling technique is used in taking research samples, with the criteria that MSMEs have been running their business for more than 3 years and have a workforce of more than 5 people, because not all respondents have the characteristics studied This research is a survey research where one of the advantages lies in generalization, so the more respondents used, the better (Kerlinger & Lee, 2000), so the number of respondents obtained for this research is 130 MSMEs. The data that has been collected was analyzed using the multiple linear regression analysis method using SPSS Ver.24 *software.*

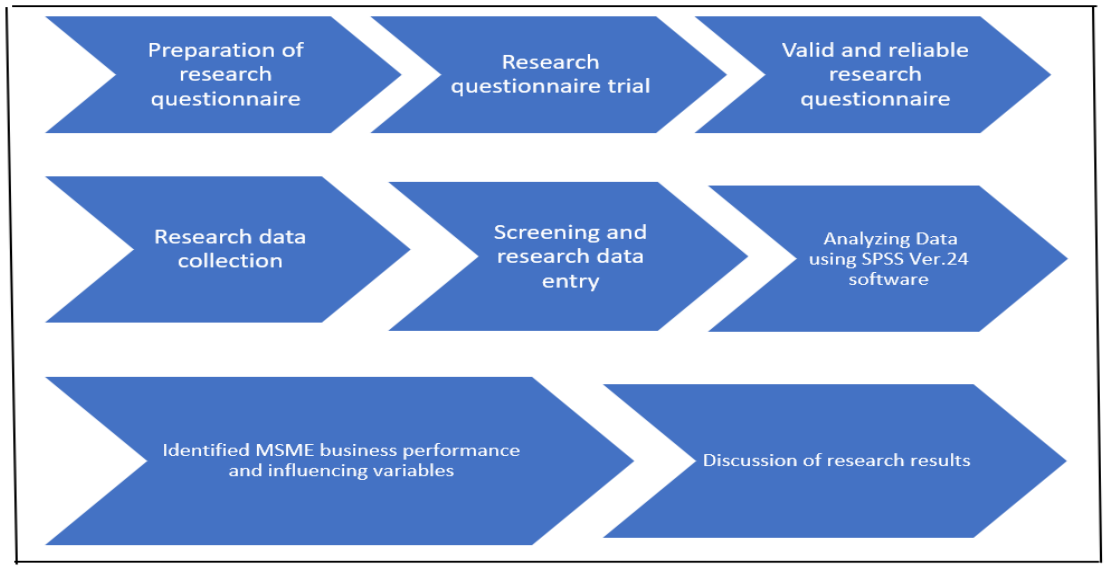

Figure 3. Diagram Flow

Table 3. Operational Definitions and Research Indicators

No.	Variable	Operational definition	Indicator
1	Business Performance	How optimally the company is market-oriented and the profit the company wants to achieve.	1. *Financial* 2. *Market/Customer* 3. *Process* 4. *People Development* 5. *Future* Source: (Maltz et al., 2003)
2	Competitive Advantage	The ability of the organization to produce superior performance and be able to survive in the long term.	1. *Differentiation* 2. *Cost Leadership* 3. *Outreach Level* Source: (Kamukama, 2013)

No.	Variable	Operational definition	Indicator
3	SCMP	Integrated activities along the supply chain are carried out by a company to promote the effective management of the supply chain	1. *Strategic Supplier Partnership* 2. *Level of Information Sharing* 3. *Quality of Information Sharing* 4. *Customer Relationship Management* 5. *Internal Lean Practice* 6. *Postponement* 7. *Total Quality Management* Source: (Nasir & Morgan, 2017)
4	Innovation	The process or development of knowledge towards better results	1. Product Innovation 2. Process Innovation 3. Management Innovation Source: (Liao et al., 2017)

RESULTS

Normality Assumption Test

Normality test was carried out with the help of the *non-parametric one sample Kolmogorov-Smirnov test*. If the value of asyim. sig > 0.05 then the variable is normally distributed. Based on data analysis using SPSS 24.0, the results of the normality test are as follows:

Table 4. Kolmogorov-Smirnov Test

		Standardized Residual
N		130
Normal Parameters [a,b]	Mean	.0000000
	Std. Deviation	.98830369
Most Extreme Differences	Absolute	.049
	Positive	.044
	Negative	-.049
Test Statistics		.049
asymp. Sig. (2-tailed)		.200 [c,d]

a. Test distribution is normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.
Source: Primary Data Processed (2021)

Based on table 4, it is known that the variables measured in this study have an asymp.sig Kolmogorov-Smirnov value of 0.200. When compared with ± = 0.05, the asym value. Sig. research variable 0.200 > 0.05. So, it can be concluded that the variables that will be used in this study are normally distributed.

Multicollinearity Test

The multicollinearity test by looking at each independent variable's value of the Variance Inflation Factor (VIF) on the dependent variable. If the VIF value is less than 10, the model is

declared free of multicollinearity symptoms. Based on data analysis using SPSS 24.0, the results of the multicollinearity test are obtained as follows.

Table 5. Multicollinearity Results

	Collinearity Statistics	
	Tolerance	VIF
Competitive_Advantage	.219	4,571
SCM_Practices	.291	3.434
Innovation	.447	2.238

Source: Primary Data Processed (2021)

Based on the output on the table 5, the VIF value of the competitive advantage variable is 4,571; the value of VIF SCM Practices is 3,434; and the innovation VIF value is 2,238. By looking at the VIF values of the three independent variables, which are less than 10, there is no multicollinearity symptom in the regression model formed.

Multiple Linear Regression Analysis

Multiple regression analysis is used to measure and predict how the dependent variable will be if the value of the independent variable is decreased or increased.

Table 6. Multiple Linear Regression Results

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-.268	.147		-1.825	.070
	Competitive_Advantage	.343	.070	.323	4.893	.000
	SCM_Practices	.462	.055	.476	8.327	.000
	Innovation	.265	.055	.222	4,813	.000

a. Dependent Variable: Business_Performance

Source: Primary Data Processed (2021)

Multiple Linear Regression Equation:

$Y = a + b1X1 + b2X2 + b3X3 + e$

$Y = -0.268 + 0.343X1 + 0.462X2 + 0.265X3$

From the multiple linear regression above, it can be interpreted that the constanta value is negative 0.268 which means that if MSMEs in carrying out business activities, do not apply the concept of SCM practices, competitive advantage, and innovation, then MSME business performance will decline. The regression coefficient of competitive advantage (X1) is positive 0.343, this indicates that the higher the MSME's ability to gain competitive advantage, the higher the MSME's business performance. The regression coefficient of SCM practices (X2) is 0.462 and is positive, this indicates that the better the implementation of *SCM practices* by MSMEs in their business activities, the higher the business performance of these MSMEs will be. The regression coefficient of SCM practices (X2) is 0.265 and is positive, this indicates that the better the innovations carried out by MSMEs in their business activities, the better the business performance of the MSMEs.

The results of data analysis in table 6, show that competitive advantage (X1) has a positive and significant impact on business performance (Y) in MSMEs, with a value of sig. 0.000 < 0.05. This means that the first hypothesis in this study is accepted, namely competitive advantage has a positive and significant effect on the business performance of

MSMEs. *SCM Practices* (X2) has a positive and significant effect on business performance (Y) on MSMEs sig. 0.000 < 0.05. Which means that the second hypothesis of the study is accepted, namely *SCM Practices* have a positive and significant effect on MSME business performance. Meanwhile, Innovation (X3) also has a positive and significant effect on business performance (Y) in MSMEs with a value of sig. 0.000 < 0.05. Which means that the third hypothesis in this study is also accepted, namely that innovation has a positive and significant effect on the business performance of MSMEs.

Partially it was found that each independent variable of the study had a significant effect to business performance. To see how the three independent research variables influence business performance can be seen in table 7 below.

Table 7. ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	64,946	3	21,649	308,184	.000 [b]
	Residual	8.851	126	.070		
	Total	73.797	129			

a. Dependent Variable: Business_Performance
b. Predictors: (Constant), Innovation, SCM_Practices, Competitive_Advantage
Source: Primary Processed (2021)

Based on the data in table 7, the value of sig. F test is 0.000 < 0.05, which means that together the three independent variables, namely *SCM practices* and competitive advantage, and innovation have a significant influence on MSME business performance. To see how big the influence of the independent variables together on the dependent variable is seen from how great the value of the coefficient of determination (R^2) is. The R2 value of this study can be seen in table 8 below:

Table 8. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.938 [a]	.880	.877	.26504

a. Predictors: (Constant), Innovation, SCM_Practices, Competitive_Advantage
b. Dependent Variable: Business_Performance
Source: Primary Data Processed (2021)

From table 8 above, the value of *Adjusted R* S *quare* is 0.877, this indicates that the contribution of the independent variable consisting of SCM practices, competitive advantage, and innovation to the dependent variable, namely MSME business performance is 87.7% while 12.3% is determined by factors others not investigated.

DISCUSSION

The Effect of Competitive Advantage on Business Performance

Increasing competition between supply chains in the global market, companies will try to maintain their competitive advantage compared to others to maintain and improve the company's business performance. Competitive advantage is the company's ability to survive from its competitors and differentiate itself from existing competitors (S. Li et al., 2006). Competitive advantage can be measured from *Differentiation, Cost Leadership* and *Outreach Level*, (Liao et al., 2007). Companies can have one or more competitive advantages compared to their competitors, because through competitive advantages, companies can

improve their financial performance, increase customer loyalty, and establish effective relationships with various parties, which in turn will improve the company's business performance.

Based on the results, the competitive advantage has a significant effect on business performance in the Snack Food Industry UMKM in Padang City, where is 0.000 <0.05 with a positive coefficient value of 0.462. This means that there is a significant and positive relationship between the variables of competitive advantage and business performance. This shows that if MSMEs can create and maintain their competitive advantage, they will be able to improve MSME business performance in a better direction. And vice versa if MSMEs are not able to create a competitive advantage in their business, then MSME business performance will experience a decline.

The results of this study are in line with research conducted by (Setyawati, 2013), which states that in order for companies to benefit from implementing strategies, they must go through competitive advantage. And, as stated by (Story et al., 2011) that skill development, incubation and acceleration are important indicators in creating competitive advantage in order to improve business performance.

Supply Chain Management Practices on Business Performance

To achieve optimal process integration along the *supply chain flow,* starting from *suppliers*, manufacturers, distributors, *retailers*, and *customers* can use a *supply chain management practices approach.* Through *supply chain management practices*, companies can produce at the right time, in the right place and in the right quantity, at minimum costs and achieve the desired target. For low-performing companies, implementing good supply chain management practices can be important in competing in the global market (Quynh & Huy, 2018). *Implementing SCMP properly will support business performance increase*. *SCMP* can optimally manage the company's supply chain with the effectiveness and efficiency of the components and scope of the *supply chain*. *Supply chain management* has now become an important strategy for companies to increase their profitability and remain competitive (Kozarević & Puška, 2018).

Based on the results of the analysis of the variable *Supply Chain Management Practices*, it has a significant effect on business performance in the MSMEs of the Snack Food Industry in Padang City which can be seen from the p-value 0.000 <0.05. With a positive coefficient value of 0.343 which indicates a positive relationship between the SCMP variable and business performance. This shows that if MSMEs properly implement *Supply Chain Management Practices*, they will improve MSME business performance. And vice versa if MSMEs do not pay attention to and apply *Supply Chain Management Practices* in their business activities, MSME business performance will experience a decline.

This study's results align with research conducted by (Kim, 2006; Zimmermann & Foerstl, 2014) where the effects of his research state that supply chain management practices positively affect the company's business performance.

The Effect of Innovation on Business Performance

According (Yeh-Yun Lin & Yi-Ching Chen, 2007) in an increasingly competitive environment, companies can improve their company's performance through the creation of innovation. Innovation is a strategy that companies can use in facing business competition. The innovation strategy directs the company to prioritize improving product and process

innovation rather than defeating by destroying its competitors. (Larsen & Lewis, 2007) stated that one of the most important characteristics of an entrepreneur is his ability to innovate.

From table 6, we can see the innovation has a positive and significant impact on the business performance of Snack SMEs where is 0.000 < 0.05. This result is means that the third hypothesis of this study is accepted. Then, the coefficient value is positive at 0.265 which indicates that there is a positive relationship between the innovation variable and business performance. This means that if there is innovation in MSMEs, it will affect business performance.

The results of this study are in line with (Zhang et al., 2017) which states that product innovation has a significant effect on company performance in manufacturing companies in China. This study is also in line with research by (Ar & Baki, 2011) which states that product innovation has a strong and positive relationship with firm performance in SMEs in Turkey.

CONCLUSION

Based on the results of the analysis and discussion in the previous section, it can be concluded that: (1) There is a positive and significant influence between competitive advantage on the business performance of Snack SMEs in Padang City. This illustrates that when MSMEs can gain a competitive advantage, it will increase the business performance of the MSMEs; (2) There is a positive and significant influence between *SCMP* and the business performance of Snack MSMEs in Padang City. This means that if MSMEs implement *SCMP* well, they will be able to increase the business performance of the business they are running. (3) There is a positive and significant influence between innovation on business performance in MSMEs. This means that when MSMEs can create innovations in their business well, it will increase business performance for MSMEs in the snack food industry in Padang City. Research findings show that in order to achieve good business performance, MSMEs need to integrate the ability to create competitive advantage, supply chain management practices and innovation in running their business.

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