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# How Financial Literacy, Innovation Capability, and Human Capital Affect Competitive Advantage and Performance: Evidence from Creative MSMEs

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**Abstract**— This paper provides new insights by testing the effect of financial literacy, innovation capability, and human capital on MSMEs' competitive advantage and performance. By utilizing convenience sampling, 114 creative MSMEs in Jember, Indonesia, were involved as samples. The data was analyzed using path analysis. The results revealed that: a) financial literacy has no significant direct effect on competitive advantage; b) innovation capability has positive and significant direct effect on competitive advantage, c) human capital has positive and significant direct effect on competitive advantage; d) financial literacy has positive and significant direct effect on MSMEs performance; e) innovation capability has positive and significant direct effect on MSMEs performance; f) human capital has positive and significant direct effect on MSMEs performance; g) competitive advantage has positive and significant direct effect on MSMEs performance; h) competitive advantage mediates the indirect effect of innovation capability on MSMEs performance, and i) competitive advantage mediates the indirect effect of human capital on MSMEs performance. These results provide new insight for creative MSMEs in improving their competitive advantage and MSMEs performance in this competitive and disruptive era. The limitations of this study, first, the varied subsector of creative MSMEs may lead to biased results; second, the data was collected in certain subdistricts in Jember. Future research should involve distinguished subsector and wider scope of samples.

**Index Terms**— Financial literacy, innovation capability, human capital, competitive advantage, MSMEs performance.

## 1 INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are Indonesia's economic sector which is believed to be anti-crisis. This sector became a recovery amid Indonesian economic downturn during the monetary crisis in 1998, where the majority of large-scale businesses stagnated to bankruptcy. MSME is one sector that has significant positive impact and is able to support the economic growth of the country. This sector is spread throughout the country and controls about 99% of economic activity in Indonesia. MSME which is based on creativity is the MSME sector that has the biggest contribution. This can be seen from the fairly positive growth data which is up to 5.6% from 2010 to 2013. The growth of the creative economy sector is around 5.76%. This means that this data is above growth of the electricity, gas and clean water sector, mining and quarrying, agriculture, animal husbandry, forestry and fisheries, services and the processing industry (Kominfo.go.id,2015). This sector is able to absorb 10.7% or around 12 million in total workforce. For its contribution to national GDP, the role of MSMEs is quite important because it is able to provide added value of up to IDR 641.8 trillion. Based on this encouraging development, the government has its own target for the MSME sector by planning the contribution of the creative economy GDP in 2019 to reach 7% to 7.5%. Specifically, for this creative economy sector, the government is targeting 15 creative economy subsectors where three of them are declared capable contributed to a fairly massive GDP, namely the culinary sector amounting to Rp209 trillion or 32.5%, the fashion sector amounting to Rp182

trillion (28.3%), and the craft sector amounting to Rp93 trillion (14.4%). Although MSMEs have an important role and make a significant contribution to the country, this sector still faces several challenges. Some of the problems are limited human resource competencies, marketing difficulties, and raw material difficulties. In addition, there are issues of limited innovation and technology and the difficulty of accessing adequate funding source. Referring to the results of World Bank research, there are four main problems that make it difficult for MSMEs in Indonesia to 'upgrade', those are difficulties accessing funding source, difficulties in accessing business opportunities, and lack of capacity of human resources, and the last is the regulatory problem and bureaucracy (Putra, 2018). The low financial inclusion by MSMEs is closely related to the lack of financial education or literacy in Indonesian society. The Financial Services Authority Survey found that the level of financial literacy of the Indonesian people was still low at 29.66%. This result is of course very alarming because it shows the public's lack of understanding of the right method and pattern of financial management. Financial literacy is one of the important points or can be said to be the first step in an effort to achieve overall level of business success (Bernheim, 2008). Sunday (2018) also explained that no entrepreneur can run his business effectively without financial literacy and without having one form of accounting record or another. Therefore, it can be concluded that proper financial literacy is important for the success of any business management, whether large or small. It can be said how important financial literacy is among small scale companies so that it enables them to be able to provide complete and relevant financial information needed to improve the decisions they make and also to increase their profitability. Chepngetich (2016) found a positive relationship between financial literacy in borrowing funds and budgeting to the MSME business performance in Uasin Gishu. Esiebugie et al (2018) also support this finding. Grohman et al (2018) find that a high level of financial literacy can increase financial

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inclusion that will strengthen business performance. In addition to financial literacy, innovation can also be made as a strategy to achieve competition. Product innovation must be done to meet market demand, so that making innovation products becomes one of the strategies to achieve competitive advantage for the company. A company that is successful in innovation means that this company is one step ahead of its business competitors. This requires the company to identify customer taste and trends. Thus product innovation must be activated, analyzed, and executed with care. Olughor (2015) stated that investing in innovative behavior will strengthen the knowledge of employees and individuals that encourage organizational resilience to create new products, processes and work behaviors. This will result in increased competitiveness and achievement of the goals needed to shape performance. Saridakis et al (2019) found that MSMEs in the UK had high efficiency which more often accessed goods (internationalization) compared to MSMEs which had low innovation power. Bodlaj et al (2018) found that the growth of MSMEs export performance in Western Europe depends not only on technological progress, but also on product innovation. However, Sdiri et al (2010) did not find any influence on sales growth in service companies in Tunisia. Puryantini (2018) also found no significant effect on organizational performance in companies in Surabaya and Yogyakarta. Referring to one of the contradictions concerning MSMEs, namely regarding human resource accountability, human capital development has supported one managerial tool that can increase the success of MSMEs (Ganotakis, 2010; Oforegbunam and Okorafor, 2010; Ofoegbu et al 2013; Franssila, Okkonen et al., 2012). Oforegbunam and Okorafor (2010) determine human resources as the most important agents of MSME performance. Sullivan and Sheffrin (2003) define human capital as a stock of competencies, knowledge and personality attributes contained in the ability to produce labor that produces economic value. Human capital represents investments made by people in themselves or by their organizations that improve their economies. According to Hessels and Terjesen (2008), human capital requires companies to have individual knowledge, skills and experience related to entrepreneurial activities. Shiu (2006) also defines human capital as the productive ability of the skills, experience, and knowledge of people who have economic value for the organization. Hatch and Dyer (2004) noted that companies in the field of current knowledge, companies and competitive advantage gained from what is known by the company and human capital that allows companies to use what they know. According to the author, work knowledge is considered more than the product of human thought and creativity where information is implied. Rogers (2003) also agreed that ability to build knowledge about management has a significant interest in the success of MSMEs. Jember is one of the districts in East Java with a fairly high poverty rate. The number of poor people in Jember Regency in 2017 has increased compared to 2016, where in 2016 the number of poor people in Jember numbered 265,100 people, in 2017 it rose to 266,900 people. There was an increase of 0.03 percent (Mulyono, 2018). In this condition, the role of MSMEs is crucial to boost the living standards and economy of the Jember community. Jember which potentially has quite

diverse natural resources, especially in the fields of plantation and tourism, can be utilized to improve the achievement of the welfare of its people. The movement of MSMEs in Jember based on creative industries is also quite encouraging. Creative industry itself is an industry that originates from the use of creativity, skills and individual talents to create prosperity and employment through the creation and utilization of the creative power of the industry. There are many small-scale businesses in the culinary field, fashion especially batik and T-shirt merchandise typical of Jember, tourism namely Jember Fashion Carnaval, and many more. As of 2014, the number of MSMEs in Jember was 4,097 units, where in 2016 there were only 2,410 units (UMKM-Jember.web.id). However, the presence of several large modern malls and retail businesses that recently existed in Jember and the onslaught of imported fashion products from Thailand and China could threaten the existence of creative industry-based MSMEs in Jember if there were no differences or competitive advantages from the MSMEs themselves. . The ability of MSMEs to understand their financial system, their capabilities in innovating, and their competence is thought to be able to improve their performance. Based on this phenomenon, researchers are interested in conducting a study entitled "How Financial Literacy, Innovation Capability, and Human Capital Affect Competitive Advantage and Performance: Evidence from Creative MSMEs in Jember, Indonesia"..

## 2 LITERATURE REVIEW

### 2.1 The Effect of Financial Literacy on Competitive Advantage

Referring to National Strategy of Indonesian Financial Literation of *Otoritas Jasa Keuangan* (2017), financial literacy is not limited to understanding knowledge, skills and beliefs about financial institutions, products and services, but attitudes and behaviors can also have an influence in increasing financial literacy which can further encourage the realization of people's welfare. Wise financial attitudes and behaviors are reflected in one's ability to set financial goals, develop financial planning, manage finances and be able to make quality financial decisions in using financial products and services. Based on Chen and Volpe (1998), financial literacy is characterized by good basic knowledge of financial management, good credit management, good saving and investment management, and good risk management. Prior studies found positive relationship between good financial literacy and enterprise's competitive advantage. Yang, et. al. (2018) found enterprise risk management practice affects SME's competitive advantage. They suggested that managers should have sufficient or maybe excellent financial education in order to perform good risk management practices to achieve a competitive position in the market.

*H<sub>1</sub>: Financial literacy has a positive direct effect on competitive advantage.*

## 2.2 The Effect of Innovation Capability on Competitive Advantage

Innovation capability is defined as the ability of an enterprise to produce and improve ideas to deliver new or modified process, technology, and product or service to the market (Crossan and Apaydin, 2010). This capability is measured by product innovation, promotion innovation, and distribution innovation (Yunus, 2010:95). Prior scholars found positive influence of innovation capability on company's competitive advantage. Kuncoro and Suriani (2018) evidenced that innovation in product can drive sustainable competitive advantage in rabbit meat merchants in Ngablak Magelang, Indonesia. A strong advantage position will create higher customer perceived value than the others and be able to create relatively low costs and ultimately encourage the achievement of work differentiation, supported by market-oriented skills and company resources. Ferreira et al. (2018) also found strong contribution of innovation capability on Portugal's enterprises competitive advantage.

*H<sub>2</sub>: Innovation capability has a positive direct effect on competitive advantage.*

## 2.3 The Effect of Human Capital on Competitive Advantage

In the past, in general, organizations only emphasized the maintenance of financial capital assets that are commonly known as tangible assets. But along with the knowledge revolution, experts began to talk about the ability of capital to be measured, grown, and lost if the employees also left the organization where they worked. Furthermore, employees are counted as assets for companies with intangible asset categories. Human capital is a major component of intellectual capital based on a set of knowledge, skills, experience and abilities of workers that can produce value for MSMEs (Bontis et al., 2000). This kind of capital is measured by competencies, attitude, and intellectual ability. Alnidawi et al (2017) found that there was a positive and significant effect of human capital on creating competitive advantage in telecommunications sector companies in Jordan. The results of this study are also in line with research by Mujtaba et al (2018) who found that there is a strong influence of human capital on the competitive advantage of automotive companies in Pakistan, where human capital is like 'oxygen' in a very tight competition where each company is trying to lead the market. Hili et al (2017) also found that human capital and leadership can increase the competitive advantage of study programs at universities in Makassar.

*H<sub>3</sub>: Innovation capability has a positive direct effect on competitive advantage.*

## 2.4 The Effect of Financial Literacy on MSMEs Performance

Bank Indonesia Governor, Agus Martowardjojo, revealed that low financial literacy is one of the problems in running MSME businesses because it is not only limited to management and financial resources but also lack of access to financial services (Bank Indonesia, 2012). Prior studies evidenced that financial literacy affect MSMEs performance positively. Chepngetich (2016) found that financial literacy in borrowing and budgeting affects the business performance of the MSME

sector in Uasin Gishu. The ability of MSMEs to calculate interest expense helps them determine from which financial institution they can obtain funds and consider business risks. Ye and Kulathunga (2019) also found a significant positive relationship of the level of financial literacy on the performance and sustainability of MSMEs in Sri Lanka. Performance reflects the ability of the company from time to time. The higher the level of performance of a company, the company is successful in carrying out its strategy (Amri and Iramani, 2018).

*H<sub>4</sub>: Financial literacy has a positive direct effect on MSMEs Performance.*

## 2.5 The Effect of Innovation Capability on MSMEs Performance

The ability to develop new ideas and find new ways of seeing problems and opportunities is the definition of creativity. The ability possessed by a company in developing new ideas in order to become an innovation is a concept of innovation capability (Lawson and Ben, 2001). The ability to print and manage diverse capabilities, can be proposed as an innovation ability as an ability with a high level of integration. Saridakis et al (2019) found that innovative MSMEs in the UK were more likely to export compared to less innovative MSMEs. Bouwman et al (2017) also found that MSMEs in Europe who are committed to continuing to innovate will focus on activities that increase their capacity continuously. They are trying to experiment on digitizing so that their business model always fits in with these fast-moving business conditions.

*H<sub>5</sub>: Financial literacy has a positive direct effect on MSMEs Performance.*

## 2.6 The Effect of Human Capital on MSMEs Performance

The quality of human resources plays an important role in the performance of SMEs, most SMEs grow traditionally and are a down-down effort. The limited quality of human resources in terms of education, knowledge and skills is very influential on the management of business management (Muda and Rahman, 2016). HR needs to be developed by developing competencies to increase productivity supported by technological developments, given that not a few SMEs still use simple methods both in the use of technology and marketing is still very limited. Various studies reported positive effect of human capital and business performance. Suroso et al (2017) found that human capital had a significant positive effect on MSME business performance in Central Java. According to the study, the level of education and experience is very important to form goals and courage in developing a business, setting company goals in the short and long term. Work experience can also enrich their insights about the products or services they market so that business operations can run effectively and efficiently. Tessema (2016) also found that one aspect of human capital is expertise affecting the performance of MSMEs in the shoe production subsector in Ethiopia.

*H<sub>6</sub>: Human capital has a positive direct effect on MSMEs Performance.*

### 7. The Effect of Competitive Advantage on MSMEs Performance

According to Kotler and Armstrong (2005: 322), competitive advantage is an advantage over competitors obtained by offering more value to consumers, either through lower prices or by providing more benefits that support more expensive pricing. Potjanjaruwit (2018) found that competitive advantage had a significant positive effect on the performance of start-up companies in Thailand. According to him, the capability of using technology and interorganizational collaboration has a direct relationship to improving start-up performance. Rahman and Ramli (2014) also found that competitive advantage in MSMEs in Malaysia had a significant effect on financial performance and non-financial performance (customer satisfaction and quality products / services).

*H<sub>7</sub>: Competitive advantage has a positive direct effect on MSMEs Performance.*

### 3 METHODOLOGY

This research is a quantitative research using confirmatory and explanatory approach. This study aims to confirm the hypotheses among the variables of financial literacy, innovation capability, human capital, competitive advantage, and MSMEs' performance. The population in this study are all creative MSMEs in Jember Regency. Convenience sampling was utilized in selecting the respondents. According to Ferdinand (2006: 51), the sample size depends on the number of indicators used in all variables. The number of samples is equal to the number of indicators multiplied by 5 to 10. The number of samples for this study is set at 114 respondents, obtained from the total number of indicators used multiplied by 6 (19 indicators x 6 = 114). The range requirements for the number of samples are 100-200 respondents (Ferdinand, 2006: 191). The data were collected by distributing questionnaires, both online questionnaires (Google form) and direct distribution.

### 4 RESULT AND DISCUSSIONS

#### 4.1 Results

##### a. The Result of Normality Test of Data

According to Singarimbun and Efendy (2005: 18), normality test of data should be carried out before the data is processed. This normality test aims to determine the distribution of data in variables that will be used in research. The results of normality test of data can be seen in Table 1.

Variable	$\alpha$	Interpretation
Financial Literacy (X <sub>1</sub> )	0,142	Normally distributed
Innovation Capability (X <sub>2</sub> )	0,122	Normally distributed
Human Capital (X <sub>3</sub> )	0,155	Normally distributed

Competitive Advantage (Z)	0,140	Normally distributed
MSMEs performance (Y)	0,130	Normally distributed

Source SPSS Output, 2019

As shown in the Table 1, all research variables have a significance number that are greater than 5% or 0,05, so it can be concluded that all data on the studied variables are normally distributed.

#### Path Analysis Results

The analytical method used to analyze the effect of financial literacy, innovation capability, and human capital on the performance of MSMEs with competitive advantage as an intervening variable is path analysis. Each path tested represents the hypothesis in this study. Path analysis is done by looking at standardized regression. The results of the direct path coefficient test are presented in Table 2.

Table 2. The Result of Path Analysis

Independent Variable	Dependent Variable	Std. Coeff.	Sig.	Explanation
Financial Literacy (X <sub>1</sub> )	Competitive Advantage (Z)	0,067	0,343	Not Significant
Innovation Capability (X <sub>2</sub> )	Competitive Advantage (Z)	0,420	0,000	Significant
Human Capital (X <sub>3</sub> )	Competitive Advantage (Z)	0,400	0,000	Significant
Financial Literacy (X <sub>1</sub> )	MSMEs performance (Y)	0,132	0,026	Significant
Innovation Capability (X <sub>2</sub> )	MSMEs performance (Y)	0,541	0,000	Significant
Human Capital (X <sub>3</sub> )	MSMEs performance (Y)	0,177	0,038	Significant
Competitive Advantage (Z)	MSMEs performance (Y)	0,134	0,032	Significant

Source: SPSS Output, 2019

Table 2 shows that innovation capability has a dominant effect on competitive advantage with a direct effect regression coefficient of 0.420 or the path from innovation capability to competitive advantage is the strongest path. Then followed by the path from human capital to competitive advantage with a direct influence coefficient of 0.400. Statistical test results also show that the innovation capability has a dominant effect on MSME performance with a direct influence coefficient of 0,541 and it shows the strongest effect. Then followed by the path of human capital to the MSMEs performance, competitive advantage to the MSMEs performance of MSMEs, and

financial literacy towards MSMEs performance. Based on the test results of the path coefficient as shown in Table 2, the model can be stated in the form of an equation presented as follows:

$$Y_1 = 0,067 X_1 + 0,420X_2 + 0,400X_3 + \epsilon$$

$$Y_2 = 0,132 X_1 + 0,541 X_2 + 0,177X_3 + 0,134Z + \epsilon$$

*The Result of Classical Assumption Test*

**a. Normality Test of Model Results**

Normality test is done to test whether the residuals in a regression model are normally distributed or not. To find out, the Kolmogorov Smirnov test was carried out. The result of normality test of model is shown in Table 3 below.

**Table 3. The Result of Normality Test of Model**

Variable	Sig.	Interpretation
Dependent variable: Competitive Advantage		
Independent Variables:		Data residual is normally distributed
a. Financial Literacy	0,117	
b. Innovation Capability		
c. Human Capital		
Dependent variable: MSMEs Performance		
Independent Variables:		Data residual is normally distributed
a. Financial Literacy	0,082	
b. Innovation Capability		
c. Human Capital		
d. Competitive Advantage		

Source: SPSS Output, 2019

As shown above, the significance values are 0,117 and 0,082. Because the p-value is greater than alpha (0,117 > 0,05 and 0,082 > 0,05), it can be concluded that the residual data in both models is normally distributed.

**b. Multicollinearity Test**

Multicollinearity shows the correlation between independent variables. The results of the multicollinearity test are taking into account the VIF (Value Inflation Factor) and Tolerance Values listed in Table 4.

**Table 4. The Result of Multicollinearity Test**

Variable	Tolerance	VIF	Interpretation
Dependent variable: Competitive Advantage			
Independent Variables:			
a. Financial Literacy	0,622	1,607	No Multicollinearity
b. Innovation Capability	0,419	2,388	No Multicollinearity
c. Human Capital	0,350	2,859	No Multicollinearity
Dependent variable: MSME Performance			
Independent Variables:			
a. Financial Literacy	0,617	1,621	No Multicollinearity
b. Innovation Capability	0,344	2,905	No Multicollinearity
c. Human Capital	0,300	3,328	No Multicollinearity
d. Competitive Advantage	0,341	2,930	No Multicollinearity

Source: SPSS Output, 2019

As shown above, the Tolerance value  $\leq 1$  and the Value Inflation Factor (VIF) value is less than 10, this shows that there are no multicollinearity symptoms in both regression models.

**c. Heteroscedasticity Test**

A good regression model is free from heteroscedasticity, the test is carried out using Glejser test. If partial test values are known to show figures greater than 5%, this means that heteroscedasticity does not occur.

**Table 5. The Result of Heteroscedasticity Test**

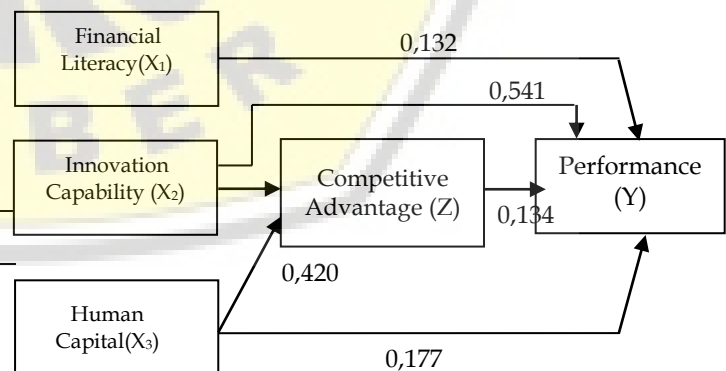
Variabel	Sig.	Interpretation
Dependent Variable: MSMEs Performance		
Independent Variable:		
a. Financial Literacy	0,955	No Heteroscedasticity
b. Innovation Capability	0,601	No Heteroscedasticity
c. Human Capital	0,450	No Heteroscedasticity
Dependent Variable: Competitive Advantage		
Independent Variable:		
a. Financial Literacy	0,283	No Heteroscedasticity
b. Innovation Capability	0,720	No Heteroscedasticity
c. Human Capital	0,091	No Heteroscedasticity
d. Competitive Advantage	0,228	No Heteroscedasticity

Source: SPSS Output, 2019

Heteroscedasticity can be explained by using the coefficient of significance. If the significance of coefficient  $> \alpha = 5\%$ , this means that heteroscedasticity does not occur. From the table above, it can be concluded that all the variables in the two models do not occur heteroscedasticity, because all the values of Sig.  $> 5\%$ .

*Path Calculation*

The calculation of path analysis can be presented as follows:



**Figure 2. Coefficients of Path Analysis**

- a. Direct Effect (DE)
  - 1) The Direct Effect of Innovation Capability (X2) on MSMEs' Performance (Y)  
 $DE_{X_2 \rightarrow Y} = X_2 \rightarrow Y$   
 $DE_{X_2 \rightarrow Y} = 0,541$
  - 2) The Direct Effect of Human Capital (X3) on MSMEs' Performance (Y)

Performance (Y)

$$DE_{Xz} = X3 \rightarrow Y$$

$$DE_{Xz} = 0,177$$

- 3) The Direct Effect of Competitive Advantage (Z) on MSMEs' Performance (Y)

$$DE_{zy} = Z \rightarrow Y$$

$$DE_{zy} = 0,134$$

- b. Indirect Effect (IE):

1. The Indirect Effect of Innovation Capability (X2) on MSMEs' Performance (Y) through Competitive Advantage (Z)

$$IE_{zyx2} = X2 \rightarrow Z \rightarrow Y$$

$$IE_{zyx2} = 0,420 \times 0,134 \\ = 0,056$$

2. The Indirect Effect of Human Capital (X3) on MSMEs' Performance (Y) through Competitive Advantage (Z)

$$IE_{zyx3} = X3 \rightarrow Z \rightarrow Y$$

$$IE_{zyx3} = 0,400 \times 0,134 \\ = 0,053$$

- c. Total Effect (TE):

1. The Total Effect of Innovation Capability (X2) on MSMEs' Performance (Y) through Competitive Advantage (Z)

$$TE_{zyx2} = X2 \rightarrow Z \rightarrow Y$$

$$TE_{zyx2} = (0,541) + \{(0,420 \times 0,134)\} \\ = 0,597$$

2. The Total Effect of Human Capital (X3) on MSMEs' Performance (Y) through Competitive Advantage (Z)

$$TE_{zyx3} = X3 \rightarrow Z \rightarrow Y$$

$$TE_{zyx3} = (0,177) + \{(0,400 \times 0,134)\} \\ = 0,230$$

## 4.2 Discussion

### a. The Influence of Financial Literacy on Competitive Advantages of Creative MSMEs in Jember Regency

The statistical result showed that financial literacy has an insignificant direct effect on competitive advantage, which means that the high or low financial literacy of the creative industry SMEs in Jember does not significantly influence the MSMEs' competitive advantage. Based on the recapitulation of respondents' answers, the proportion of respondents who have good financial literacy is almost the same as the number of respondents who have poor financial literacy. In fact, the proportion of respondents who have good competitive advantage is greater than respondents with unfavorable competitive advantage. That is why the good or bad mastery of financial literacy by SMEs do not affect their competitive advantage. The mastery of financial literacy in this study includes basic knowledge of financial management, credit management, savings and investment management as well as risk management. While competitive advantage is measured by financial and economic capabilities, the ability to create strategic products, technological and process capabilities, and organizational capabilities. In addition, although MSME actors have adequate financial literacy, they lack the courage to access sources of capital from formal financial institutions because of risk aversion. According to Auken (2005), MSME managers generally have a poor understanding of financial reporting due to the lack of appreciation of the importance of

this. Carraher and Auken (2013) also argued that MSMEs are vulnerable to the effects of poor financial decisions due to limited alternative capital facilities. This condition is because the majority of them use their own capital as the only source of capital. However, the mastery of financial literacy of respondents who are still in 'medium' level does not apparently prevent MSMEs in increasing their competitive advantage. MSMEs continue to strive to improve the performance of their products to always excel in the market despite the lack of knowledge about financial management. MSMEs rely on creativity and innovation so that their products continue to keep abreast of the times and are in demand by consumers.

### b. The Influence of Innovation Capability on Competitive Advantage of Creative MSMEs in Jember Regency

Based on the test results, innovation capability has a significant direct effect on competitive advantage, which means that the high or low innovation capabilities of the creative MSMEs in Jember has a significant effect on competitive advantage. Based on the recapitulation of respondents' answers, the proportion of respondents who have good innovation capabilities is more numerous than respondents who have poor innovation capabilities. Likewise, the proportion of respondents who have good competitive advantage is greater than respondents with unfavorable competitive advantage. This condition illustrates that MSMEs with high innovation capability will have an impact on their superior competitiveness in the market, on the contrary, if MSMEs have low innovation capability, their competitive advantage will also be low. In this study, innovation capabilities are measured by making new types or forms of new products on a regular basis, updating existing products in one or more aspects, using new techniques in the production process, exploring wider distribution systems, participating in exhibitions, and utilizing social media as marketing tool. In this era of disruptive innovation, all business entities, ranging from the MSME sector to large companies, are required to continue to innovate, starting from product innovation to the process to always maintain their exist in the market. The creative MSMEs in Jember, especially from the fashion, culinary, and photography subsectors, are already quite good at innovating by following the current trends in social media. Millennial young generation who dominated creative MSMEs in Jember makes them skilled in exploring social media to support their business. Successful innovations make products and services produced difficult to be imitated and it is enable MSMEs to maintain their competitive advantage. The results of this study support the research by Distanont and Khongmalai (2018) who found that innovation is a strategic tool to outperform business competition that will improve MSMEs' business performance in Thailand. The results of this study also support research by Kuncoro and Suriani (2018), Ferreira et al (2018), and Chiou et al (2011) who found that innovation capabilities contribute positive and significant benefits to competitive advantage in companies.

### c. The Influence of Human Capital on the Competitive Advantage of Creative MSMEs in Jember Regency

Based on the statistical tests, human capital has a significant

direct effect on competitive advantage, which means that high or low human capital in creative MSMEs in Jember has a significant effect on competitive advantage. This condition illustrates that MSMEs with high human capital will have an impact on their superior competitiveness in the market, conversely, if MSMEs have low human capital, their competitive advantage will be low as well. According to Bontis (1998), human capital is a combination of knowledge, skills, innovation, and a person's ability to carry out their duties so as to create a value to achieve a goal. Mehralian et al., (2013) also described human capital as a key element of intellectual assets and an important source of competitive advantage in a business. When education, expertise, knowledge, motivation, leadership, and behavior of MSMEs' perpetrators in accordance with the business fields they manage and develop, they will be able to explore their creativity to innovate and lead the market. The results of this study support the research by Alnidawi et al (2017) who found that there was a positive and significant influence of human capital on creating competitive advantage in telecommunications sector companies in Jordan. The results of this study are also in line with research by Mujtaba et al (2018) who found that there is a strong influence of human capital on the competitive advantage of automotive companies in Pakistan, where human capital is like 'oxygen' in a very tight competition where each company is trying to lead the market. Hili et al (2017) also found that human capital and leadership can increase the competitive advantage of study programs at universities in Makassar.

*d. The Influence of Financial Literacy on the Performance of the Creative MSMEs in Jember Regency*

The finding showed that financial literacy has a significant direct effect on the performance of MSMEs, which means that the level of financial literacy of creative MSMEs in Jember has a significant effect on their business performance. This condition illustrates that MSMEs with high levels of financial literacy will have an improved performance, conversely, MSMEs with low financial literacy leads to decreasing performance. Based on interviews conducted in the field, some creative MSMEs in Jember have not been sufficiently proficient in applying financial management practices, such as preparing budgets, choosing investments, registering insurance, and utilizing credit loans. This condition is also similar to Cirebon city from the result of research by Djuwita and Yusuf (2018) where the MSMEs are still classified in sufficient literate group. The results of this study are in line with research conducted by Chepngetich (2016) who found that financial literacy in borrowing and budgeting affects the business performance of the MSME sector in Uasin Gishu. The ability of MSMEs to calculate interest expense helps them determine from which financial institution they can obtain funds and consider business risks. The results of this study also support a research by Ye and Kulathunga (2019) who found a significant positive relationship of the level of financial literacy on the performance and sustainability of MSMEs in Sri Lanka. Easy access to financial institutions and financial risk management are mediators in the relationship between financial literacy and MSME performance. Based on resource-based view (RBV), a company's performance

depends on its tangible or intangible resources. To be able to develop tangible assets, a company needs capital growth that can be accessed from external sources and requires sufficient financial literacy.

*e. The Influence of Innovation Capability on the Performance of Creative MSMEs in Jember Regency*

The statistical result exhibits that capability of innovation has a significant direct effect on the performance of MSMEs, which means that the level of innovation capability possessed by creative MSMEs in Jember has a significant effect on performance. This condition reflects that MSMEs with high levels of innovation capability will experience improving performance of their business, conversely, if MSMEs have low innovation capabilities, the business performance will also decreased. Referring to Resource-Based View, a business can be said to be special if it has a combination of tangible and intangible resources. Innovation capability is one form of intangible assets owned by the company. Based on interviews in the field, the majority of MSMEs in Jember maximize the internet as a source of inspiration in exploring innovation. The rapid flow of information from within and from the country has benefited MSMEs to implement the process of observe-copy-modify. The second source of innovation is from similar business competitor products that are modified or upgraded at a level. This condition makes SMEs, starting from the fashion sector, culinary, photography, etc., able to follow the existing trends so that the quantity of demand is always maintained and even increased. The results of this study are in line with research by Saridakis et al (2019) who found that innovative MSMEs in the UK were more likely to export compared to less innovative MSMEs. Bouwman et al (2017) also found that MSMEs in Europe who are committed to continuing to innovate will focus on activities that increase their capacity continuously. They are trying to experiment on digitizing so that their business model always fits in with these fast-moving business conditions.

*f. The Influence of Human Capital on the Performance of Creative MSMEs in Jember Regency*

Based on the test results, human capital has a significant direct effect on the performance of MSMEs, which means that high or low human capital owned by creative industries MSME entrepreneurs in Jember has a significant effect on performance. This condition illustrates that MSMEs with high human capital will have an impact on the increasingly high performance of their business, conversely, if MSMEs have low human capital, business performance will also be low. The company's capacity to compete depends on the capabilities, education, and experience of the owner. Human capital includes abilities that are influenced by genetic factors (intelligence, health, personality, personal attractiveness) and other factors included in expertise, such as education, job training, work experience, and interpersonal relationships (Shanahan & Tuma, 1994 in Markman and Baron, 2003 ). Based on interviews, the majority of MSME managers come from families who are also entrepreneurs, so MSME managers have experience in helping family businesses, even though some of the respondents have an educational background that is not in line with the business sector being managed. In



addition to profit, hobbies and passion are what make SMEs continue to engage in the business field of the respondent, so that respondents consistently make efforts to develop business and improve business performance. The results of this study are in line with research by Suroso et al (2017) who found that human capital had a significant positive effect on MSME business performance in Central Java. According to the study, the level of education and experience is very important to form goals and courage in developing a business, setting company goals in the short and long term. Work experience can also enrich their insights about the products or services they market so that business operations can run effectively and efficiently. The results of this study also support research by Tessema (2016) who found that one aspect of human capital is expertise affecting the performance of MSMEs in the shoe production subsector in Ethiopia. However, Tessema (2016) also found that education and experience of business owners had no effect on MSME performance. The results of this study are also not in line with research by Ngatno (2016) who found that there was no direct effect of human capital on the performance of MSMEs in the traditional herbal industry in Central Java.

*g. The Influence of Competitive Advantage on Creative MSMEs' Performance in Jember Regency*

Based on the test results, competitive advantage has a significant direct effect on MSME performance, which means that the high or low competitive advantage of MSME creative industries in Jember has a significant effect on performance. This condition illustrates that MSMEs with high competitive advantage will have an impact on the increasingly high performance of their business, conversely, if MSMEs have low competitive advantage then business performance will also be low. The infinite flow of information makes anyone able to access which results in the imitation of products and services in the market. If the company has no uniqueness or competitive advantage compared to its competitors, then their business will be quickly displaced and even collapse. Creative industry MSMEs that have competitive advantages, whether in terms of price leadership, product / service uniqueness, more excellent service to customers, and quality products / services, will lead similar markets so that MSME performance will continue to improve. Some MSMEs carry out various price promotions to attract consumers and are communicated through social media. Some companies also do simple research through polling on Instagram social media to continue to capture changes in consumer demand. In addition to maintaining good relations with consumers, the effort is taken so that SMEs know the product / service specifications desired by the market. The effort to produce competitive advantage has an impact on increasing sales and the number of consumers, obtaining capital from outside the business and increasing the amount of capital, increasing the number of employees, and expanding product distribution both at home and abroad. The results of this study support research by Potjanjaruwit (2018) who found that competitive advantage had a significant positive effect on the performance of start-up companies in Thailand. According to him, the capability of using tenology and interorganizational collaboration has a direct relationship to the improvement of start-up

performance. The results of this study also support research by Rahman and Ramli (2014) who found that competitive advantage at MSMEs in Malaysia significantly affected financial performance and non-financial performance (customer satisfaction and quality products / services).

*h. The Indirect Effect of Innovation Capability on the Creative MSMEs' Performance in Jember through Competitive Advantage*

The path analysis calculation results show that there is an indirect effect of the capability of innovation (X2) on the performance of MSMEs (Y) through competitive advantage (Z). The influence of existing innovation capabilities has an impact on MSME performance through competitive advantage. That is, the level of competitive advantage of the creative industry MSME in Jember influences the relationship between innovation capabilities and MSME performance. The results of this study support research by Valeria (2013) who found an indirect relationship of the ability of innovation to business performance through competitive advantage in Klaten, Central Java. The results of this study are also in line with research by Brahmanthara and Yasa (2017) who found that competitive advantage mediates the relationship between the influence of product innovation on marketing performance in angkringan businesses in Denpasar City.

*i. The Indirect Effect of Human Capital on the Creative MSMEs' Performance in Jember through Competitive Advantage*

The path analysis calculation results show that there is an indirect effect of human capital (X3) on the performance of MSMEs (Y) through competitive advantage (Z). The influence of existing human capital has an impact on the performance of MSMEs through competitive advantage. That is, the level of competitive advantage of the creative industry MSME in Jember affects the relationship between human capital and MSME performance. The results of this study support research by Rochmadona (2018) who found that intellectual capital influences the financial performance of the five ASEAN nations (Laos, Vietnam, the Philippines, Indonesia, and Thailand) mediated by a significant competitive advantage. These results support resource-based theory which states that unique resources owned and managed by companies have sustainable performance. The results of this study prove that the intellectual capital owned by the company can make the company have a sustainable competitive advantage so that the company can be more valuable and able to compete with its competitors, and can improve the company's financial performance, in this case, is profit.

## 5 CONCLUSIONS

Based on the results of the analysis and discussion in the previous chapter, the conclusions that can be drawn are as follows: 1) Financial literacy does not have a significant direct effect on competitive advantage in the creative industries MSME in Jember Regency, which means that the level of financial literacy owned by creative MSMEs in Jember does not affect the competitive advantage of the MSMEs.; 2) Innovation capability has a significant positive direct effect on competitive advantage in the creative MSMEs in Jember Regency which means the higher the innovation capability

possessed by creative MSMEs in Jember, the higher the competitive advantage of MSMEs; 3) Human capital has a significant positive direct effect on competitive advantage in the creative MSMEs in Jember Regency, which means that the higher the innovation capability possessed by creative MSMEs in Jember, the higher the competitive advantage of MSMEs; 4) Financial literacy has a significant positive direct effect on the creative MSMEs performance in Jember Regency, which means that the better the financial literacy owned by creative industry MSMEs in Jember, the higher the performance of MSMEs will be; 5) The capability of innovation has a significant positive direct effect on the performance of creative MSME, which means that the higher the innovation capability, the higher the performance of the MSMEs will be; 6) Human capital has a significant positive direct effect on the performance of the MSME creative industry in Jember Regency, which means that the higher the human capital, the higher the MSME performance will be; 7) Competitive advantage has a significant positive direct effect on the performance of creative MSME, which means that the better the competitive advantage, the higher the MSME performance will be. We also found indirect effects: 1) The capability of innovation has a significant indirect effect on the performance of MSMEs creative industries in Jember through competitive advantage. High innovation capability is able to increase competitive advantage which will improve MSMEs performance; 2) Human capital has a significant indirect effect on the performance of creative MSMEs creative industry in Jember through competitive advantage. High human capital can increase competitive advantage which will improve the performance of MSMEs. Based on the conclusions, suggestions that can be submitted by researchers are: 1) Creative MSME in Jember should maintain and even improve the elaboration of innovations because these MSMEs are engaged in creative industry sector so that they continue to have increased competitiveness and performance. The creative MSMEs in Jember must also enrich their experience and skills in accordance with their respective businesses, such as attending seminars, and training/ workshops in order to improve their human capital. In addition, although financial literacy does not have a significant effect on competitive advantage, the variable has a significant effect on MSME performance. Therefore, MSMEs are expected to improve their financial literacy capabilities through joining socialization held by the Cooperative and MSMEs Office, financial institutions, universities, and various other parties, 2) Future studies are expected to classify MSME creative industries based on the type of business and use sampling techniques that are more representative of MSME creative industry actors in all areas of Jember, such as cluster sampling. Future studies are also expected to use structural equation modeling (SEM) analysis tools to show the relationships between variables

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