Jurnal Ekonika : Jurnal Ekonomi Universitas Kadiri
Volume 10 No. 2 Year 2025

ISSN (*Online*) 2581-2157
ISSN (*Print*) 2502-9304

Available at :

http://ojs.unik-kediri.ac.id/index.php/ekonika

The Influence of Government Policy and Service Quality on the Competitive Advantage of MSMEs through Product Innovation

Ustadus Sholihin[1], Ririn Wahyu Arida[2], Ferdyan Fais Haryanto[3]
[1] Fakultas Ekonomi - Universitas Islam Kadiri
[2] Fakultas Ekonomi - Universitas Islam Kadiri
[3] Fakultas Ekonomi – Universitas Islam Kadiri

Article History:

Received: 22 July 2025

Revised: 28 Aug 2025

Published: 30 September 2025

Keywords:

Government Policy, Service Quality, Competitive Advantage, Innovation, and MSMEs

ABSTRACT

This study aims to evaluate the influence of government policies and service quality on the competitive advantage of Micro, Small, and Medium Enterprises (MSMEs) through the mediation role of product innovation in Kediri City. The study used a quantitative approach, collecting data through questionnaires distributed to 85 MSME actors who are members of the Indonesian Conveyance Entrepreneurs Association (IPHI) DPC Kediri City. Data analysis was conducted using the Partial Least Squares (PLS) method to test the relationships among variables in the research model. The study's results indicate that product innovation plays an important role in building MSMEs' competitive advantage. Government policies and service quality affect product innovation, but neither shows a significant direct effect on competitive advantage. Product innovation has been shown to mediate the relationship between service quality and competitive advantage, whereas the mediation role in the relationship between government policies and competitive advantage remains limited. These findings indicate that product innovation is a strategic element that needs to be strengthened to enhance MSME competitiveness. Therefore, policy support and improving service quality need to be directed to encourage the creation of relevant and sustainable innovations in the MSME sector.

INTRODUCTION

In an era of globalization and increasingly fierce competition, Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in a country's economy (Faizah, 2019). MSMEs not only contribute to job creation but also drive economic growth and innovation (Judijanto et al., 2023; Piliang, 2024). In Kediri City, MSMEs play a strategic role in supporting the local economy, with various business sectors growing, including culinary, craft, and information technology. However, to compete

ISSN (*Online*) 2581-2157
Jurnal Ekonika vol 10 (2) 2025 ISSN (*Print*) 2502-9304

effectively in an increasingly competitive market, MSMEs in Kediri need to develop sustainable competitive advantages (Janah & Tampubolon, 2024).

Competitive advantage is a crucial factor for Micro, Small, and Medium Enterprises (MSMEs) in Kediri City to survive and thrive in a competitive market. MSMEs need to identify and develop strengths, such as product innovation, including the creation of unique, high-quality products. Furthermore, satisfactory customer service is also crucial. By focusing on a positive customer experience, MSMEs can build strong relationships and enhance their market reputation. Operational efficiency is also key, as MSMEs must optimize business processes to reduce costs and increase productivity (Khairani et al., 2025).

In addition to innovation and service, building networks and collaborating with other business actors are competitive advantages that should not be overlooked (Anggraeni & Muzdailfah Laily, 2023). Through collaboration, MSMEs can access the resources, information, and support necessary for growth. A strong network can open up new opportunities in marketing and product development. By developing this competitive advantage, MSMEs in Kediri City will not only survive the competition but also contribute to local economic growth and create jobs, ensuring sustainability and future success (Solechan et al., 2023).

Appropriate government policies are crucial for fostering a conducive climate for MSME growth, particularly by providing infrastructure, market access, and financial support (Khouroh et al., 2019). In Kediri City, the local government has implemented various policies to support MSME development. One such initiative is a regular entrepreneurship training program aimed at improving MSME skills in business management, marketing, and product innovation (Agung Kurniawan, 2022). Furthermore, the government provides capital assistance to help businesses expand production capacity and improve product quality (Syahputra et al., 2022).

Local product promotion through events and exhibitions is also a focus, offering MSMEs opportunities to increase visibility and sales. To facilitate market access, the government collaborates with e-commerce and retail platforms, enabling MSMEs to reach a wider market. Infrastructure development, such as traditional

ISSN (*Online*) 2581-2157
Jurnal Ekonika vol 10 (2) 2025 ISSN (*Print*) 2502-9304

markets and industrial areas, is also being implemented to support MSME operational efficiency (Fitriani et al., 2021).

Innovation and research policies are encouraged by providing incentives for MSMEs pursuing product innovation, as well as partnership programs with large companies and educational institutions to improve product and service quality. These policies reflect the Kediri City government's commitment to supporting the development of MSMEs, with the hope that they can grow, develop, and compete in an increasingly competitive market.

Product innovation plays a crucial mediating role in the relationship between government policies and the competitive advantage of Micro, Small, and Medium Enterprises (MSMEs) in Kediri City. Policies supporting MSMEs, such as access to financing and training, aim to create a conducive environment for the growth of small businesses. When appropriate policies are implemented, MSMEs can leverage resources to innovate, increase product appeal, and adapt to market changes. However, excessive reliance on government support can hinder MSMEs' internal innovation capabilities. Therefore, the government must design policies tailored to the specific needs of MSMEs and conduct regular evaluations to ensure product innovation effectively serves as a bridge to competitive advantage, driving inclusive and sustainable economic growth. This aligns with research by Indriyani et al. (2021). The results show that innovation has a significant impact on employee performance. Innovation positively contributes to improving employee performance, and this is reinforced by the implementation of a structured Management Control System (MSS). Innovation can improve employee performance, especially when managers intensively utilize Service Quality Management (SPM) to provide direction and focus in the innovation process. This study also notes that organizations with high levels of innovation can develop competitive advantages and achieve better employee performance.

This research on the Role of Government Policy and Service Quality in the Competitive Advantage of MSMEs in Kediri City through Product Innovation has the potential to make significant theoretical and practical contributions. However, there is

ISSN (*Online*) 2581-2157
Jurnal Ekonika vol 10 (2) 2025 ISSN (*Print*) 2502-9304

a practical gap that needs to be bridged so that this research's results can provide tangible benefits to MSMEs in Kediri. Although previous research has shown that government policy and service quality significantly influence competitive advantage, in practice, many MSMEs in Kediri face challenges in accessing government policies. Barriers such as complex bureaucracy and insufficient publicity prevent MSMEs from fully utilizing available policies. Furthermore, the quality of services provided is often uneven, with micro and small MSMEs finding it difficult to obtain the same services as more established MSMEs.

On the other hand, product innovation, while recognized as crucial for driving competitive advantage, is often difficult for MSMEs to implement due to limited resources, knowledge, and access to market trends. Innovation recommendations in previous research are also often too complex to implement in a local context like Kediri. Therefore, this study aims to bridge this gap by evaluating barriers to accessibility to government policies, identifying factors influencing service quality, and providing practical guidance to encourage product innovation that aligns with the needs and characteristics of local MSMEs. With this approach, the research is expected not only to enrich theory but also to provide concrete solutions that MSMEs can implement to enhance their market competitiveness.

Research on the influence of government policies on the competitive advantage of Micro, Small, and Medium Enterprises (MSMEs) has shown that these policies significantly improve MSME performance and innovation. This is in line with research by (2020), which shows that, overall, actors such as government policies, marketing, and financial literacy have a positive influence on MSME performance in Surabaya. Br Tarigan et al. (2022) state that government policies aim to strengthen MSMEs' position in the economy and help them survive these difficult times. However, challenges in disseminating and understanding these policies still need to be addressed to maximize their benefits for MSMEs. Kusuma Sari (2024) found that government policies have a significant positive impact on MSME performance. The better the implementation of government policies, such as ease of licensing, business capital assistance, and interest incentives, the higher the MSME performance.

ISSN (*Online*) 2581-2157
Jurnal Ekonika vol 10 (2) 2025 ISSN (*Print*) 2502-9304

This study aims to fill this gap by empirically examining the relationship between government policies and MSME competitive advantage, with a focus on the moderating role of product innovation. Using a quantitative approach, this study will analyze data from MSMEs in Kediri City to identify factors that influence the effectiveness of government policies in increasing competitiveness. Furthermore, this study will explore how product innovation can serve as a bridge between government policies and competitive advantage and identify specific conditions under which government policies can have a significant positive impact. Thus, the results of this study are expected to make a significant contribution to the development of more effective and relevant policies to support MSMEs, as well as enrich the existing literature on the relationship between government policy and MSME performance (Ana & Nanang, 2024).

The novelty of this study lies in its integrated approach that examines the relationship between government policy, product innovation, and competitive advantage in the context of Micro, Small, and Medium Enterprises (MSMEs) in Kediri City. This study highlights the role of product innovation as a mediating variable, providing new insights into how policy can translate into competitive advantage. By focusing on the local context, this study offers a relevant contribution to understanding regional policy dynamics. Furthermore, the research findings are expected to provide practical recommendations for policymakers and MSMEs in designing policies that encourage innovation and enhance competitiveness.

This understanding is expected to provide a strong foundation for strategic decision-making in the marketing sector. Therefore, this study aims to evaluate the extent to which government policies influence MSMEs' competitive advantage in Kediri City and to analyze their impact on MSME product innovation. Furthermore, this study aims to evaluate the extent to which service quality influences MSME competitive advantage and to analyze the relationship between service quality and product innovation undertaken by business actors. This study also examines the influence of product innovation on MSMEs' competitive advantage in Kediri City. Furthermore, this study examines the role of product innovation as a mediating variable in the relationship between government policies and competitive advantage,

ISSN (*Online*) 2581-2157
Jurnal Ekonika vol 10 (2) 2025 ISSN (*Print*) 2502-9304

and as a mediator in the relationship between service quality and MSME competitive advantage. Therefore, the results of this study are expected to provide an empirical contribution to enriching the study of marketing strategies and product innovation for MSMEs at the local level.

LITERATURE REVIEW

This research is based on two grand theories: the Resource-Based View (RBV) and the Dynamic Capabilities Theory (DCT). RBV states that competitive advantage stems from unique resources and capabilities, such as product innovation and service quality (Penrose, 1959). In the context of MSMEs, government policies act as external resources, providing support through regulations, training, and incentives. Meanwhile, service quality is an internal capability that influences competitiveness, and product innovation is a key driver of competitive advantage.

DCT complements this perspective by emphasizing an organization's ability to adapt to environmental changes through innovation and capability development (Teece & Pisano, 1997). Product innovation is seen as a manifestation of MSMEs' dynamic capabilities to respond to market challenges. Government policies also influence MSMEs' innovative capabilities, while service quality can be dynamically adjusted to meet customer needs. The integration of these two theories provides a solid framework for understanding the role of innovation, service, and external support in building MSME competitive advantage.

Government policies play a crucial role in supporting the development of Micro, Small, and Medium Enterprises (MSMEs), which are the backbone of many countries' economies. Dandago & Usman (2011) emphasize that appropriate policies can create a conducive business climate, thereby encouraging MSME growth. They point out that government support, through fiscal and non-fiscal policies, is crucial to improving the competitiveness of small businesses.

Eniola & Entebang (2015) also highlight the importance of government support in improving MSME performance in Nigeria. Their research indicates that policies supporting access to financing and training can enhance the sustainability and growth of small businesses. This aligns with the findings of Le & Nguyen (2009), who revealed

ISSN (*Online*) 2581-2157
Jurnal Ekonika vol 10 (2) 2025 ISSN (*Print*) 2502-9304

that in Vietnam, government policies supporting innovation and market access significantly influenced MSME growth.

Furthermore, Kang & Park (2012) explain that government support in the form of funding and innovation policies can stimulate collaborative research and development (R&D) among MSMEs. This demonstrates that government policies serve not only as regulators but also as drivers of innovation, which is essential for the success of small businesses.

Jasra et al. (2011) added that the environment created by government policies greatly influences the success of MSMEs. They found that, despite support, dissatisfaction persists among entrepreneurs with the effectiveness of existing policies, indicating the need for continuous evaluation and improvement.

Overall, the literature shows that effective government policies can strengthen MSMEs' position in the economy. However, more attention is needed to policy implementation and evaluation to ensure that the support provided truly meets entrepreneurs' needs.

Competitive advantage is a crucial concept in the business world, referring to a company's ability to outperform competitors in terms of performance, innovation, and customer value. According to Porter (1985), competitive advantage can be achieved through two main strategies: low cost and differentiation. A low-cost strategy focuses on reducing production costs to offer more competitive prices, while a differentiation strategy emphasizes creating unique, high-value products or services for consumers.

In the context of Micro, Small, and Medium Enterprises (MSMEs), competitive advantage is crucial because MSMEs often face greater challenges than larger companies, such as limited resources and market access. Dandago & Usman (2011) stated that to achieve competitive advantage, MSMEs need to develop strategies tailored to market characteristics and consumer needs. This includes product innovation, improving service quality, and developing strategic alliance networks that can strengthen their market position.

432
ISSN (*Online*) 2581-2157
ISSN (*Print*) 2502-9304

Furthermore, Eniola & Entebang (2015) emphasized the government's role in creating a conducive climate for MSME development. Supportive government policies, such as providing access to financing, training, and infrastructure, can help MSMEs innovate and increase their competitiveness. In this regard, government policies serve not only as drivers but also as facilitators, enabling MSMEs to adapt and compete in an increasingly competitive market.

Thus, competitive advantage depends not only on a company's internal strategy but also on external factors, including government policies and market dynamics. Further research is needed to understand how these factors interact and influence MSMEs' performance in achieving sustainable competitive advantage.

Product innovation is a key pillar in the development of Micro, Small, and Medium Enterprises (MSMEs), serving to increase competitiveness and business sustainability. According to Schumpeter (1989), innovation is a process of introducing new products or significant improvements to existing ones, thereby creating added value for consumers. In the context of MSMEs, product innovation is not limited to new product development but also includes improvements in the quality, design, and features of existing products.

MSMEs often face challenges accessing resources and technology, which can limit their ability to innovate. However, research by Tidd & Bessant (2014) shows that innovation does not always require large investments; in fact, simple, sustainable innovations can have a significant impact on MSME performance. For example, changes in production processes or the introduction of more effective marketing methods can be forms of innovation that help MSMEs compete in the market.

Furthermore, research by Riyanto & Heriyanti (2024) shows that product innovation has a significant impact on the performance of Micro, Small, and Medium Enterprises (MSMEs) in Cikarang. Product innovation is considered a key factor in improving the competitiveness and performance of MSMEs. The ability of MSMEs to innovate enables them to meet dynamic market needs and create added value for customers. This study also noted that product innovation can help MSMEs differentiate themselves from competitors and increase customer satisfaction.

ISSN (*Online*) 2581-2157
Jurnal Ekonika vol 10 (2) 2025 ISSN (*Print*) 2502-9304

Therefore, policies that encourage innovation among MSMEs are crucial. Support programs that focus on product development and access to new technologies are essential.

Furthermore, product innovation is also influenced by changing consumer needs and preferences. According to Kotler & Keller (2016), a deep understanding of consumer behavior and market trends is crucial for MSMEs to develop products that are relevant and attractive. Therefore, MSMEs need to conduct regular market research to identify innovation opportunities that can meet customer needs.

Overall, product innovation is a key factor in determining MSMEs' success in competing. By leveraging existing resources, establishing strategic partnerships, and understanding consumer needs, MSMEs can create products that not only meet market expectations but also provide a sustainable competitive advantage. Further research is needed to explore the various innovation strategies that MSMEs can implement in different contexts.

METHODS

Based on the problem formulation established in the previous chapter, this study adopted a quantitative method to test and verify the formulated hypotheses using various tests and data analyses. Sugiyono (2017) stated that quantitative research methods relate to data collection techniques, sample design, and the development of data collection instruments. Furthermore, Malhotra (2006) explained that a quantitative approach is a research methodology that aims to quantify data and generally uses specific statistical analyses. Given that the data processed in this study are numerical, this research falls into the quantitative research category. Sekaran (2007) stated that the instrument used to collect data in this study was a questionnaire distributed to a sample of the predetermined population.

Population: MSMEs in Kediri City. The population is the entire set of individuals or objects of the research focus. In this study, the population comprised 85 MSMEs who are members of the IPHI DPC in Kediri City. These MSMEs encompass various types of gifts, dowries, bouquets, and other businesses that are members of IPHI (Indonesian Gift Makers Association).

Jurnal Ekonika vol 10 (2) 2025
ISSN (*Online*) 2581-2157
ISSN (*Print*) 2502-9304

A sample is a portion of a population taken for analysis. In this study, the sample size was 85, meaning the entire population of MSMEs (Micro, Small, and Medium Enterprises) members of the IPHI Branch Office (DPC) in Kediri City was used as the sample. The sampling technique used for this study was saturated sampling.

Based on the study's variables, the author developed a research instrument and collected data through a questionnaire. According to Sugiyono (2017), a questionnaire is a data collection method consisting of written statements or questions, both closed-ended and open-ended, addressed to respondents for answer. In this study, the questionnaire was measured using a Likert scale. Sugiyono (2017) explains that the Likert scale is used to measure individuals' or groups' opinions, attitudes, and perceptions regarding existing social phenomena. Based on the Likert scale, each answer in the questionnaire is assigned a score, as listed in the following table:

Table 1. Likert Scale Model

Jawaban	Kode	Bobot Skor
Sangat Setuju	SS	5
Setuju	S	4
Kurang Setuju	KS	3
Tidak Setuju	TS	2
Sangat Tidak Setuju	STS	1

Source: Sugiyono, (2017)

According to Santoso (2014:9), an exogenous variable is an independent variable that influences a dependent variable. In the SEM model, an exogenous variable is indicated by an arrow pointing from it to the endogenous variable and is not influenced by other variables. In this study, the exogenous variables analyzed were government policy and service quality.

According to Santoso (2014), an endogenous variable is a dependent variable influenced by an independent (exogenous) variable. In the SEM model, an endogenous variable is indicated by an arrow pointing toward the variable (Santoso, 2014). Thus, endogenous variables interact with other variables. In this study, the endogenous variable analyzed was MSMEs' competitive advantage.

ISSN (*Online*) 2581-2157
Jurnal Ekonika vol 10 (2) 2025 ISSN (*Print*) 2502-9304

The product innovation variable (Z) serves as a mediating variable, explaining how the independent variable influences the dependent variable. According to Sugiyono (2017), a mediating variable is a variable that plays a role in the relationship between the independent and dependent variables, thus creating an indirect relationship. In this context, product innovation can mediate the influence of independent variables (government policy and service quality) on the dependent variable (competitive advantage). In other words, product innovation can strengthen or alter the relationship between the two variables, even though it cannot be directly measured.

For a clearer understanding and to prevent misunderstandings, it is important to define the variables used in this study. The following is an explanation of the operational definitions of each variable included in this study.

In this study, Government Policy refers to government policy on MSMEs (Micro, Small, and Medium Enterprises) aimed to support the growth and development of this sector as a pillar of the national economy. This policy includes providing access to financing, training, and mentoring to increase MSMEs' capacity and competitiveness. Furthermore, the government also implements regulations that simplify licensing and marketing of MSME products, as well as providing incentives to encourage innovation and business sustainability. According to Purwaningsih & Haryono (2020), indicators of government policy include policy support, regulations, marketing, and infrastructure, all of which play a crucial role in enhancing MSMEs' competitive advantage. The following are some of the indicators used in this study: 1) Policy Support: Policies that support the development of MSMEs, including access to financing and training. 2) Regulation: Policies related to business regulations that affect MSME operations. 3) Marketing: Policies that assist in marketing MSME products, such as promotions and exhibitions. 4). Infrastructure: Provision of adequate infrastructure to support MSME business activities. (Purwaningsih & Haryono, 2020).

According to Parasuraman (1988), service quality is the extent to which the service provided meets or exceeds customer expectations. Service quality is measured across five main dimensions: tangibles, reliability, responsiveness, assurance, and

ISSN (*Online*) 2581-2157
Jurnal Ekonika vol 10 (2) 2025 ISSN (*Print*) 2502-9304

empathy. This model emphasizes the importance of customer perceptions of the service received compared to their expectations. Therefore, service quality is good when the service meets customer expectations. According to Parasuraman, Zeithaml, and Berry, we can use five indicators or dimensions to measure service quality: 1) Tangibility, 2). Reliability, 3). Responsiveness, 4) Empathy, and 5) Service Assurance (Parasuraman et al., 1988).

According to Kotler & Armstrong (2018), product innovation is the development or improvement of products that create new value for consumers. Product innovation can include changes in the design, features, or functions of existing products, as well as the introduction of new products that meet market needs or desires. This innovation aims to increase competitiveness, attract new customers, and retain existing customers by offering better or more efficient solutions. Indicators of product innovation, according to v.

According to Porter (1985), competitive advantage is a company's ability to create greater value for customers compared to its competitors. Porter emphasized that to achieve a competitive advantage, a company must focus on these five indicators and integrate them into all its operations and business strategies. Here are five indicators of competitive advantage according to Porter: 1) Cost Leadership; 2). Differentiation; 3). Focus: 4) Value Chain Advantage; 5) Sustained Innovation (Porter, 1985).

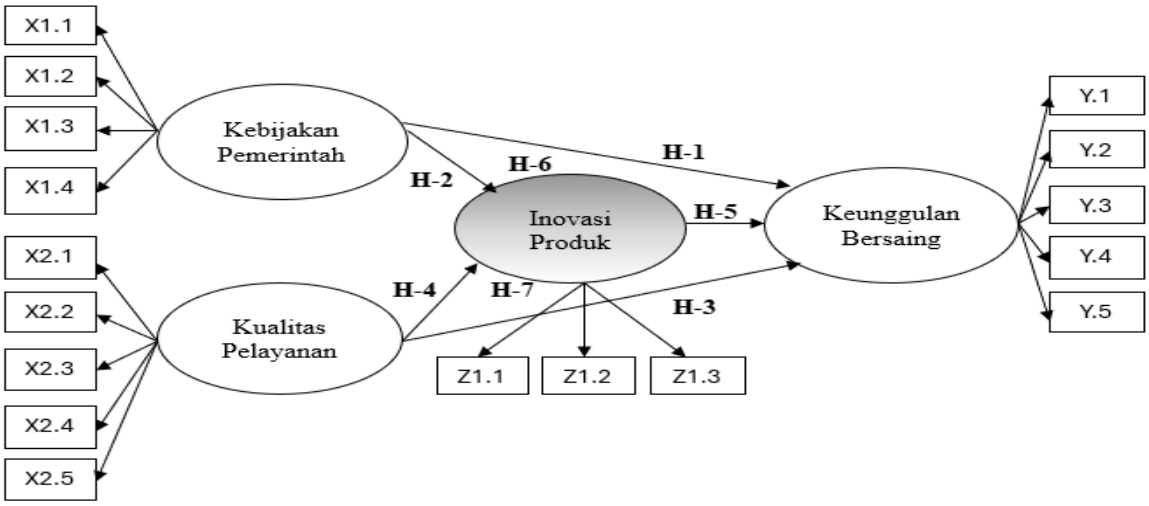


Figure 1.

ISSN (*Online*) 2581-2157
Jurnal Ekonika vol 10 (2) 2025 ISSN (*Print*) 2502-9304

Data Analysis Method

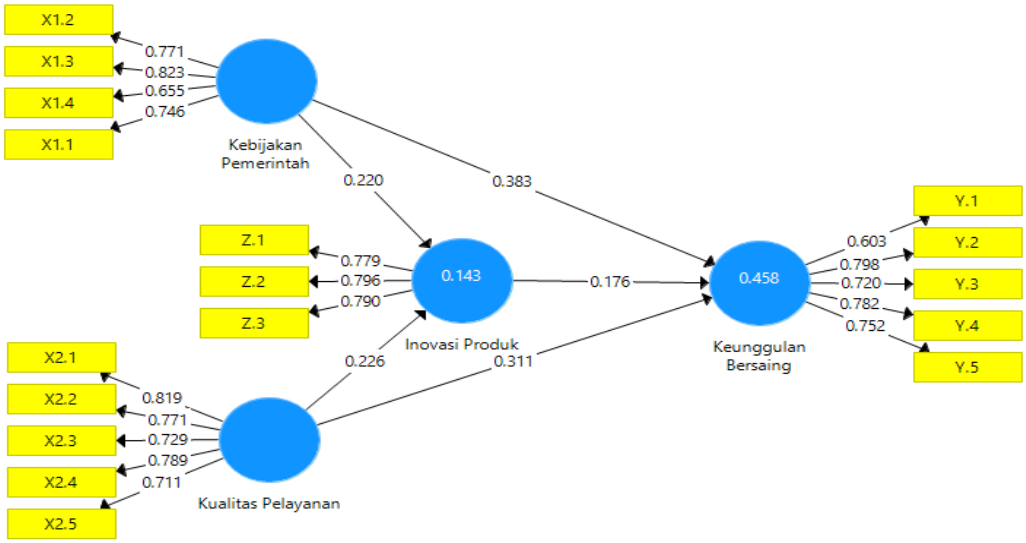
The analysis in this study included several testing stages: validity and reliability, coefficient of determination, goodness-of-fit (model fit) evaluation, and path coefficient analysis. The testing process was conducted using SmartPLS, a software based on the Partial Least Squares (PLS) approach. Validity testing aims to assess the extent to which a research instrument measures the variables it is intended to measure (Ghozali, 2021). In the context of PLS, construct validity is tested through convergent validity, namely by examining the factor loadings for each indicator in the latent variable and by comparing Average Variance Extracted (AVE) values, which ideally should be greater than 0.50. Furthermore, discriminant validity was tested to ensure that the indicators better represent their constructs than other constructs, using cross-loadings analysis (Ghozali, 2021).

Reliability testing aims to assess the level of consistency of an instrument in measuring a specific concept, as well as the consistency of respondents' answers to the questions. In the Partial Least Squares (PLS) approach, reliability is assessed using composite reliability and Cronbach's alpha. A construct is considered reliable if its composite reliability exceeds 0.70 or its Cronbach's alpha value is above 0.60, indicating that the instrument is sufficiently reliable and consistent. Meanwhile, the coefficient of determination (R-Square) measures the extent of the independent latent variable's influence on the dependent latent variable, indicating whether this influence is substantial. R-Square values of 0.67, 0.33, and 0.19 are interpreted as high, medium, and low model strength, respectively (Ghozali, 2021). To assess overall model fit, several indicators are used, including the Normed Fit Index (NFI), with an ideal value above 0.90; the Standardized Root Mean Square Residual (SRMR), below 0.08; and the Root Mean Square Theta (RMSTheta), close to zero. In addition, a small Chi-Square value with a p-value above 0.05 also indicates that the model fits the data.

RESULTS

Data management in this study uses the Structural Equation Model (SEM) with the partial least squares (PLS) method via the smart PLS software.

ISSN (*Online*) 2581-2157
Jurnal Ekonika vol 10 (2) 2025 ISSN (*Print*) 2502-9304



Validity testing aims to evaluate the extent to which a research instrument measures the intended construct. In the Partial Least Squares (PLS) approach, validity is assessed through convergent validity, discriminant validity, and the Average Variance Extracted (AVE). Meanwhile, reliability testing assesses the instrument's consistency in measuring a construct and the consistency of respondents' responses. The test results are presented in Table 1.1.

Table 1.1. Validity and Reliability Test Results

	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Inovasi Produk	0,697	0,831	0,621
Kebijakan pemerintah	0,754	0,859	0,671
Keunggulan Bersaing	0,793	0,866	0,618
Kualitas pelayanan	0,824	0,876	0,585

Source: Output Smart PLS (2025)

Table 1.1 shows that the validity test results indicate that the Average Variance Extracted (AVE) for each construct exceeds 0.50. This value is the recommended minimum threshold for declaring that a construct meets the criteria for convergent validity. Convergent validity refers to the extent to which the indicators within a construct accurately reflect the variables being measured. Therefore, an AVE value exceeding 0.50 indicates that each construct has valid dimensions and can be reliably measured.

ISSN (*Online*) 2581-2157
Jurnal Ekonika vol 10 (2) 2025 ISSN (*Print*) 2502-9304

Furthermore, reliability tests using Cronbach's alpha generally yielded good results. Most constructs had values above 0.70, indicating that the indicators within the construct are consistent and reliable. However, one construct, product innovation, had a Cronbach's Alpha value below 0.70. This indicates that the construct is not fully reliable, and therefore, the measurement results should be interpreted with caution. The low reliability of this construct can affect data consistency and be a consideration for future research.

Structural equation model analysis using SmartPLS can be conducted through model fit testing to assess the model's suitability. This testing involves several indicators, such as the Standardized Root Mean Square Residual (SRMR), Normed Fit Index (NFI), Chi-Square, and Root Mean Square Residual Covariance (RMStheta). The results of this model fit test are presented in Table 1.2.

Table 1.2. Model Fit – Goodness of fit

	Saturated Model	Estimated Model
SRMR	0,099	Dapat diterima
Chi-Square	224.280	224.280
NFI	0,606	Model Fit Kurang Baik
rmsTheta		

Source: Output Smart PLS (2025)

Based on the test results in Table 1.2, the structural equation model does not fully meet the goodness-of-fit criteria. This is indicated by fit index values (such as SRMR, NFI, or Chi-Square) that are below the recommended standard.

Thus, the model cannot be said to have a good overall fit, although it can still partially indicate relationships between constructs. Therefore, this model requires further modification or development to produce more representative and predictive results. Nevertheless, these results provide an initial overview of the direction of relationships among the model's constructs, thus providing a basis for further research or for developing a better model.

The PLS algorithm can estimate the average variation in the dependent variable attributable to changes in the independent variables. The coefficient of determination (R^2) is used as an indicator of the extent to which the predictor latent variables

ISSN (*Online*) 2581-2157
Jurnal Ekonika vol 10 (2) 2025 ISSN (*Print*) 2502-9304

influence the model structure, categorized as low, medium, or high. Information on the R-Square test results is presented in Table 1.3.

Table 1.3. R-Square Test Results

	R Square	R Adjusted
Inovasi produk	0,126	0,105
Keunggulan Bersaing	0,414	0,392

Source: Output Smart PLS (2025)

Based on the R-Square output, the Product Innovation variable has an R^2 value of 0.126, indicating that Government Policy and Service Quality only explain approximately 12.6% of the variation in Product Innovation. Meanwhile, Competitive Advantage has an R^2 value of 0.414, meaning that the three variables (including Product Innovation as a mediator) explain approximately 41.4% of the variation in Competitive Advantage.

This indicates that although Product Innovation acts as a mediator, the independent variables still have a significant direct effect on Competitive Advantage. Therefore, product innovation partially mediates this model.

Testing of the path coefficients (direct effects) was conducted using bootstrapping. This nonparametric procedure estimates the error rate of the resulting estimates to determine the significance of the coefficients. The results of this test are shown in Table 1.4.

Table 1.4. Direct Path Coefficient Test Results

	Original Sample (O)	Standard Deviation (STDEV)	P Values
Inovasi Produk-Keunggulan Bersaing	0,168	0,095	0,078
Kebijakan Pemerintah-Inovasi Produk	0,16	0,101	0,116
Kebijakan Pemerintah-Keunggulan Bersaing	0,34	0,101	0,001
Kualitas Pelayanan – Inovasi Produk	0,265	0,132	0,045
Kualitas Pelayanan – Keunggulan Bersaing	0,345	0,094	0

Source: Output Smart PLS (2025)

The results of the path analysis using the bootstrap approach indicate that not all relationships in this research model are statistically significant. The path between Product Innovation and Competitive Advantage has a coefficient of 0.168 with a p-

ISSN (*Online*) 2581-2157
Jurnal Ekonika vol 10 (2) 2025 ISSN (*Print*) 2502-9304

value of 0.078. Because the p-value exceeds 0.05, the effect of Product Innovation on Competitive Advantage is not significant. This finding contradicts previous research (Noviani, 2020). Similarly, the relationship between Government Policy and Product Innovation shows a coefficient of 0.160 and a p-value of 0.116, both of which are insignificant. These results do not support the findings reported in the research.

Conversely, several paths in the model show a significant effect. The direct relationship between Government Policy and Competitive Advantage shows a coefficient of 0.340 and a p-value of 0.001, indicating a significant relationship at the 99% confidence level. This indicates that government policy interventions play a significant, direct role in increasing MSME competitiveness (Khouroh et al., 2019). Furthermore, Service Quality significantly impacts two other variables in the model: Product Innovation (coefficient 0.265; p = 0.045) and Competitive Advantage (coefficient 0.345; p = 0.000). This finding indicates that good service quality can directly drive product innovation and make a strong contribution to achieving competitive advantage.

Overall, these results indicate that Service Quality is the variable that most consistently exerts a positive, significant influence on the model, both directly and indirectly. Meanwhile, the mediating role of Product Innovation has not shown significant results, which could be considered for further model development or intervention strategies to improve MSME competitiveness. Further research is recommended to consider other factors that may contribute to innovation and to review the strength of mediation in more complex or sector-based models.

Testing of the indirect path coefficient (indirect effect) was conducted to determine whether the product innovation variable acts as an intervening or mediating variable in influencing the relationship with Competitive Advantage. The results of the indirect path analysis are presented in Table 1.5.

ISSN (*Online*) 2581-2157
Jurnal Ekonika vol 10 (2) 2025 ISSN (*Print*) 2502-9304

Table 1.5. Indirect Path Coefficient Test Results

	Original Sample (O)	Standard Deviation (STDEV)	P Values
Kebijakan Pemerintah-Inovasi Produk-Keunggulan Bersaing	0,027	0,024	0,273
Kualitas Pelayanan – Inovasi Produk-Keunggulan Bersaing	0,045	0,033	0,171

Source: Output Smart PLS (2025)

In the analysis, two variables were tested for their influence on competitive advantage: government policy and service quality, both of which are related to product innovation. The test results showed that the p-value for the Government Policy-Product Innovation-Competitive Advantage variable was 0.273. This p-value exceeds the commonly used significance level (e.g., 0.05), indicating no significant relationship between government policy, product innovation, and competitive advantage in the sample. This means that government policy does not have a strong enough influence on increasing competitive advantage through product innovation. Therefore, the product innovation variable is not an effective mediator. The results of this study are inconsistent with studies that discuss the effectiveness of product innovation as a mediating variable (Effendi et al., 2023).

On the other hand, regarding the relationship between Service Quality, Product Innovation, and Competitive Advantage, the p-value obtained was 0.171, which is also greater than the 0.05 significance level. This result indicates that service quality, although playing a role in product innovation, does not have a significant influence on competitive advantage. In this case, although service quality can be considered a factor influencing product innovation, its effect on competitive advantage was not statistically significant.

Overall, these findings suggest that government policy and service quality, although related to product innovation, do not directly contribute significantly to achieving competitive advantage in the market.

Based on the analysis results, which show a p-value of 0.273 for the relationship between Government Policy, Product Innovation, and Competitive Advantage, and a

ISSN (*Online*) 2581-2157
Jurnal Ekonika vol 10 (2) 2025 ISSN (*Print*) 2502-9304

p-value of 0.171 for Service Quality, Product Innovation, and Competitive Advantage, it can be interpreted that, in the context of the IPHI (Indonesian Delivery Service Manufacturers Association) MSME Branch in Kediri City, these two factors have not significantly influenced the achievement of competitive advantage through product innovation.

This means that although the government has issued policies and support programs for MSME development, IPHI businesses in Kediri City have not yet felt a tangible impact on their ability to develop superior product innovations and compete in the market. This could be due to limited access to information, complex bureaucracy, or a lack of policy adjustment to the specific needs of delivery service providers in the area.

Meanwhile, the quality of service provided by IPHI MSMEs has also not been able to encourage product innovation that directly impacts competitive advantage. While good service remains important for maintaining customer loyalty, improving service alone is not enough to make the products offered superior to competitors'. The required innovations may be more complex —for example, in terms of design, product personalization, or the use of more modern materials and technologies.

Therefore, the IPHI DPC Kediri City needs to conduct a more targeted evaluation of its business development strategy, including strengthening collaboration with the government and increasing its capacity for market-relevant innovation. Furthermore, training focused on design creativity and current trends in the delivery industry can also be an important step in fostering a more sustainable competitive advantage.

Testing the predictive performance of constructs, such as product innovation and competitive advantage, was conducted to assess their predictive relevance. This is shown in Table 1.6.

ISSN (*Online*) 2581-2157
Jurnal Ekonika vol 10 (2) 2025 ISSN (*Print*) 2502-9304

Table 1.6. Predictive Relevance Construct Test Results

	MAE	Q²_predict
Inovasi produk	0,766	0,066
Keunggulan bersaing	0,658	0,34

Source: Output Smart PLS (2025)

Based on the results of the predictive relevance test presented in Table 1.5, the Q²_predict and MAE values were obtained for each construct, namely product innovation and competitive advantage. The Q²_predict value for product innovation is 0.066, indicating that this construct has very weak predictive ability. This is supported by the MAE (Mean Absolute Error) value of 0.766, indicating a relatively high level of model prediction error for the product innovation variable. In contrast, the competitive advantage construct shows a Q²_predict value of 0.340, which is classified as moderate and indicates the model has quite good predictive relevance for this variable. Furthermore, the MAE of 0.658 for the competitive advantage construct is lower than that for product innovation, indicating greater predictive accuracy. These findings indicate that the model used in this study is better at predicting competitive advantage than product innovation. Therefore, it is recommended to adjust the indicators in the product innovation construct to improve the model's overall predictive relevance and consistency.

CONCLUSION AND SUGGESTION

Based on the research findings, it can be concluded that product innovation plays a significant role in building MSMEs' competitive advantage in Kediri City. However, the direct influence of government policy and service quality on competitive advantage has not yet been demonstrated to have strong significance. The findings indicate that government policy and service quality influence product innovation but do not directly increase competitive advantage. Product innovation has been shown to mediate the relationship between service quality and competitive advantage. However, its role as a mediator between government policy and competitive advantage remains limited. Therefore, increasing product innovation is a strategic key to strengthening MSME competitiveness, particularly through optimizing policy

Jurnal Ekonika vol 10 (2) 2025
ISSN (*Online*) 2581-2157
ISSN (*Print*) 2502-9304

support and improving service quality to be more targeted and responsive to business needs.

Several suggestions for further research can be made. First, given the relatively weak predictive relevance of the product innovation construct, it is recommended that future research develop more representative and contextual indicators tailored to the characteristics of the MSME sector, particularly in the delivery sector, as implemented by members of the IPHI DPC Kediri City. The addition of intervening or moderating variables, such as technological capability, business actor creativity, or adaptation to market trends, can also improve the model's ability to predict product innovation accurately.

Second, expanding the research population and sample can be done by involving more MSMEs from various regions or other creative industry subsectors to increase the generalizability of the findings. Further research is also recommended to use mixed methods, combining quantitative and qualitative approaches, to gain a deeper understanding of the internal and external dynamics that influence product innovation and MSME competitive advantage.

Finally, further research can further explore the role of government policies, not only as external factors but also as catalysts in building an innovative ecosystem for MSMEs through mentoring programs, technology access, and sustainable financing support.

BIBLIOGRAPHY

Agung Kurniawan, A. A. (2022). Peningkatan Kemandirian UMKM Melalui Pengembangan Digital Marketing dan Pelatihan Keterampilan Usaha Increasing MSME Independence Through Digital Marketing Development and Business Skills Training atau wirausaha yang membutuhkan pandangan kedepan , motiva. ALMUJTAMAE: Jurnal Pengabdian …, 2(3), 201–207. https://doi.org/10.30997/almujtamae.v2i3.5450

Ana, R., & Nanang, S. (2024). The Influence of Entrepreneurial Motivation on MSME Business Success: A Literature Review. Journal of Business Improvement, 1(2), 115–128.

Jurnal Ekonika vol 10 (2) 2025
ISSN (*Online*) 2581-2157
ISSN (*Print*) 2502-9304

Anggraeni, S., & Muzdailfah Laily. (2023). The Role Of Trust In Digital Technology In Mediating Between Creativity And Innovative Behavior Towards Competitive Advantage: Studies In The Coastal Area Of Sedati Sub-district 2 *Corresponding Author. Management Studies and Entrepreneurship Journal, 4(4), 4279–4289. http://journal.yrpipku.com/index.php/msej

Br Tarigan, Z. N. A., Dewi, F. N., & Pribadi, Y. (2022). Keberlangsungan Usaha Mikro, Kecil, Dan Menengah Di Masa Pandemi: Dukungan Kebijakan Pemerintah. Jurnal BPPK : Badan Pendidikan Dan Pelatihan Keuangan, 15(1), 12–23. https://doi.org/10.48108/jurnalbppk.v15i1.666

Dandago, K., & Usman, A. (2011). Assessment of Government Industrialisation Policies on Promoting the Growth of Small-Scale Industries in Nigeria. Phys. Rev. E, 53.

Effendi, M. R., Bakar, R. A., & Bachri, N. (2023). Pengaruh Pemasaran Digital Terhadap Kinerja Umkm Di Kota Lhokseumawe Dengan Inovasi Produk Sebagai Variabel Intervening. J-MIND (Jurnal Manajemen Indonesia), 7(2), 107. https://doi.org/10.29103/j-mind.v7i2.6576

Eniola, A. A., & Entebang, H. (2015). Government Policy and Performance of Small and Medium Business Management. International Journal of Academic Research in Business and Social Sciences, 5–2, 237–248.

Faizah, N. H. (2019). Ukm Dalam Persaingan Di Era Globalisasi Ekonomi. Upajiwa Dewantara, 3(2), 127–135. https://doi.org/10.26460/mmud.v3i2.4378

Fitriani, F., Unteawati, B., Sutarni, S., Fatih, C., & Mutaqin, Z. (2021). Peningkatan Daya Saing Ukm Olahan Ubikayu: Pendekatan Rantai Nilai. SEPA: Jurnal Sosial Ekonomi Pertanian Dan Agribisnis, 17(2), 185. https://doi.org/10.20961/sepa.v17i2.44423

Ghozali, I. (2021). Partial Least Squares,Konsep, Teknik, dan Aplikasi Menggunakan Program SmartPLS 3.2.9 Untuk Penelitian Empiris (Edisi 3). Badan Penerbit Universitas Diponegoro.

Haryono, T., & Marniyati, S. (2018). Pengaruh Market Orientation, Inovasi Produk,

ISSN (*Online*) 2581-2157
ISSN (*Print*) 2502-9304

Dan Kualitas Produk Terhadap Kinerja Bisnis Dalam Menciptakan Keunggulan Bersaing. Jurnal Bisnis Dan Manajemen, 17(2), 51. https://doi.org/10.20961/jbm.v17i2.17174

Indriyani, T. W., Purwanti, I., Sawabi, & Lailyningsih, S. R. N. (2021). Kualitas Pelayanan, Inovasi Produk dan Harga Terhadap Keputusan Pembelian di Masa Pandemi Covid-19 (Studi Pada Konsumen Dapur Kopi Lamongan). Jurnal Media Komunikasi Ilmu Ekonomi, 38(2), 22–34.

Janah, U. R. N., & Tampubolon, F. R. S. (2024). Peran Usaha Mikro, Kecil, dan Menengah dalam Pertumbuhan Ekonomi: Analisis Kontribusi Sektor UMKM terhadap Pendapatan Nasional di Indonesia. PENG: Jurnal Ekonomi Dan Manajemen, 1(2), 739–746. https://teewanjournal.com/index.php/peng/article/view/931

Jasra, J. M., Khan, M. A., Hunjra, A. I., Ur, R., R. A., & Azam, R. I. (2011). Determinants of Business Success of Small and Medium Enterprises. International Journal of Business and Social Science, 2–20, 869–872.

Judijanto, L., Sandy, S., Yanti, D. R., Kristanti, D., & Hakim, M. Z. (2023). Pengembangan Usaha Kecil Menengah (Ukm) Berbasis Inovasi Teknologi Untuk Mendorong Pertumbuhan Ekonomi Lokal. Community Development Journal : Jurnal Pengabdian Masyarakat, 4(6 SE-Articles), 12500–12507.

Kang, K. N., & Park, H. (2012). Influence of government R&D support and inter-firm collaborations on innovation in Korean biotechnology SMEs. Technovation, 32–1, 68–78.

Khairani, S., Rambe, S., Safdan, M. R., Harahap, M., Islam, U., & Sumatera, N. (2025). PERAN TEKNOLOGI INFORMASI DALAM MENINGKATKAN EFISIENSI BISNIS UMKM. Neraca Manajemen, Ekonomi Akuntansii, 12(10).

Khouroh, U. K., Windhyastiti, I., & Handayani, K. (2019). Peran Kebijakan Pemerintah dalam Memperkuat Aliansi Strategis dan Meningkatkan Daya Saing Ekonomi Kreatif. Jurnal Manajemen Dan Kewirausahaan, 7(2), 205–224. https://doi.org/10.26905/jmdk.v7i2.3830

ISSN (*Online*) 2581-2157
Jurnal Ekonika vol 10 (2) 2025 ISSN (*Print*) 2502-9304

Kotler, P., & Armstrong. (2018). Prinsip-prinsip Marketing Edisi Ke Tujuh (7 (ed.)). salemba Empat.

Kotler, P., & Keller, K. (2016). Marketing Management, 15th Edition (15th ed.). Pearson Prentice Hall, Inc.

Kusuma Sari, I. A. B. P. (2024). Pengaruh Kebijakan Pemerintah Dan Modal Sosial Terhadap Kinerja UMKM Se - Kabupaten Badung. Hita Akuntansi Dan Keuangan, 5(3), 26–38. https://doi.org/10.32795/hak.v5i3.5805

Le, N. T. B., & Nguyen, T. V. (2009). The impact of networking on bank financing: The case of small and medium-sized enterprises in Vietnam. Entrepreneurship: Theory and Practice, 33–4, 867–887.

Malhotra, N. K. (2006). Marketing Research: An Applied Orientation. Prestice Hall, United State of America. Prestice Hall.

Noviani, L. (2020). Pengaruh Inovasi Produk, Kreativitas Produk, dan Kualitas Produk terhadap Keunggulan Bersaing (Studi Kasus pada Kerajinan Tikar Eceng Gondok "Liar"). Jurnal Manajemen Danbisnis (Jumanis), 2(1), 2076–2086. http://ejournal.lppm-unbaja.ac.id/index.php/jmb/article/view/982

Parasuraman, A., Zeithaml, V. A., & Berry, L. L. (1988). SERVQUAL: A MultipleItem Scale for Measuring Consumer Perceptions of Service Quality. Journal of Retailing, 12–38.

Penrose, E. T. (1959). The theory of the growth of the firm. Oxford University Press.

Piliang, L. H. (2024). Umkm Penggerak Roda Perekonomian Nasional. Public Administration Journal, 8(1), 1–8.

Porter, M. E. (1985). Competitive Advantage: Creating and Sustaining Superior Performance. Free Press.

Purwaningsih, R. R., & Haryono, N. A. (2020). Sumber Daya Manusia, Operasional, Pemasaran, Dan Kebijakan Pemerintah Terhadap Kinerja Umkm Di Kota Surabaya. DINAMIKA EKONOMI Jurnal Ekonomi Dan Bisnis, 12–2(September 2019).

ISSN (*Online*) 2581-2157
Jurnal Ekonika vol 10 (2) 2025 ISSN (*Print*) 2502-9304

Riyanto, K., & Heriyanti, S. S. (2024). Optimalisasi Kinerja UMKM : Mengurai Peran Strategis Pelatihan Kewirausahaan dan Inovasi Produk Pendahuluan. 02(04), 123–131.

Santoso, S. (2014). Statistik Parametrik Konsep dan Aplikasi dengan SPSS. PT. Elex Media Komputer.

Sari, F. A. P. W., & Farida, N. (2020). Pengaruh Orientasi Pasar Dan Orientasi Kewirausahaan Terhadap Kinerja Pemasaran Melalui Inovasi Produk Sebagai Variabel Intervening (Studi Pada Umkm Kuningan Juwana Kabupaten Pati). Jurnal Ilmu Administrasi Bisnis, 9(3), 345–352. https://doi.org/10.14710/jiab.2020.28117

Schumpeter, J. A. (1989). Essays on Entrepreneurs, Innovations, Business Cycles, and the Evolution of Capitalismed. Transactions.

Sekaran, U. (2007). Metode Penelitian Bisnis 2 Edisi 4 (4 (ed.)). salemba Empat.

Solechan, A., AP, T. W., & Hartono, B. (2023). Transformasi Digital Pada UMKM Dalam Meningkatkan Daya Saing Pasar. JURNAL INFORMATIKA UPGRIS, 9–1, 15–20.

Sugiyono. (2017). Metode Penelitian Kuantitatif, Kualitatif, dan R&D. Alfabeta.

Syahputra, A., Ervina, E., & Melisa, M. (2022). Pengaruh Modal Usaha, Lokasi Usaha, Lokasi Pemasaran dan Kualitas Produk terhadap Pendapatan UMKM. Journal of Management and Bussines (JOMB), 4(1), 183–198. https://doi.org/10.31539/jomb.v4i1.3498

Teece, D. J., & Pisano, G. (1997). Dynamic Capabilities and Strategic Management. Strategic Management Journal, 18–7, 509–533.

Tidd, J., & Bessant, J. (2014). Managing Innovation: Integrating Technological, Market and Organizational Change. Wiley.