

An application of analytical hierarchy process (AHP) in formulating priority strategy for enhancing creative industry competitiveness

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ABSTRACT

This study is aimed to analyze the variables of external environment, organizational resources, organizational capabilities, and business competitiveness. The study priorities strategy and programs as basic for developing the competitiveness of creative industry in Indonesia. The number of respondents who participated in this survey was 200, while the key informants were 10 people. Method of analysis involved descriptive statistics, and analytical hierarchy process (AHP). Then, data were processed by using both IBM SPSS 24, and Expert Choice 11. The results show that creative industry competitiveness has relatively declined during covid-19 pandemic. Although external environment support, organizational resources, and organizational capabilities were at good shape. The priority strategy for competitiveness development should be focused on strengthen the organizational capabilities by considering the dynamics of external environmental factors and internal resource capacity. Then, the priority programs developed sequentially are increasing partnerships with suppliers, distributors and customers, analyzing social and economic aspects, developing human resource capacity, and using information and communication technology in products and services. In addition, another important program is strengthening the supply chain system.

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1. Introduction

Creative economy sector plays an important role in the national and global economy because they contribute to various aspects of life both economically and non-economically. Creative economy sector also plays an essential role for development in both developed and developing countries (Bontje & Musterd, 2009). The contribution of the creative economy sector to Indonesia's gross domestic product (GDP) in 2018 was 7.28% (BPS, 2019). This contribution value is more than economic growth of Indonesia at the same year, i.e 5.2%. In addition, the existence of creative industry can reduce income inequality especially in emerging countries (El-Gohary, 2010; Suryana, 2013). The creative industry can be defined as an industry whose main elements are creativity, expertise and talents that have the potential to increase welfare through the offering of intellectual creations (Simatupang, 2011). Like the other industries, the creative economy sector SMEs cannot compete in the global market anymore by only relying on price or product quality, but they must compete based on technology, innovation and creativity (Esti & Suryani, 2008). The effort to develop the creative industry has several strategic challenges and issues to be considered (Howkins, 2003; Teodorescu *et al.*, 2015; Heiss, 2017) namely: (a) availability of creative resources; (b) availability of natural resources; (c) the existence of a number of creative industry that is competitive, growing and diverse; (d) availability of financing sources; (e) expanding the market for creative economy products; (f) availability of infrastructure and technology; and (g) institutional support. In addition, the

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development of creative industries must be supported by innovation capabilities, both individuals and organizations (Terziovski, 2010; Munizu *et al.*, 2019).

The creative industry can be developed rapidly through the support of government and other stakeholders such as universities and the private sector (Satria & Prameswari, 2011; Kharlamova & Gumenna, 2018). Another finding reported that creative industry has a significant role for the absorption of labor. SMEs in the creative economy sector are an alternative source of income for the community to improve their welfare (Pintilii *et al.*, 2017). Tambunan (2010) stressed that SMEs in the creative economy sector must be developed continuously by government and other stakeholders since this sector can absorb significant number of labors, thereby reducing the number of unemployed and the level of poverty. In addition, this business has the potential to be one of the driving forces for export growth, particularly in the manufacturing sector in Indonesia. Involvement and collaboration among actors in the creative industry such as intellectuals, business, and government is very important in developing the competitiveness of creative sector SMEs in Indonesia (Fristia & Navastara, 2014). Empirically, some studies have been found that competitiveness of SMEs is influenced by external and internal factors in the organization. Socio-economic aspects, government support, advances in information technology, and the level of competition are important elements that affect business competitiveness and performance (Muller *et al.*, 2009; Hamid & Susilo, 2011). In addition, internal factors consist of aspects of the organizational resources and capabilities such as raw materials, labor, production technology, finance, marketing, and others capabilities are important components in supporting increased competitiveness and organizational performance (Hameed, 2009; David, 2015). Organizational resources can also affect strategy and action in organization when they compete in a dynamic business environment (Barney, 2014; Tanny & Putri, 2017). Organizational capabilities can create add value to customer value chain, diversify products or develop new markets. Successful organizations would be seen on their abilities to generate sales, profits and market share. Thus, strategy is a representation of a phenomenon that triggers the achievement of organizational competitive advantage in the global environment (Barney, 1991; Hameed, 2009; Mahmood & Hanafi, 2013).

Based on the description above, the purpose of this study is to determine the implementation level and condition of external environmental, organizational resources, organizational capabilities, and competitiveness of creative sector SMEs. Then, to formulate priority strategy in enhancing SMEs's competitiveness primarily at creative economy sector in Indonesia.

2. Literature Review

2.1. External Environment

Conceptually, the external environment consists of a number of factors that lies outside the organization. These factors have great potential in influencing activities of each organization to achieve its goals. The external environment factors are very dynamic and uncertainty. Therefore, design and formulate organizational strategy must be initiated with an analysis on external environment to determine the opportunities and threats the company will be faced in the future (Riyanti, 2003; Wheelen & Hunger, 2012). The elements of external environment consist of macro environment and micro environment which directly or indirectly affected business activities. Every manager of organization must be able to analyze the dynamics of external environment as fundamental information in formulating corporate strategy and policies. A number of studies have been reported that external environment factors which consist of socio-economic, cultural and political aspects directly affected competitiveness as well as company performance. In addition, industrial environmental factors such as competitors, suppliers, markets, and technology also affected competitiveness and business performance (Kamble, 2010; David, 2015).

2.2. Organizational Resources

Managers must be able to maximize their capabilities in using organizational resources to achieve the company's goals. Optimization of organizational resources can support a company's competitive position in the global market (Madhani, 2009). Organizational resource includes tangible assets and intangible assets such as expertise, organizational processes, attributes, information and knowledge. Organizational resources used efficiently and effectively have an impact on organizational competitiveness and performance (Barney, 1991). Organizational resources could be divided into two groups, namely human resources and non-human resources. Non-human resources include some aspect like raw material, machine and equipment, patents, brands, capital, and marketing (Ribeiro *et al.*, 2018). Moreover, organizational resources include some aspects such as raw material, labor, production technology, and marketing. These aspects are important elements in creating company's competitiveness (Wandrial, 2012). Analysis on internal resources of organization is very important in formulating the company's competitive strategy. Internal environmental analysis can provide some information to decision makers related to the organizational strengths and weaknesses. Information collected from this analysis will be used as basis data for formulating company strategy (Wheelen & Hunger, 2012). Competitiveness position is influenced by the capacity of organizational resources. Unique and different resources can support the company's competitive advantage in the long-term. Due to this statement, each organization must be able to manage its resources optimally to create competitive advantage, and achieve superior company performance compared to competitors in the global market (Stanisavljev *et al.*, 2009; Ismail *et al.*, 2013; Barney, 2014).

2.3. Organizational Capabilities

Barney (2014) explained that capability is the main source to achieve competitive advantage in the long term. Capability relates to the organization's ability to optimize their organizational resources to achieve goals. Organizational capabilities

can include all organizational capabilities in developing human resources, improving the quality of products and services, using information technology and communication (ITC) in producing goods and services, and the ability to build partnerships with all members in the supply chain system (Munizu *et al.*, 2019). Related to organizational capabilities, Henri (2006) revealed that organizational capabilities can be viewed as a strategy that can lead every company to achieve both competitive advantage and best company performance. Several empirical findings suggested that organizational capability has a positive effect on competitive advantage. Organizational capabilities also related to the level of knowledge and skill from managers within an organization. Organizational capabilities organized well can generate level of performance and competitiveness better than competitors (Absah, 2008). Furthermore, some studies also have been found that organizational capabilities which include organizational culture and quality management have a significant effect on competitive advantage (Budiastuti, 2011). Innovation and creativity are important organizational capabilities, because they can increase competitive advantage and business performance as well (Mulyana & Sutapa, 2014).

2.4. Company Competitiveness

Company competitiveness related to the organization ability to provide products and services that are better than competitors on the elements of price, quality, flexibility, and speed of product delivery to customers (Barney, 1991; Jacob & Chase, 2014; Heizer *et al.*, 2017). Each organization can achieve a high competitiveness through optimal utilization of company resources. Both tangible and intangible organizational resources are important elements in increasing competitiveness as well as company performance (Priscilla, 2018). External environmental condition that are very dynamic, rapidly changing in consumer taste, and high competitive environment has forced each company to produce a quality products and services, also available quickly. Thus, in order to exist and survive in the global market every company including SMEs must have better competitiveness than their competitors in all aspects (Hall *et al.*, 2008; Murray *et al.*, 2011; Agyapong *et al.*, 2016; Adiputra & Mandala, 2017). Competitive advantage can be viewed as a dynamic process and changes according to the capacity and resources of the organization, so it must be managed continuously and sustainably. Therefore, each company needs the right strategy and actions to win the competition in the global market (Porter, 1990).

3. Methods

This study was conducted in two center areas of creative industry sector in Indonesia, namely South Sulawesi Province and East Java Province. The unit analysis of this study was owners or managers of creative industry. Sampling method used simple random sampling technique, while determination of minimum sample size was used by SLOVIN formula at error rate of 10%. Based on this formula, the minimum sample size was 99 business units. However, to obtain a high level of population representation, the number of samples was 200 business units. It included 100 samples from South Sulawesi area, and 100 samples from East Java.

Table 1

Results of Validity and Reliability Test

Variables	Items/ Indicators	Results Test		
		Correlation Coefficient	Cronbach Alpha (α)	Description
External Environment (X_1)	EE-1	0.783	0.752	Valid ($r > 0.30$) & Reliable ($\alpha > 0.60$)
	EE-2	0.619		
	EE-3	0.581		
	EE-4	0.321		
	EE-5	0.479		
	EE-6	0.548		
Organizational Resources (Y_1)	OR-1	0.656	0.760	Valid ($r > 0.30$) & Reliable ($\alpha > 0.60$)
	OR-2	0.635		
	OR-3	0.453		
	OR-4	0.431		
	OR-5	0.476		
Organizational Capability (Y_2)	OC-1	0.703	0.823	Valid ($r > 0.30$) & Reliable ($\alpha > 0.60$)
	OC-2	0.669		
	OC-3	0.577		
	OC-4	0.667		
Business Competitiveness (Y_3)	BC-1	0.449	0.767	Valid ($r > 0.30$) & Reliable ($\alpha > 0.60$)
	BC-2	0.558		
	BC-3	0.520		
	BC-4	0.871		
	BC-5	0.700		
	BC-6	0.311		

Source: data processed (2020)

In addition, to formulate a precise strategy for developing creative business sector, 10 key informants were selected to participate at focus group discussion (FGD) activities for strategy formulation. These informants come from various elements of stakeholders i.e. local governments, entrepreneurs, universities/ colleges, and business associations. This study used both primary data and secondary data. Primary data is collected through questionnaire techniques, FGD, and interviews, while secondary data is collected from some documents that related to this study. In accordance with research procedures, questionnaire in data collection must be tested its validity and reliability. Test of validity is performed by

Pearson Product Moment Correlation method, where each indicator can be said valid if it has a correlation value more than 0.30. Then, reliability test is carried out by using Cronbach Alpha coefficient (α). Variables or constructs can be said reliable, if they have α value more than 0.60 (Hair *et al.*, 2006; Sugiyono, 2013). Briefly, the results validity and reliability test can be presented in Table 1. Based on the results shown in the table above, it can be seen that all items have a correlation greater than 0.30, and value of Cronbach's alpha for each variable was greater than 0.60. Thus, it can be concluded that questionnaire used in this study has a high level of validity and reliability. Furthermore, this study used two types of analyzes i.e. descriptive statistic analysis, and Analytical Hierarchy Process (AHP). Descriptive statistic intended to reveal respondents and variables profile in the form of mean value and percentage (%), while Analytical Hierarchy Process used to formulate priority strategies based on complex criteria (Saaty, 2000). Then, data calculated by using both IBM SPSS, and Expert Choice software.

4. Results and Discussion

4.1. Description of Respondent Characteristics

Description of respondents is produced from descriptive statistical analysis. The analysis reveals respondent profile based on gender, age, education level, position in the company and length of business. Completely, the results can be seen in Fig. 1 below.

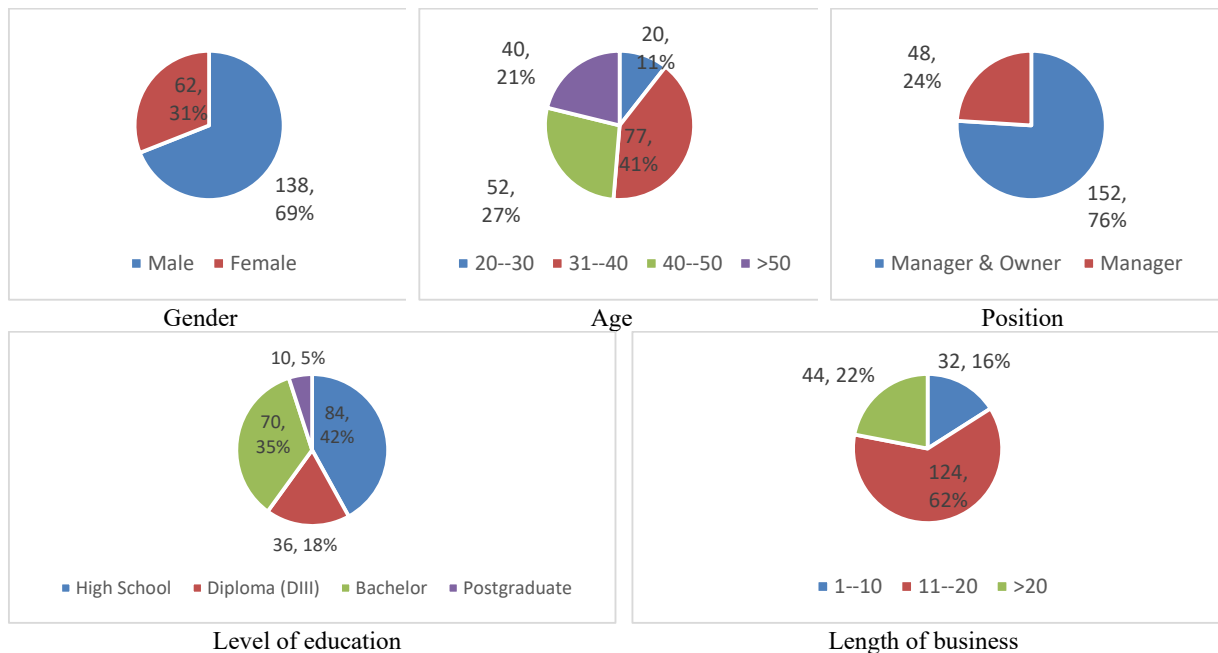


Fig. 1. Description of Respondents

Source: data processed (2020)

The results presented show that most of respondents in this study were man i.e. 138 people or 69%, while women included 62 people or 31%. Based on age, most of respondents were between 31-50 years old i.e. 70% or 140 people. Then, in terms of educational level the respondent dominantly have high school graduates i.e. 84 people or 42%, while the rest were respondents who had diploma, undergraduate and postgraduate level. The data also provided information that creative sector SMEs is managed by owners as well as managers (76%). Most of respondents have done their business for 11-20 years (62%).

4.2. Description of Research Variables

The results of descriptive statistical analysis also describe the level of implementation of variables and indicators based on respondents' perceptions. Variables of this study consist of external environment (X1), organizational resources (Y1), organizational capabilities (Y2), and business competitiveness (Y3). External environment variable has 6 indicators that measure it, namely, EE1 - EE6. Then, internal resource has 5 indicators i.e. OR1 - OR5. Furthermore, organizational capability has 4 indicators, namely OC1 - OC4. In addition, business competitiveness variable has 6 indicators i.e. BC1 - BC6. For interpretation purpose easealy, then level of implementation of research variables was grouped into five categories, namely: (1) 1.00-1.80 = very good / very high / very important; (2) 1.81-2.60 = good / high / important; (3) good enough / high enough / important enough; (4) less good / low / less important; and (5) not good / very low / not important. Briefly, the results of descriptive analysis on items/ indicators and research variables can be seen in Table 2. Data presented in

Table 2 has revealed that socio-economic aspect (EE-1) indicator has the highest average value (4.18), whereas competitor's aspect in the market (EE-4) indicator represents the lowest score (3.30) on variable of external environment (X1).

Table 2
Description of Items and Research Variables

Variables	Items/ Indicators	Mean	Description
External Environment (X ₁)	EE-1	4.18	Good
	EE-2	4.10	Good
	EE-3	3.87	Good
	EE-4	3.30	Good enough
	EE-5	4.02	Good
	EE-6	3.90	Good
Organizational Resources (Y ₁)	OR-1	3.96	Good
	OR-2	4.14	Good
	OR-3	4.19	Good
	OR-4	3.26	Good enough
	OR-5	3.18	Good enough
Organizational Capability (Y ₂)	OC-1	3.89	Good
	OC-2	3.35	Good enough
	OC-3	3.67	Good
	OC-4	4.11	Good
Business Competitiveness (Y ₃)	BC-1	3.92	Good
	BC-2	3.38	Good enough
	BC-3	3.36	Good enough
	BC-4	3.96	Good
	BC-5	3.39	Good enough
	BC-6	3.28	Good enough

Source: data processed (2020)

Then, market and marketing network aspects (OR-3) has the highest average value (4.19) while indicator of production technology (OR-4) has the lowest, score (3.26) on organizational resource variable (Y1). Data in the table also showed that ability to build external partnerships with suppliers, distributors, and customers (OC-4) on organizational capability variables (Y2) has a higher average value than others (4.11), whereas indicator of ability to develop products (OC-2) has the lowest average value (3.35). Moreover, indicator of cost/price aspect (BC-1) has a higher average value than others (3.92) while product innovation aspect indicator (BC-6) has the lowest average value (3.28) on business competitiveness variable (Y3). Therefore, it can be concluded that there are several important aspects that need to be improved by creative industry sector to increase their competitiveness, namely aspect of competitor analysis and level of competition in the market, aspect of production technology, aspect of ability to develop products and service, and aspect of product innovation within each organization/ company.

4.3. Results of Analytical Hierarchy Process

Determination of priority strategic factors in developing of business competitiveness of creative industry sector is carried out with Expert Choice 11 software. The results of analysis can be presented in Table 3 as follows.

Table 3
Determinant Factors for Developing Creative Industry Competitiveness

No	Determinant Factors/Criteria	Weight	Priority
1.	Social and economic aspect (EE-1)	0.148	2
2.	Advances in information technology and communication (EE-2)	0.087	4
3.	Access capital & assistance from the government (EE-3)	0.063	8
4.	Competitor aspect (EE-4)	0.026	12
5.	Supplier aspect (EE-5)	0.081	5
6.	Consumer/ market aspect (EE-6)	0.041	10
7.	Material aspect (OR-1)	0.023	13
8.	Labor (OR-2)	0.029	11
9.	Marketing network (OR-3)	0.065	7
10.	Production technology (OR-4)	0.021	14
11.	Capital aspect (OR-5)	0.009	15
12.	Ability to develop human resources (OC-1)	0.119	3
13.	Ability to improve product and service (OC-2)	0.044	9
14.	ITC using in production and service management (OC-3)	0.075	6
15.	Ability to develop partnership with supplier, distributors, and customers (OC-4)	0.169	1

*) Inconsistency Ratio (0.04 < 0.10 = fit)

The results of Table 3 reveal that there were five important factors as priority program for developing creative industry competitiveness. The first program related to the ability to improve partnerships with suppliers, distributors, and customers with the highest factor weight value (0.169). Then, it is followed by social and economic analysis as second program (0.148), improving the ability to plan human resource development as third program (0.119). Adoption of advances information technology and communication as the fourth program (0.087), and management of supplier product and service as the fifth program (0.081). Additionally, there were ten priority programs that can be considered by SMEs to gain better competitiveness in global environment.

4.4. Development Strategy of Creative Industry Competitiveness

Competitiveness development strategy is directed at three priority strategies, namely ability to use opportunity from external environment factor, optimization of the organizational resources, and organizational capabilities improvement. The results of analysis is showed in Table 4 as follows.

Table 4
Priority Strategies for developing the Competitiveness of Creative Industry

No	Priority Strategies	Weight	Priority
1.	Organizational capability (OC)	0.443	1
2.	External Environment (EE)	0.387	2
3.	Organizational Resource (OR)	0.169	3

*) Inconsistency Ratio ($0.02 < 0.10 = \text{fit}$)

The results show that primary strategy in developing creative sector SMEs competitiveness was more concern to strengthen organizational capabilities (0.443), followed by the external environment factors (0.387) and the improving the organizational resources (0.169). Furthermore, the results of analytical hierarchy process (AHP) also specifically revealed that there were three important elements in organizational capability variable that must be considered i.e. the ability to build partnerships with suppliers, distributors and consumers (0.415), the ability to plan HR development (0.293), and the ability to use ITC in production and services (0.185).

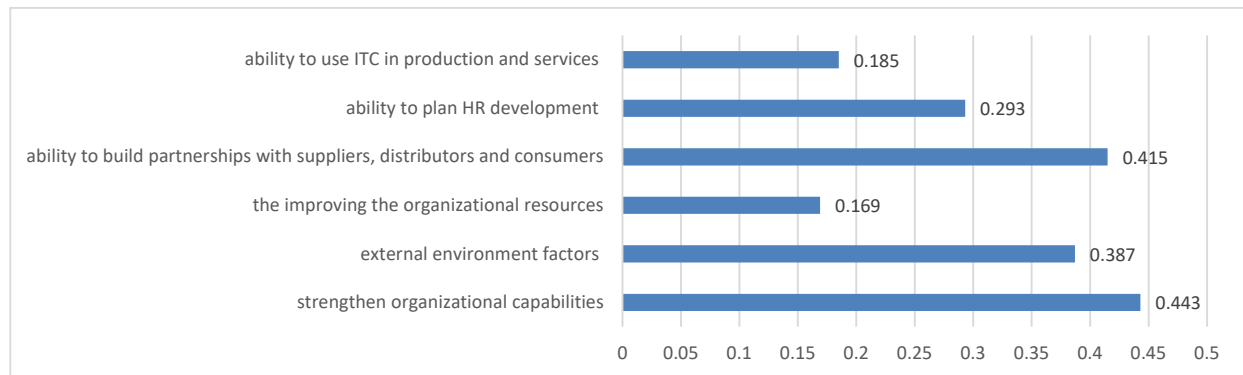


Fig. 2. Priority Elements of external environment variable (Inconsistency = 0.04)

Source: data processed (2020)

Then, in the variabel of external environment, three important elements that must be considered related to competitive development of creative industry sector i.e. social and economic aspect (0.331), the use of information technology and communication in production and services (0.195), and management of suppliers (0.181) (See Fig. 3). Furthermore, the development of creative industry competitiveness through organizational resources variable consists of three important elements, namely marketing network (0.440), development of human resources capacity (0.201), and raw material availability (0.160). The results of analysis completely can be presented in Fig. 3.

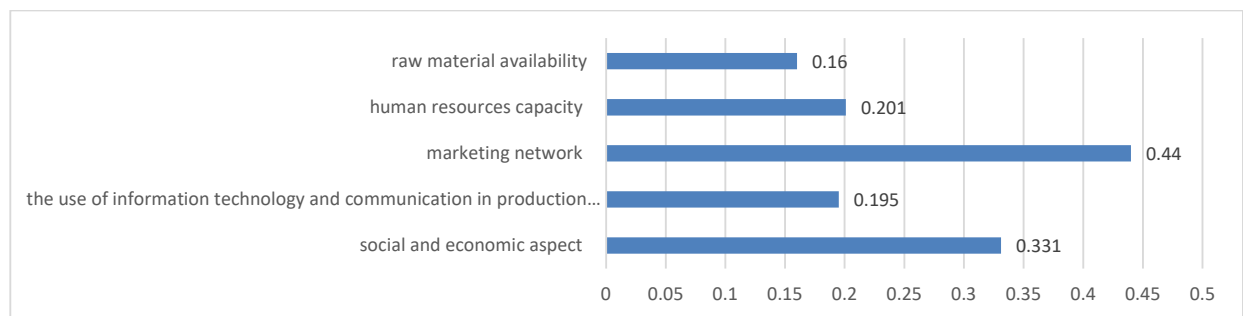


Fig. 3. Priority Elements of organizational resources variable (Inconsistency Ratio = $0.09 < 0.10 = \text{fit}$)

Source: data processed (2020)

The results of this study in line with some previous findings which stated that organizational capability is an important variable that must be continually improved by companies in order to generate sustainable competitiveness. The ability of management in developing human resource within organization, improving product and service, using information technology and communication (ITC) in production and customer service, and the ability to build strategic partnerships in supply chain system is important weapons for companies to survive and compete in the global market (Najib & Kiminami,

2011; Agyapong *et al.*, 2016; Munizu *et al.*, 2019). The ability of organization in creating partnerships with suppliers, distributors, and customers is one of key factors in supporting business sustainability, in the short term and long term. Strategic partnership is a key element in creating an effective supply chain system. The effective supply chain will be generated best result that obtained by all supply chain members in terms of business competitiveness as well as performance (Terziovski, 2010; Satria & Prameswari, 2011; Munizu *et al.*, 2017; Adiputra & Mandala, 2017). Capabilities of management in formulating a number of activities for human resources development, and raising of information technology and communication in production and service field will be increased business performance and company competitiveness. In addition, the results of this study emphasized on the importance of management's ability to take some opportunities which created by the external environment dynamics. These finding support some previous studies that suggest the important of management capacity and using of technology as competitive weapon in dynamic business environment (Hamid & Susilo, 2011; Kiziloglu, 2015; Roostika *et al.*, 2015). The findings of this study are in line with previous results that emphasize the importance of analyzing socio-economic aspects, utilizing technological advances, analysis of competitors, suppliers and markets because these elements can affect the competitiveness and performance of the company (Terziovski, 2010; Roostika *et al.*, 2015; Kharlamova & Gumenna, 2018). The findings of this study also consistent with Porter (1990), Barney (1991), and Wheelen & Hunger (2012) which confirmed that company competitiveness would be determined by management's ability to analyze both external and internal environment as a basis for formulating competitive strategies within organization. Therefore, a number of skill and ability of managers of creative industry sector in translating opportunities could be important elements and strategic as fundamental aspect to develop the competitiveness of creative industry sector, especially during the covid-19 pandemic and in the future.

5. Conclusion

The findings of this study have indicated that value of creative industry competitiveness has relatively declined during covid-19 pandemic. Although external environment support, organizational resources, and organizational capabilities were at good shape. The priority strategy that must be carried out i.e. strengthening organizational capabilities by considering the dynamics of external environmental factors and internal resource capacity. Then, the priority programs developed sequentially are increasing partnerships with suppliers, distributors and customers, analyzing social and economic aspects, developing human resource capacity, and using information and communication technology in products and services. In addition, another important program is strengthening the supply chain system based on suppliers analysis and company environment. The results of this study provide some guidance for managers and owners of creative industry sector in formulating strategies, policies, programs and competitiveness recovery actions during the Covid-19 pandemic. Programs and activities must be focused on increasing strategic partnerships, adapting changes in the social and economic environment, developing human resources, utilization of advances in information and communication technology for production and services, and strengthening the relationships with suppliers in the context of managing supply chain in the dynamic environment.

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