Keywords:
Innovation Capabilities, Market Response Capabilities, Supply Chain Integration

Kata Kunci:
Kemampuan Inovasi, Kemampuan Respon Pasar, Integrasi Rantai Pasokan

Abstract. The potential for enhanced performance within the textile and apparel sector has the capacity to bolster the competitiveness of Indonesia's industry. This study examines the impact of innovation capability and market responsiveness on the adoption of supply chain financing through supply chain integration in the textile and apparel manufacturing sector in Indonesia. A sample of one hundred thirty-five managers from textile and apparel manufacturing companies was selected using random sampling methodology. Subsequently, the collected data was subjected to analysis using SmartPLS 3.0 software. The empirical findings suggest a positive relationship between the ability to innovate and the ability to respond to market dynamics, and the likelihood of adopting supply chain financing. The findings of this research hold the potential to offer valuable insights to managers operating within the textile and apparel manufacturing sector in Indonesia, enabling them to enhance company performance and bolster their competitive edge.

INTRODUCTION

The textile and apparel industry in Indonesia holds an outstanding position as the second most significant contributor to the nation's manufacturing growth. The improvement of Indonesia's logistics and supply chain is contingent upon a productive workforce, as explained by Kemenko (2021). Nevertheless, it is important to point out that the textile and apparel industry has encountered a multitude of hindrances, resulting in a decline in utilization across various industrial sub-sectors. This unfortunate circumstance has inevitably led to the regrettable termination of employment for many individuals (PHK) (Ministry of Industry, 2022).

The textile and apparel industry in Indonesia would greatly benefit from achieving optimal performance, as it would enhance the industry's competitiveness. The impact of numerous factory shutdowns on the supply chain is characterized by an inherent unpredictability (Dovbischuk, 2022). Henceforth, it becomes imperative to establish entrepreneurial enterprises that aid organizations in cultivating innovations rooted in the opportunities that emerge as a consequence of ever-evolving market dynamics, which shall persistently fluctuate (Muta, 2013). To enhance the competitive landscape in Indonesia, it is imperative for the textile and apparel sector to enhance their entrepreneurial organizational strategies through the adoption of a supply chain management framework. This approach will enable them to cultivate sustainable corporate performance and gain a distinct competitive edge (Manik et al., 2022).

Enhancing company performance can be achieved by effectively integrating the supply chain and embracing the utilization of supply chain financing. The objective of enterprise supply chain integration is to enhance the efficient management of resources within the supply chain network through collaborative efforts between upstream and downstream stakeholders. Similarly, companies that embrace supply chain financing aim to attain favorable performance in terms of their financing activities within the supply chain (Lu et al., 2020). The implementation of supply chain management activities aimed at attaining a competitive advantage may lead to cost reductions and enhance the overall competitiveness of a company (Kusumawati & Karjono, 2022).

In pursuing the development of a company's competitive advantage, as per the fundamentals of the Resource Based View (RBV) theoretical framework, firms have the ability to effectively administer a collection of complementary resources that are arduous for rivals to replicate, thereby upholding a competitive strategy (Barney, 1991). The role of companies in supply chain integration and the adoption of supply chain financing are significantly affected by the crucial factor of dynamic capability. It is using a combination of innovative capabilities and the ability to analyze market response that companies are able to adapt to the constantly changing business environment (Chumphong et al., 2020).

The capability for innovation is an essential aspect of a company's path into strengthening its level of competitiveness, subsequently leading to superior performance and the attainment of a competitive edge. The improvement of a company's capacity to effectively govern and foster innovation over an extended period of time is indeed one of the pivotal determinants in its overall success and growth trajectory (Wuttke et al., 2020). A lack of market response capability signifies a firm's work to rapidly determine and adapt to market demand, thereby effectively navigating changes in the market.

If a company is able quickly respond to market demand, it can enhance its performance through the establishment of solid and intimate customer connections (Lu et al., 2020). Hence, the availability of powerful innovation capabilities has the potential to enhance the competitive edge of a company.
within the supply chain network. Additionally, an increased degree of market responsiveness enables a company to more efficiently and expeditiously cater to the demands of the market.

This study attempts to find remedies for the challenges faced by Indonesia's textile and apparel industry, with a focus on focusing on the diminishing utility across various sub-sectors within the industry. Therefore, it is anticipated that this research will provide valuable insights for participants in the textile and apparel manufacturing sector, enabling them to enhance their competitive advantages and attain maximum efficiency.

The next part of the inquiry entails delineating the variables and formulating hypotheses, then proceeding to elaborate into the research methodology. Results and discussion shall be presented in subsequent sections, supported by research contributions, and the study shall conclude with a summary of research findings and academic suggestions.

**LITERATURE REVIEW**

**Resource-Based View (RBV)**

The resource-based view of the firm was first offered by Edith Penrose (1959), in her seminal work, "The Theory of the Growth of the Firm". Prior to the early 1980s, strategic management primarily centered around the industrial organization model, which drew inspiration from the theory of competitive advantage as proposed by Porter (1985). The accelerated proliferation and heightened significance of the resource-based view has been propelled by the emergence and formulation of two distinct models pertaining to sustainable competitive advantage (Barney, 1991). Resource-Based View (RBV) is used to see the potential between company resources and sustainable competitive advantage by executing strategies that exploit opportunities through internal strengths and avoid external threats and weaknesses (Barney, 1991). The existence of the RBV theory has played an essential role in helping organizations to create, maintain and maintain competitive advantage, as well as utilize resources as needed to have profitable competitiveness in the global market (Akwesi, 2019).

**Dynamic Capabilities**

Dynamic capability refers to the organizational procedure wherein a company effectively utilizes its resources and leverages its distinctive competencies, which are subject to periodic enhancements in response to changing circumstances. This strategic maneuver enables the company to sustain its competitive advantage over for a long time (Ruiz-Ortega et al., 2023). The integration of firm-specific competencies both internally and externally to navigate through periods of change can also be referred to as dynamic capabilities, as explained by Teece et al. in 1997.

**Supply Chain Management**

Supply chain management plays a crucial role in the various components of a company, covering the strategic planning, efficient execution, and effective oversight of a company's logistical operations (Attaran, 2020). The utilization of supply chain management in a proficient manner will lead to advantageous outcomes for companies, enabling them to make optimal decisions that align with the desired functionality of the supply chain (Fitri et al., 2019).

**Innovation Capability**
The concept of innovation capability pertains to a firm's effort to integrate its capacities and resources in order create transformative shifts (Vu, 2020). In the context of the swiftly changing market demands, it is imperative to acknowledge the significance of innovation capability in comprehending the complicated nature of supply chain changes for the purpose of enhancing competitive processes and fostering company growth, thereby enhancing performance and attaining sustainable competitive advantage (Wuttke et al., 2020). Indicators of innovation ability consist of (Songkajorn et al., 2020):
1. Product innovation capability, meeting customer needs by developing new markets and positioning the company's products according to the target market.
2. Process innovation capability, giving the company a competitive advantage to customers so that they can see the benefits clearly while encouraging customers to buy a product.
3. Market innovation capabilities are an essential source of strategic advantage and are often invisible to the firm's market.

**Market Response Capabilities**

Market response capabilities are an essential element of an organization's operational framework, enabling it to effectively engage in competition by promptly adapting to the ever-changing market demands (Garrett et al., 2009). The utilization of market response capabilities within an organization has the potential to enhance the organization's endurance by demonstrating adaptability to dynamic market conditions (Luu, 2017). Therefore, in the event that an organization possesses the capacity to exhibit proactive behavior in identifying market fluctuations and subsequently capitalizing on market demand, said organization will exhibit an elevated degree of market responsiveness (Aljanabi & Ghafour, 2021). Market response capabilities indicators adapted from (Kohli et al., 1993) regarding the market orientation scale that reflects market response capabilities:
1. Intelligence generation, collecting requests for market needs and following up on those market needs.
2. Intelligence dissemination, refers to the process of reaching market information within an organization that occurs formally or informally.
3. Responsiveness, is the action of taking responses to market demand needs based on speed and coordination within an organization.

**Adoption of Supply Chain Financing**

The adoption of supply chain financing represents an attempt at strategy aimed at mitigating excessive expenses that have a negative effect on the performance and decision-making processes within the supply chain (Wang et al., 2020). The main goal in maximizing the implementation of supply chain financing is to minimize the aggregate expenditure of the supply chain, particularly the capital expenses (Wang et al., 2020). Supply chain financing adoption indicators consist of (Caniato et al., 2016):
1. Traditional financing involves low-level digitization of the trading process.
2. Innovative financing involves high-level trading process digitization with analysis of the entire supply chain.
3. Collaborative supply chain, optimizing working capital and focusing on inventory by collaborating between supply chain actors.

In the context of Indonesia's textile and apparel industry, it is imperative for companies to have an excellent innovation capability. This capability enables firms to understand the complex processes of change and afterwards boost their overall company performance (Leo et al., 2022). The enhanced capacity for innovation can significantly enhance the competitiveness of firms within supply chain
networks, thereby facilitating their access to capital through the utilization of supply chain financing (Lu et al., 2020). The competitiveness of companies within the supply chain network can be significantly enhanced by an effective innovation capability. This, in the end, facilitates the raising of funds through the adoption of supply chain financing, as emphasized by Lu et al. (2020), who assert that the adoption of supply chain financing is influenced by the extent of innovation capability. Based on the literature review above, the researcher proposes the following hypothesis:

**H1: The ability to innovate positively affects the adoption of supply chain financing.**

In the context of the Indonesian textile and apparel industry, the effectiveness of market response capabilities assumes an essential function in maximizing the utilization of supply chain financing within a firm, thereby facilitating fast and effective fulfillment of customer demands. This, in addition, optimizes the process of establishing collaborative partnerships with relevant business networks (Lu et al., 2020; Chang et al., 2013). This is supported by previous research (Lu et al., 2020), which stated that market response capability influences the adoption of supply chain financing. Based on the literature review above, the researcher proposes the following hypothesis:

**H2: Market response capability has a positive effect on the adoption of supply chain financing.**

![Figure 1. The conceptual framework](image)

**METHODOLOGY**

The analysis applied a quantitative research design, utilizing primary data collected from two distinct independent variables: innovation capability (X1) and market response capability (X2). The dependent variable, adoption of supply chain financing (Y1), was assessed through the distribution of questionnaires in the form of electronic surveys using Google Forms. The participants in this research were of managers from textile and garment manufacturing enterprises located in Indonesia. The study implemented a random sampling procedure to choose a sample of 135 participants, which was then subjected to processing and analysis using the Hair formula (Hair et al., 2010). In the research conducted by Wibowo et al. (2023), a 7-point interval scale was used for assessing each topic, with a rating of 1 indicating "strongly disagree" and a rating of 7 indicating "strongly agree."

The current study applies the technique of Structural Equation Modeling (SEM) with measurements conducted via the Partial Least Square (PLS) approach. The objective is to acquire insights regarding the impact of the independent variable on the dependent variable, specifically in the context of moderation. This moderation analysis is executed through the utilization of a bootstrapping procedure, as described by Nasution (2020).
The implementation of SEM-PLS will be conducted in a tripartite manner, consisting of three distinct stages: the analysis of the outer model, the examination of the inner model, and the application of blindfolding. The user's text can be rewritten as follows: The analysis of the external model used measures of convergent validity, discriminant validity, and reliability. Meanwhile, the analysis of the internal model utilized the R square and F square tests. Additionally, the external model analysis also incorporated measures of convergent validity, discriminant validity, and reliability. Moreover, the internal model analysis employed the R square and F square tests. Lastly, a blindfold analysis was conducted, which involved the application of Q square testing.

RESULTS AND DISCUSSION

![Figure 2. Outer model](image)

Table 1

<table>
<thead>
<tr>
<th>Item</th>
<th>Factor Loading</th>
<th>Cronbach's Alpha</th>
<th>Composite Reliability</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>X1.1</td>
<td>0.759</td>
<td>0.888</td>
<td>0.913</td>
<td>0.600</td>
</tr>
<tr>
<td>X1.2</td>
<td>0.734</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X1.3</td>
<td>0.798</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X1.4</td>
<td>0.744</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X1.5</td>
<td>0.774</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X1.6</td>
<td>0.852</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X1.7</td>
<td>0.754</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X2.1</td>
<td>0.755</td>
<td>0.827</td>
<td>0.874</td>
<td>0.536</td>
</tr>
<tr>
<td>X2.2</td>
<td>0.730</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X2.3</td>
<td>0.760</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X2.4</td>
<td>0.688</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X2.5</td>
<td>0.732</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>X2.6</td>
<td>0.724</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Y1.3 0.751 0.894 0.915 0.618
Y1.4 0.824
Y1.5 0.754
Y1.6 0.712
Y1.8 0.578
Y1.9 0.823
Y1.10 0.792

Based on Table 1, it can be seen that the acquisition of the outer model analysis that has been carried out through the smartPLS 3.0 program is as follows:

1. Convergent Validity must have an outer loading value > 0.7, but an outer loading value of 0.5 to 0.6 is still acceptable (Ghazali & Nordin, 2019). In this study, the outer loading value of each variable item has a value of > 0.6, so it can be concluded that it has fulfilled convergent validity so that it can test the variables studied. However, three indicators are eliminated because they have a value < 0.6.

2. Discriminant Validity must have an AVE value > 0.5 to state a good model (Hair et al., 2019). In this study, the AVE value was > 0.5, so it can be concluded that it has good Discriminant Validity.

3. Reliability Variable must have a Cronbach's alpha value > 0.6 and composite reliability > 0.7 (Hair et al., 2019). In this study, Cronbach's alpha > 0.6 and composite reliability > 0.7, so it can be concluded that it has good reliability.

![Figure 3. Inner model](image-url)

R square in the variable supply chain financing adoption has a value of 0.771 or (77%), in the sense that the influence of innovation capabilities and market response capabilities on supply chain financing adoption of textile and apparel industry manufacturing companies is 77%, while the remaining 23% is influenced by other variables not mentioned on this study. Based on test blindfolding using Q square measurement ($Q^2$). This study has shown that the variable supply chain financing adoption has predictive relevance with a $Q^2$ value of 0.416. So, it can be concluded that the variable supply chain financing adoption is included in the category of predictive relevance because the $Q^2$ > 0.25.
Based on Table 2, hypothesis analysis can be carried out if the probability value has a significant alpha 5% < 0.05, the T-Table value for alpha 5% is 1.96, and a significant value if the p-value < 0.05. The following are the results of hypothesis testing in this study:

The first hypothesis tests innovation capability on adopting supply chain financing with a statistical T value of 4.989, so the statistical T value is > 1.96. Whereas the p-value has a value of 0.000, it can be said that the p-value is <0.05. Based on these results, the first hypothesis is accepted because innovation capability significantly affects the adoption of supply chain financing in textile and apparel manufacturing companies in Indonesia.

The second hypothesis tests the ability of the market to respond to the adoption of supply chain financing with a T statistic of 3.365, so the T statistic is > 1.96. At the same time, the p-value has a value of 0.001, so the p-value is <0.05. Based on these results, the second hypothesis is accepted because market response capability significantly affects the adoption of supply chain financing in textile and apparel manufacturing companies in Indonesia.

**DISCUSSION**

The objective of this study was to investigate the impact of innovation capability and market response capability on the adoption of supply chain finance within the textile and apparel sector in Indonesia. The first hypothesis posited in this study asserts that the presence of innovation capability would result in a heightened propensity for the adoption of supply chain finance. According to a study done by Lu et al. (2020), the presence of innovative capabilities enhances competitive advantage, leading to heightened productivity and increased profitability for organizations. This can be achieved through the implementation of supply chain finance, which effectively mitigates financing challenges.

The capacity to engage in innovation plays a crucial role in the decision-making process of organizations when considering the implementation of supply chain finance. This assertion is supported by the findings of Wang et al. (2020), who show that the implementation of supply chain financing has the potential to enhance a firm's financial performance across the whole spectrum of the supply chain, spanning from upstream to downstream. Moreover, according to Teofilus et al. (2020), the presence of innovation skills inside firms can facilitate the exploration of new markets for the development of novel services or products. The results of this study are supported by previous research conducted by Lu et al. (2020), in which it was said that the presence of innovation capacity has a favorable and substantial influence on the adoption of supply chain finance.

The study's second hypothesis proves the adoption of supply chain finance is positively influenced by market response capabilities. Referring to a study done by Lu et al. (2020), it has been shown that there appears a positive and significant relationship between innovation capabilities and the use of supply chain finance. According to study using lower-cost finance in the supply chain process. Market reaction capability is an important consideration for businesses considering supply chain finance. This is supported by (Wuttke et al., 2019), who describe how implementing supply chain finance may improve...
supply chain financing efficiency. Furthermore, it is said that the availability of innovative skills can boost a company’s long-term competitiveness (Mendoza-Silva, 2020). The findings of this study are corroborated by previous studies by (Lu et al., 2020), which concluded that market response capability has an advantageous and significant impact on supply chain financing adoption.

Conclusion

The findings of this study show that the adoption of supply chain financing is significantly influenced by the capabilities of innovation and market response. The optimization of supply chain financing adoption in the textile and apparel manufacturing sector in Indonesia can be achieved through the enhancement of innovation capability and market response capability. This would result in a reduction of inappropriate financing and subsequently lower costs throughout the supply chain process, spanning from upstream to downstream. Nevertheless, it is imperative for corporations to enhance the integration of their supply chains, thereby fostering internal and external coordination, in order to improve both supply chain performance and overall company performance in effectively meeting the demands of the market.

For prospective researchers interested in conducting further investigations, it is advisable to undertake comprehensive research on additional variables beyond those examined in this study, specifically pertaining to the adoption of supply chain financing. This would enable the exploration of potential influences of other variables on the adoption of supply chain financing. The researchers express their aim for future investigations to encompass a wider range of subjects, irrespective of the particular sector under study.

REFERENCES


