The Effect of Strategic Orientation on The Competitive Advantage and Business Performance: A Case of Batik SMEs

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Abstract

Purpose: In Indonesia, there is one specific type of SME (Small and Medium-Sized Enterprise) that is part of the nation's cultural heritage, namely Batik SME (Batik is a traditional fabric). This study aims to determine the effects of Strategic Orientation on the bussiness performance and competitive advantage of SMEs of Batik in Central Java, Indonesia.

Methodology: The method of this study was explanatory survey method with a type of decompression-verification study from primary data obtained from SMEs Batik with a and using PLS SEM in analyzing the data of the book.

Results: The results of this study indicate that Strategic Orientation with Path coefficient (β) = 0.32 P value <0.001 (<α = 0.05), have a positive effect on Competitive Advantage with coefficient (β) = 0.46, P value <0.001 (<α = 0.05) which implies on the performance of SMEs of Batik.

INTRODUCTION

In Central Java Province, Indonesia, there is one specific type of SME (Small and Medium-Sized Enterprise) that is part of the nation's cultural heritage, namely Batik SME (Batik is a traditional fabric). Almost all regions in Central Java have various characteristics (motifs) of batik. The development in this field is dominated by certain regions and batik motifs that have been known so far, such as Solo batik, Pekalongan batik, Lasem batik, Semarangan batik, Magelang batik, and Banyumasan batik. Its distribution at the same time represent six regions of Central Java.

With the development of the global business environment in the AEC (ASEAN Economic Community) era, the development of highly competitive SME is absolutely necessary. SME can not compete optimally in the global realm if do not have innovation power and technological capabilities. This condition makes SME unable to compete in national business, because the limitations of SME including the size of business units, market orientation, innovation, capital capacity development, production technology, and product marketing (Tambunan, 2004). In addition, according to (Tambunan 2004), the limited knowledge of human resources (HR), capital and technology is one of the main factor of the low competitiveness of SME products from large industries which then affect the performance of SMEs. In this case, what is discussed in more depth are market orientation and innovation.

According to Slater and Narver (1995), companies that have made market orientation an organizational culture will focus on external market needs, market wants, and demands. They are used as basis of developing strategies for each business unit in the organization and determining the company's success. Besides market orientation, innovation also influences company performance. Han et al (1998), said that innovation positively and significantly affected the company's performance. Innovation can also play a role as a mediator affecting the relationship between market orientation and company performance.

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Competitive advantage is the company's unique position to grow and face direct competition with competitors (Hofer & Schendel 1978). In order to gain a competitive advantage, batik SME needs to carry out business strategies, be creative and innovative, and to further empower intangible assets. In the global era, economic policy makers are trying to develop the intangible assets needed to achieve high success that have an impact on high-value activities (OECD, 2013). Rapid expansion and application of technological knowledge in various forms (research and development, technical changes realized with capital, human competence, and joint investments) are key features of the U.S. economic growth. The results of the study recommend that the inclusion of intangibles both as inputs and as outputs can have a large impact on economic growth (Corrado, Carol, and Sichel, 2006). Based on the background, this study try to analyze whether strategy, competitive advantage and its impact on the business performance of batik SMEs in Central Java.

LITERATURE REVIEW

SMEs

Republic of Indonesia Law Number 20 of 2008 on Medium, Small, and Micro Sized Enterprises in Article 1 states that:

a. Small Business
    A productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or branch companies that are owned, controlled, or become a part either directly or indirectly of medium enterprises or large enterprises that meet the business criteria small as referred to in this Act.

b. Medium Business
    A productive economic business that stands alone, which is carried out by individuals or business entities that are not subsidiaries or branch companies that are owned, controlled, or become a part either directly or indirectly with a small business or large business with a net worth or annual sales results as stipulated in this Law.

Business Performance

The business performance is defined as the level of achievement seen from sales growth, customer growth, and market coverage compared to competitors (Morgan, 2012). Business performance is reflected by having a rapid increase in the number of sales, exceed expectations volume growth, experiencing customer growth, exceed expectations sales growth, and has no obstacles in running a business.

Competitive Advantage

The concept of competitive advantage, according to Porter (1994), cannot be understood by looking at a company as a whole. It must be from the origin of competitive advantage, namely the different activities carried out by companies in designing, producing, marketing, submiting and supporting the product. Value chain analysis is more appropriate to examine competitive advantage than added value (selling price minus the cost of purchasing raw materials). Value chain analysis can determine the values that all activities, so the origin of the competitive advantage can be known.

Positional excellence is reflected in excellence in product innovation that matches consumer criteria. The criteria including trying to match the needs of consumers compared to competitors, giving consumers the benefits of the product, have a successful product entering the market, products on the market are faster than competitors, the right time strategy to put the product on

the market, have success in designing product uniqueness, success in making products that are different from competitors, has a unique product to be competitive, have successful products that provide more benefits than competitors, success in releasing ideas that benefit consumers, and having products that are beneficial beyond consumer expectations (Avlonitis and Salavou. 2007; Lisboa et al. 2011; Morgan 2012)

Strategic Orientation

Understanding Strategy is a tool to achieve goals. In its development, the concept of strategy continues to develop. This can be shown by the different concepts of strategy over the past 30 years. Porter in Rangkuti (2004:4) states that "Strategy is a very important tool to achieve competitive advantage".

Hamel and Pharalad (in Rangkuti, 2004:4) define that: "Strategy is an action that is incremental (constantly increasing) and continuous and is carried out based on the perspective of what is expected by customers in the future. Strategic planning almost always starts from "what can happen", not starting from "what happens". The speed of new market innovations and changes in consumer patterns require core competencies. Companies need to find core competencies in the business they do. To determine competitive strategies, companies must know their position in the industry. For the biggest companies, or market leaders, survival strategies are certainly more appropriate. For a market challenger, attack strategies are more appropriate. As for market follower companies, market follower strategies are more appropriate. Thus also for the nicher market, the right strategy is the nicher market.

METHODOLOGY

Type of Study

This study used explanative research method with quantitative approach. According to Sugiyono (2010), study according to the level of explanation is study that intends to explain the position of the variables studied as well as the relationship between one variable with another variable.

Population and Sample

Population according to Sugiyono (2010) is a generalization area consisting of objects or subjects that have certain qualities and characteristics determined by researchers to be studied and then drawn conclusions. Because the population of the Batik SMEs in Central Java are around 1,200, this study used sampling. Suggested suitable sample sizes range from 100-200 respondents (Hair et al 2010). Population characteristics for this study cannot be known with certainty, so the authors chose the Non Probability Sampling technique, which is a sampling technique by not providing equal opportunities for each element or member of the population to be selected as a sample

Variables

Variable is an attribute or nature or value of people, objects or activities that have certain variations determined by researchers to be studied and drawn conclusions (Sugiyono, 2010). This study has two types of variables namely:

1. Independent variables
   Variables that influence the dependent variable. The independent variables used in this study was strategic orientation.

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2. Dependent variable

Variables that is affected the existence of an independent variable. The dependent variable used in this study was competitive advantage and business performance.

Hypothesis

The authors offer this following hypotheses on the link between strategy orientation, competitive advantage, as well as business performance of batik SME

Hypothesis 1:

Ha: Strategy orientation has a positive effect on competitive advantage

H0: Strategy orientation has not a positive effect on competitive advantage

Hypothesis 2:

Ha: Competitive advantage has a positive effect on business performance

H0: Competitive advantage has not a positive effect on business performance

RESULT AND DISCUSSION

Descriptive Analysis of Respondent

Descriptive data displays a general description of respondents' answers in the questionnaire. Based on the responses of 200 respondents regarding the variables, the authors described in detail the respondents' answers which were grouped in descriptive statistics. The range of answers to the question dimensions for each variable was determined using the three-box criteria (three box method) by Augusty (2006). For ease of interpretation, the answer range was converted to 100. For this condition, the range of answers start from 15 to 100, where the range that occurs was 85. Furthermore, the range that occurs was divided by 3 and produced a range of 28.33 which be used as the basis for interpreting the index value, namely :

- Index value 15.00 - 43.33 = Low interpretation

- Index value 43.34 - 71.67 = Medium interpretation

- Index values 71.68 – 100 = High interpretation

Table 1 Index of Variables

No	Indicator	Customer Orientation Index							Index
		1	2	3	4	5	6	7	
1	Commitment on satisfaction of customer	0	0	0	4	3	88	105	92,42
2	Collecting information about need of customer	0	2	0	3	8	98	89	90,5
3	Learning how to satisfy customer	0	1	0	4	4	93	98	91,57
4	Complaint of customer	0	0	0	10	8	90	92	90,28
	Total Average								91,19
No	Indicator	Competitor Orientation Index							Index
		1	2	3	4	5	6	7	
1	Information about activities of competitors	2	5	0	40	27	106	20	77,35
2	Information about advantage of competitors	1	8	8	39	27	101	16	75
3	Strategy of competitors	1	14	12	52	23	84	14	70,71
4	Response of competitors	1	5	8	65	26	85	10	71,78
	Total Average								73,71

No	Indicator	Technology Orientation Index							Index
		1	2	3	4	5	6	7	
1	Adopt a new technology	0	12	6	30	25	96	31	77,14
2	As a pioneer of a new technology	1	19	11	68	34	47	20	66,85
3	Alocate resources for invest a new technology	0	11	12	58	34	68	17	70,5
	Total Average								71,50

No	Indicator	Cost Orientation Index							Index
		1	2	3	4	5	6	7	
1	Improving efficiency of operation to increase benefit	0	3	1	17	20	127	32	83,07
2	Strategy to reach economic scale	0	1	4	18	11	130	36	83,78
3	Ukuran Kinerja Berdasarkan Biaya	0	3	6	20	17	107	47	82,85
	Total Average								83,23
	Strategic Orientation Index								**79.91**

No	Indicator	Competitive Advantage Index							Index
		1	2	3	4	5	6	7	
1	Low Cost/ Cost Leadership	6	10	7	40	23	102	12	80,96
2	High Quality	0	0	2	20	6	112	60	82,224
3	Differentiation	0	2	3	16	22	120	37	83,488
4	Quick Response	0	0	3	16	11	119	51	84,752
5	In Imitable	0	4	4	55	35	69	33	86,016
6	Unsubstituted	0	9	5	57	26	72	31	87,28
7	The company have known	1	6	0	18	18	130	27	88,544
8	The product have known	0	4	2	29	22	126	17	89,808
	Total Average								85,38

No	Indicator	Bussiness Performance Index							Index
		1	2	3	4	5	6	7	
1	Sales growth	0	2	2	16	16	128	36	83,85
2	Profit growth	0	2	3	22	20	128	25	81,71
3	Market share growth	0	5	2	15	28	125	25	79,57
4	Growth in the number of shipment orders	0	4	2	9	22	140	23	77,43
5	Growth in supply to the market	1	3	7	8	25	120	36	75,29
	Total Average								79,57

From the table 1, it can be explained that the index on all variables shows a high interpretation because the index is bigger than 71.68.

Data analysis

Data processing techniques using SEM method based on Partial Least Square (PLS) requires two stages to assess the Fit Model of a research model (Ghozali, 2006). The stages are outer model and inner model:

Outer model (Measurement model)

The outer model was evaluated how the relationship between indicators and the variables authors measured. In this model includes three parameters used, namely convergent validity, disk validity and reliability.

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Convergent Validity Test

In this test, the authors used criteria by Solihin and Ratmono (2013) as follow:

3. Loading factor > 0.7 indicator was used, loading factor 0.4 to 0.7 indicators was considered, and loading factor < 0.4 indicator was not used

4. P value < 0.05 from results of the analysis using SEM-PLS 3.0 obtained the loading factor and P value as shown in the Table 2:

Table 2: Outer Loading (Convergent Validity)

Item / Indicator	Early Model		After Modification	
	Loading Factor	P value	Loading Factor	P value
CUST-ORI.1	0.794	<0.001	0.794	<0.001
CUST-ORI.2	0.749	<0.001	0.749	<0.001
CUST-ORI.3	0.784	<0.001	0.784	<0.001
CUST-ORI.4	0.828	<0.001	0.828	<0.001
COMP-ORI.1	0.740	<0.001	0.740	<0.001
COMP-ORI.2	0.853	<0.001	0.853	<0.001
COMP-ORI.3	0.877	<0.001	0.877	<0.001
COMP-ORI.4	0.847	<0.001	0.847	<0.001
TECH-ORI.1	0.843	<0.001	0.843	<0.001
TECH-ORI.2	0.799	<0.001	0.799	<0.001
TECH-ORI.3	0.901	<0.001	0.901	<0.001
COMP-ADV.1	0.358	<0.001	0.358	<0.001
COMP-ADV.2	0.597	<0.001	0.597	<0.001
COMP-ADV.3	0.609	<0.001	0.609	<0.001
COMP-ADV.4	0.620	<0.001	0.620	<0.001
COMP-ADV.5	0.742	<0.001	0.742	<0.001
COMP-ADV.6	0.725	<0.001	0.725	<0.001
COMP-ADV.7	0.530	<0.001	0.530	<0.001
COMP-ADV.8	0.508	<0.001	0.508	<0.001
BUS-PERF.1	0.817	<0.001	0.817	<0.001
BUS-PERF.2	0.870	<0.001	0.870	<0.001
BUS-PERF.3	0.916	<0.001	0.916	<0.001
BUS-PERF.4	0.871	<0.001	0.871	<0.001
BUS-PERF.5	0.856	<0.001	0.856	<0.001

Note:
CUST-ORI   : Customer orientation
COMP-ORI   : Competitor orientation
TECH-ORI   : Technology orientation
COST-ORI   : Cost orientation
INOV-ORI   : Innovation orientation
COMP-ADV   : Competitive advantage
BUS-PERF   : Bussiness performance
STRG-ORI   : Strategic orientation

Based on the criteria and the results, these factors indicate that all 24 indicator or item instruments used in this study were included in the valid categories.

Discriminant Validity Test

In the discriminant validity test, the authors used criteria by Mahfud and Dwi (2013). The test was to test whether the indicators used are sufficiently valid in contributing to R2,

The criteria used in this validity test were:

AVE square root value > correlation value between variables or, Correlation value in red > other correlation values in one column The results of the analysis using SEM-PLS 3.0 obtained AVE square root values as in the Table 3:

Table 3: AVE square root values

	CUST-ORI	COMP-ORI	TECH-ORI	COST-ORI	COMP-ADV	BUS-PERF	STRG-ORI
CUST-ORI	**0.789**	0.233	0.320	0.545	0.375	0.248	0.742
COMP-ORI	0.233	**0.831**	0.336	0.362	0.420	0.342	0.637
TECH-ORI	0.320	0.336	**0.849**	0.376	0.270	0.173	0.691
COST-ORI	0.545	0.362	0.376	**0.858**	0.475	0.440	0.815
INOV-ORI	0.375	0.285	0.276	0.399	0.484	0.300	0.465
COMP-ADV	0.375	0.420	0.270	0.475	**0.629**	0.453	0.534
BUS-PERF	0.248	0.342	0.173	0.440	0.453	**0.866**	0.420
STRG-ORI	0.742	0.637	0.691	0.051	0.534	0.420	**0.724**

Note: Square roots of average variances extracted (AVEs) shown on diagonal.

Based on criteria and the results in the Table 3 show that all indicators used to measure variables meet valid discriminant criteria.

Construction Reliability Test

The authors used criteria in the reliability test by Mahfud and Dwi (2013).

1. Composite coefficient of reliability > 0.7
2. Cronbach's alpha coefficient > 0.7 The results of the analysis using SEM-PLS 3.0 obtained composite reliability and Cronbach's alpha coefficients as in the Table 4:

Tabel 4: Composite reliability coefficients dan Cronbach's alpha coefficients

CUST- ORI	COMP-ORI	TECH-ORI	COST-ORI	STRG-ORI	COMP-ADV	BUS-PERF
0.868	0.899	0.885	0.893	0.814	0.819	0.938

CUST-ORI	COMP-ORI	TECH-ORI	COST-ORI	STRG-ORI	COMP-ADV	BUS-PERF
0.798	0.849	0.805	0.820	0.694	0.741	0.917

Based on the criteria and results in the table 4 shows that all indicators used to measure variables meet reliable criteria

Inner Model (Structural Model)

Structural models were used to examine the relationship or influence between latent constructs and assess the level of these relationships. Tests for structural models include test the suitability of the model and test the hypothesis.

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Model Conformity Test

Model fit and quality indices Average path coefficient (APC) = 0.352, P <0.001

Average adjusted R-squared (AARS) = 0.650, P <0.001 Average block VIF (AVIF) = 1,425, acceptable if <= 5, ideally <= 3.3 The results of the analysis show that the model in this study was appropriate
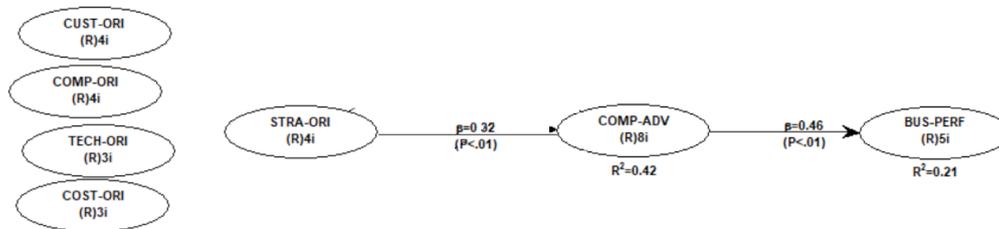
Figure 1: SEM Analysis Diagram (With parameter value)

Tabel 5: Path coefficients, P Value & Effect Size

Coefficients	Independent Variable	Dependent Variable	
		KU BRSG	KNJ BIS
Path Coefficients (β)	ORI STR	0.32	
	KU BRSG		0.46
P value	ORI STR	<0.001	
	KU BRSG		<0.001
Effect Size	ORI STR	0.166	
	KU BRSG		0.21

From Table 5 can be explained as follows:

Hypothesis testing 1: Strategic orientation has a positive effect on competitive advantage

Obtained indices values: Path coefficient (β) = 0.32, P value <0.001 (<α = 0.05), Effect Size (ES) = 0.166 These results indicate that the strategic orientation has a significant positive effect on competitive advantage with β = 0.269 and the level of influence is moderate (effect size: 0.159)

Hypothesis testing 2: Competitive advantage has a positive effect on business performance

Obtained indices values: Path coefficient (β) = 0.42, P value <0.001 (<α = 0.05), Effect Size (ES) = 0.21 These results indicate that competitive advantage significantly positive effect on business performance with β = 0.42 and the level of influence is moderate.

Multiple Regression Equations.

Based on the diagram above, the regression function can be derived as follows: Ø Y1 = 0.20X1 + 0.28 X2 + 0.32 X3, with R2 = 0.42 Ø Y2 = 0.46 Y1, with R2 = 0.21

From the two regression functions mentioned above can be interpreted as follows:
Ø The higher the competitive advantage, the higher the level of business performance (β = 0.46)
Ø Competitive advantage contributes 21% to variations in business performance (R2 = 0.21)
Ø The higher the strategic orientation, the stronger the level of competitive advantage (β = 0.32)
Ø Strategic orientation contributed 42% to the variation in competitive advantage, and as much as 58% was influenced by variables outside the model (R2 = 0.21)

CONCLUSION

This study aimed to analyze the effect of Strategic Orientation on Competitive Advantages that have an impact on the performance of batik SMEs. To analyze the relationship between these variables, this study uses Partial Least Square (PLS). The results of the hypothesis 1 test showed a direct and positive relationship between strategic orientation and competitive advantage of batik SME. This means that the strategic orientation owned by batik SME would increase the competitive advantage of batik SME. The hypothesis 2 test results showed a significant relationship between competitive advantage and batik SME's Performance. This means that the high competitive advantage of batik SME would improve the performance of batik SME.

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