COMPETITIVE STRATEGY AND BUSINESS ENVIRONMENT ON SMEs PERFORMANCE IN YOGYAKARTA, INDONESIA

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ABSTRACT

SMEs have an important role in Yogyakarta. Currently, SMEs are faced with something difficult and task that is to maintain SMEs to remain competitive, which involves the existence also their future growth. To support Yogyakarta SMEs in maintaining and enhancing competitiveness, a theoretical framework was developed through the organization of theories and findings when studying SMEs in Yogyakarta. This framework explores competitive strategies and the business environment that affect the performance of Yogyakarta SMEs. The population in this study were SME sectors in industry groups furniture, leather goods, and food processing industries, totaling 118 business units. This study uses cluster sampling. The analytical method used is multiple regression analysis. In light of information gathered from SMEs in Yogyakarta, this examination affirms the centrality of serious procedures to pick up their upper hand. What's more, there is a negative connection between serious weights and SME execution.

Key words: SMEs, Competitive Strategy, Business Environment, Performance, Yogyakarta, Indonesia

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1. INTRODUCTION

Small and Medium Enterprises (SMEs) contribute incredibly to the financial turn of events in a country, including Indonesia. One of them was the role of reducing poverty by creating jobs and contributing to gross domestic product. Success in improving the SMEs' business means

strengthening the economy. Domestic business actors in Indonesia recorded 51.2 million business units where 99.99% of them were small businesses. Yogyakarta also has SMEs, in 2018 there were 259.581 business units and in 2019 increased to 262.130. Therefore, Indonesia encourages SMEs to continue to grow and prosper.

Were three main reasons why a state encourages SMEs to continue to grow and prosper: 1) Generally SMEs tend to have better performance in generating a productive workforce; 2) SMEs frequently achieve increased productivity through investment and technology alterations because it was a dynamic business that continues to adapt it to the environment, and 3) SMEs proved to have advantages in terms of flexibility than large enterprises. Besides, many experts argue that this business (SMEs) was not affected by the economic crisis (Borneo, 2009). Some of the advantages possessed by SMEs compared to large businesses such as innovations in technology which easily occurs in product development, human relations, familiar in the small company, flexibility, and ability to adapt to changing market conditions quickly in comparison to large-scale enterprise with a bureaucratic condition, managerial dynamism, and entrepreneurial role.

SMEs were faced with the task of how to maintain competitiveness in face dynamic and competitive environment. It deals with survival and future SMEs' growth. This study's purpose was to examine and analyze empirically the effect of competitive strategy and business environment on SMEs' performance in Yogyakarta. SME's performance in Yogyakarta depends on competitive strategy and business environment. The benefit of this study is to assist SMEs Yogyakarta maintain and increase its competitiveness and to help the government to make the right policy for SMEs advancement in Indonesia, especially in Yogyakarta.

2. HYPOTHESIS DEVELOPMENT

2.1. Competitive Strategy and SMEs Performance

Many studies have been done that identifies how the effect of strategy specific on company performance using the development typology of Porter (1980 & 1985), Miles & Snow (1978), also Mintzberg et al., (1988). Porter (1980 and 1985) with the typology of generic strategies uses cost leadership, differentiation, focus as a basis to pursuit supreme achievement.

Porter's three generic strategies (1980) were suggested (Greenfield, 1989) used to compete in the markets. Porter's framework has been the most influential instrument for twenty years in analyzing corporate strategies. Therefore, a competitive strategy is a strategic option that can affect the performance of SMEs. Several studies show that business strategy has a direct effect on the growth of SME performance (Sandlberg, 1986). The superiority of SME performance is significantly influenced by factors such as strategic type, technological development, product quality, and organizational strategy. Chandler and Hanks (1994) advised that SMEs must apply innovative strategies to gain a competitive advantage in a swift alteration environment. Chew et al. (2007) found that in a dynamic environment, generic cost strategies, differentiation, and innovation are suitable strategies. Thus, competitive strategy competitive strategies are the right strategic choices that can affect the performance of SMEs in Yogyakarta, Indonesia. Based on this consideration, the research hypothesis is:

H1: Cost strategy positively affect on SMEs performance at Yogyakarta

H2: Differentiation strategy positively affect SMEs performance

H3: Innovation strategy positively affect SMEs performance

H4: Alliance strategy positively affect SMEs performance

2.2. Business Environment and SMEs Performance

A conceptual framework has been developed for the environmental dimension in the management literature (Dess and Beard, 1984). Environmental dimensions include environmental munificence, environmental dynamism, and environmental complexity. Several studies have found an important relationship between business environments with strategies. Complexity and changes in the environment can affect the intensity of the bank's strategic planning process (Bird, 1991). Business environment characteristics (complexity, dynamism, hostility) significantly affect strategic orientation: innovativeness, proactiveness, and risk-taking (Luo, 1999). There was suitability between environment and strategy to affect performance strategy orientation has a positive influence on performance (profitability and market position). Use environmental indicators of complexity, dynamic, hostility and found that there was a strategic fit between the environment with strategy and have significant and positive implications on performance interaction between environment and strategy of product innovation with a positive effect on performance. Gopesh Anand and Peter T. Ward (2004) found that environment uncertainty and mobility gave a significant positive influence on performance. Naranjo and Houston (2003) found that the environment affects an organization's decision process in choosing a strategy. Benito and Rocha (2010) found the importance of the relationship between the environment and strategies. Hidayat (2004) found that the macro environment influences marketing strategy and performance. Sabihaini (2011 and 2012) found that the higher the complexity level than the higher levels of environmental performance achievements. Yan (2010) found that competitive strategy and business environment effect SMEs' performance in China, but the effect of competitive pressure on SMEs' performance was negative.

H5: Environmental Dynamism positively affect SMEs performance

H6: Competition pressure negatively affect SMEs performance

3. METHODOLOGY

3.1. The Sample and Survey Instrument

This survey uses a structured questionnaire method. Distributing questionnaire surveys in Yogyakarta, Indonesia. The population in this study was the entire SME sector in industry groups furniture, leather goods, and food processing industries, amounting to 118 business units. It uses cluster sampling. The actual response rate was 87.5%. The analysis method used was multiple regression analysis.

3.2. Measurement of Variables

3.2.1. Competitive Strategy Variables

The construct of competitive strategy is measured using a 5-point Likert scale ranging from 1 "not important at all" to 5" very important". SME's competitive advantage is formed from a competitive strategy consisting of our variables, namely cost, differentiation, innovation, and strategic alliance. The cost strategy is measured on a four-item scale: 1)low costs in accessing labor; 2) slight costs in accessing raw materials; 3) minimize costs in operations management; 4)minimize costs in administrative activities (Yan, 2010).

3.2.2. Differentiation Strategy Variables

Differentiation strategy efforts are used to achieve effectiveness and efficiency in marketing and selling products and achieving marketing performance (Hann et al.2002; Yan, 2010). Four scale items were partially taken from Chew et al., (2008), namely: 1) developing brand identification; 2) quality improvement exceeds requirements; 3) applying a bid strategy at

competitive prices, and 4) providing facilities with a faster time. Five things were recognized for the development technique as follows: 1) specialized and the executive's skill; 2) capability in innovation and procedures; 3) IT innovation, 4) advancement in money; and 5) advancement in working instruments. The Alliance Strategy was applied to improve performance through immediate benefits to both parties embroiled. The Alliance Strategy is measured by four things, namely: 1) large company subcontractors; 2) partner with customers in the long run; 3) collaboration with trustworthy suppliers, and 4) collaboration with research institutions and universities.

3.2.3. Business Environment Variables

Business environment items are influenced by two concept scale environment dynamism and competitive pressures. It uses a Likert-type 5-point scale and responses ranging from 1 is "not important at all" to 5 is" extremely important". Environment dynamism measurement was based on a five items scale developed by Yan (2010); Luo (1999); and Langford and Male (2001). The five items that measure environmental dynamism are as follows: 1) economic conditions; 2) legal system development; 3) product or service technology; 4) improve the industry; 5) service efficiency of government departments. The pressure of competition explains the level of competition among development organizations in the development business. The measurement was embraced from an altered form of the size of Yan (2010) and Luo (2003) there are four things:1) government impedance; 2) rivalry for contenders; 3) the impact of nearby government approaches, and 4) level of danger from fresh introductions.

3.2.4. Firm's Performance Variables

The firm's performance is typically estimated by business volume (deals and benefits) from Cheah et al., (2007), proficiency (efficiency, return on value, and net benefit) from Davies and Walters, (2004), business development, and deals development. In any case, in this examination deals, development, and benefit development are utilized in estimating this build.

3.3. Validity and Reliability Test

The validity test performed using Pearson Product moment correlation. The validity of the test result of each item in the questionnaire shows that question scores of competitive strategy, differentiation strategy, business environment, and firm's performance variables have a positives correlation with the total score pf the item above 0.7869. The reliability test used was Cronbach Alpha. An instrument can be called reliable if had Cronbach Alpha greater than 0.50 (Nunnally, 1970). Reliability testing result shows that all item question was reliable, with Cronbach Alpha between 0.8361 to 0.8764.

4. ANALYSIS AND RESULT MODEL EVALUATION

The hypothesis in this study was to predict the relationship of competitive strategy, differentiation strategy, and business environment on the firm's performance. Multiple regression analysis was used to test this hypothesis. The model test result of multiple regression analysis was used to establish how far independent variables: cost, differentiation, innovation, strategic alliance, dynamism environment, and competitive pressure was able to predict SMEs' performance in Yogyakarta. The regression test result was presented in Table 1.

Table 1 Effect of Competitive Strategy and Business Environment on SMEs Performance

Independent Variable	Dependent Variable		
	Model A	Model B	Model C Overall
	Sales Growth	Profit Growth	Performance
Cost	0.427	0.207	0.317
Differentiation	0.406	0.406	0.436
Innovation	0.242	0.132	0.192
Strategic Alliance	0.195	0.075	0.135*
Environment	0.201*		
Dynamism		0.261	0.241
Competitive	-0.07		
Pressure		-0.13	-0.11
Adjusted R^2	0.439	0.289	0.379

*Significant at p<0:01 * Significant at p>0.05*
Source: Data processed

Table 1 shows that performance measurement (dependent variable) was made into three model base proxy for performance, namely: Model A, Model B, and Model C. "Overall Performance" measurement was given by the average of sales on profit growth rates. The adjusted R^2 for Model A was 0.439. It means that the independent variable was able to explain 43.9 percent of the variance in profit growth of SMEs; Model B has adjusted R^2 of 0.289. It means that the independent variable was able to explain 28.9 percent of the variance in profit growth. The Independent variable in Model C can explain 37.9 percent of the variance in overall performance. Adjusted R^2 values in this SMEs study were consistent with studies result that have been done by Lerner and Almor (2002) and Sadler-Smitb et al. (2003).

Findings of Lerner and Almor (2002) show that adjusted R2 was 21 percent, while Sadler-Smitb (2003) was 12 percent. Thus, the values of adjusted R^2 in this study were acceptable to evaluate a model that can be expressed as good estimation models (Table 1). It can be concluded that this test produces a good confirmation of indicators and the relationship between variables.

4.1. Hypothesis Test Result and SMEs Performance

This study finding indicates that cost, differentiation, and innovation strategy (competitive strategy) can improve overall performance supported by a coefficient value of 0.317; 0.436; 0.192; at p <0.01, respectively. However, alliance strategy can't improve Overall Performance. It means hypothesis four rejected or not supported. SME's pressure harms performance, so H6 was supported.

5. RESULTS AND DISCUSSION

This study findings indicate that competitive strategies can improve overall performance. It shows that dimensions of competitive strategy (cost, differentiation, and innovation) were the solution strategy of competing priorities for SMEs in Yogyakarta. This study finding was consistent with the findings of Miller (1986); Chew et al. (2004), Tang et al. (2007) which state that generic strategy that includes cost, differentiation, and innovation was a fit strategy in a dynamic environment. strategic alliances significantly increase sales growth in SMEs, but vice versa in profit growth. Siegel et al. (1993) found empirical support strategic focus to increase sales growth. Ville and Kess (2011) found that focus strategy usage creates a higher performance in market share achievement. Baum et al. (2001) can explain the differences in the low-cost strategy and focus strategy and negatively correlated with sales growth.

Small companies can deploy the resources and capabilities in a niche market that characterize their organization, particularly a strong orientation to the global market (Porter, Zucchella&Palamara, 2007). A plausible explanation was the alliance strategic usage SMEs expansion aims to meet the needs of the market through multiple market segments. It means strategic alliances can have a positive and negative effect. The positive influence is to increase customer focus and respond to changing conditions optimally. Also, the market position in SMEs can be expanded and also the growth of output. Meanwhile, the negative effect was involved in the high cost to expand and buttress resources to assist strategy. Due to the rare resources of SMEs, the profit position in the market harms profitability. These results indicate that Portes's three generic strategies were not only relevant to large companies but also SMEs.

The study also examined the effect of environmental factors on SMEs' performance in Yogyakarta. These findings were consistent with the finding of Yan (2010) which state that environmental dynamics were not related to SMEs' performance. He further stated that the ability of top managers to adjust effective strategies according to environmental conditions greatly influenced the success of SMEs. SMEs managers can encounter an uncertain dynamism environment and provide several alternatives and some obvious evaluation criteria by peers to choose between options (Luo, 1999). This condition occurs when a majority of SMEs rely on others with a major role in the marketing chain. This leads to a situation where SMEs feel neutral despite the dynamic environment. SMEs were not influenced by the environment dynamics due acquisition of SME marketing products was direct to another party. As a result, SMEs don't feel any changes as changes in prices and consumer tastes.

Based on finding the researchers suggest the environment can have a positive and negative effect, but implications for some or all activities of the company and industry was clear. Experimental discoveries laid out above demonstrate that there are contrasts in execution. Geiger and Hoffman (1998), Luo (2002), Naranjo, and Houston (2003) by comparing the difference in performance in some developed countries and developing countries in two different periods to demonstrate performance differences caused by different environments.

This study finding denotes that competitive pressure harms SMEs' performance. This finding supports the research of Yan (2010) in Chinese SMEs. Covin and Slevin (1989) show that small firms with high-index style strategies namely entrepreneurial firms generally have better performance in competitive high environment pressure (high). Adversely, smaller companies with low index-style strategies: conservative firms generally have better performance on the soft competitive environment (low). Yan (2010) explain that competitive pressure defiance the competitive positions achieved by companies holder and increase subjection on other companies. The creation of a lot of chaos such as the emergence of quasi-projects, extensive inferiority, and the increase in costs is due to high competitive pressure. The chaos can have an impact on reducing customer loyalty to the product thereby increasing costs in implementing competitive strategies.

6. CONCLUSION

These study findings demonstrate that competitive strategies improve overall performance. However, the alliance strategy hasn't a positive and significant impact on overall performance. This proceed implies that competitive strategy (cost, differentiation, and innovation strategy) was a determinant factor in competing priorities to achieve competitive advantage and ultimately to improve SMEs' performance in Yogyakarta. However, environment dynamism doesn't have a significant effect on SMEs' performance. Competitive pressure harms performance. These study findings indicate that Porter's generic strategy was the right strategy in a dynamic environment such as those found by (Miller, 1986; Chew et al.,2004; Tang et al.,2007; and Yan 2010).

6.1. Implications of this Research

Owner-managers and practitioners were to support SMEs Yogyakarta, manage and improve its competitiveness and help the government to make the right policy for the development and advancement of SMEs in Indonesia, especially in Yogyakarta.

6.2. Research Limitation

The test result makes good confirmation for indicators as well as the relationship between variables, but for future research, it suggested using Structural Equation Modeling (SEM) to justify theoretical causality.

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