COMPETITIVE STRATEGY ORIENTATION AND COMPANY PERFORMANCE IN SELECTED SMES WOODEN FURNITURE IN PASURUAN CITY

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Abstract: *The purpose of this research is to formulate empirical models that describe the relationship between the industrial competitive pressure, the capability of management, the competitive strategy, and the company performance. To achieve the objectives, the data were collected by employing survey and interview method. The data had been collected were analyzed by using partial least squares (PLS). The result shows that the industrial competitive pressures have an insignificant- negative effect on both competitive strategy and company performance, but management capability has a significant-positive effect on the competitive strategy and the company performance. In addition, the result shows that there is a significant-positive effect of competitive strategy on company performance. Those results suggest that the owners of SMEs wooden furniture industry in Pasuruan city should consider industrial competitive pressure and their management capability when they implement competitive strategy in order to reach their desired company performance in the future.*

Keywords: *Industrial competitive force, competitive strategy, management ability, company performance, Pasuruan city.*

INTRODUCTION

The role of SMEs wooden furniture in Pasuruan City, East Java Province is crucial not only because they absorbs a lot of labors but also contributes great local revenue. Ten years ago, the business sector in this city had a good performance; even dozens of them were able to export their products to the Netherlands, Australia, and Malaysia. However, in the last 3 years, some SMEs wooden furniture industry in this city has been encountouring serious problems in its business performance.

Fiercer competition and global conditions that have not been fully recovered are suspected to be one factor that makes the performance of SMEs wooden furniture

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industry in the City increasingly depressed. This industrial competive pressure exacerbated by the low quality of human resources (HR) engaged in SMEs wooden furniture industry in order to respond to the demands of buyers and the suppliers of material, and the threat of a rival from other wooden furniture businesses as well as from substitute products such as furniture made of aluminum, of wicker or of other materials.

Steps taken by the association of Indonesian Rattan Furniture and Handicrafts (AMKRI) in promoting furniture to several domestic and international buyers through international exhibitions such as the Woodworking and Furniture Manufacturing Components (IFMAC), Indonesian Furniture Expo (IFEX), and through design competitions such as Indonesian Furniture Design Award (IFDA) should be highly appreciated. However, to maximize the sales and profits, efforts in the marketing field must also be supported by competitive strategy that alliance to industrial environment force and management capability of the small and medium enterprises (SMEs) furniture owners in East Java, in general, and in Pasuruan city, in particular.

According to Indonesia Stastitical Center Agency (BPS, 2013), SMEs in Indonesia are classified with regard to employed labour force. The number of employees are the basis used to define whether a business concern is a small business enterprises or not in such countries as Indonesia, China, Germany, Japan, Mexico, Taiwan, and South Korea, among others (Dauda, Akingbade, and AKinlabi, 2010). BPS (2013) highlightes that small business is characterized by a minimum of 5 employees and maximum of 19 employees, while medium businesses have at least 20 employees and maximum of 99 employees. SME is a company that is independently owned and operated for profit.

The purpose of this study is to examine and to analyze the effect of industrial competetive forces and management capability on competitive strategy orientation of the SMEs wooden furniture industry. Furthermore, it also aims to test whether competitive strategy influences performance of SMEs wooden furniture industry using the theories of industry organization (IO) and resource based view (RBV) at the firm level on the frameworks that were proposed or adopted in previous studies (Chandler and Hanks, 1994, Kale, 1999). As shown in Figure 1, it proposes that SMEs wooden furniture performance is critically dependent on three factors: industrial competitive force (external factor), management capability (internal factor), and competitive strategy (require scan result of both factors).

Figure 1: Conceptual framework
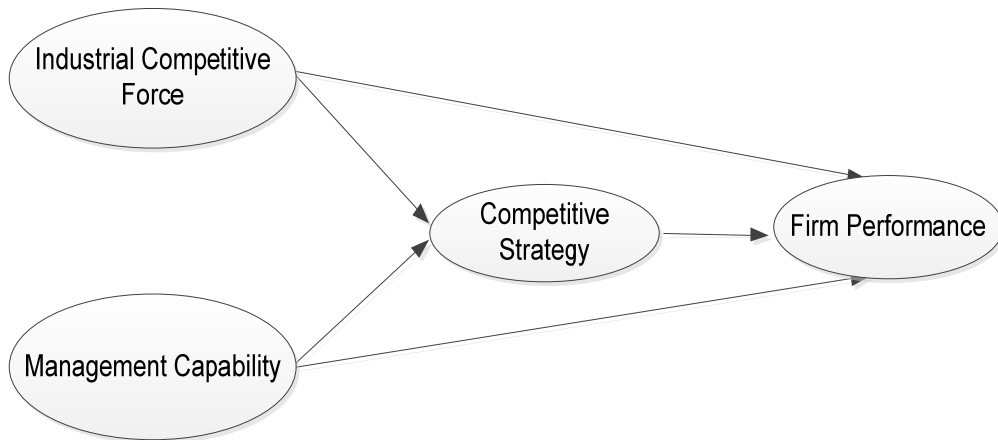
This paper consists of five parts: introduction, theorical background and research hypotheses, method of research, result & discussion, and conclusion.

THEORICAL BACKGROUND AND RESEARCH HYPOTHESES

In literature on strategy, there are generally two polarized approaches or theories employed to explain why some companies perform better (Makhija, 2003). Firstly, the theory based on IO which takes an external environment to address the issue. According to Porter in Chew, Yan and Cheah, (2008), this perspective typically stresses privileged end-product market position as a basis for outsatanding performance. Secondly, RBV examines the resources and capabilities of firm which enable them to generate extraordinary performance (Wernefelt in Chew, Yan and Cheah (2008). Moreover, Mahoney and Pandian (1992) believe that those two approaches should be considered in formulating business strategy to gain an outstanding firm performance.

Industrial Competive Forces and Competitive Strategy

Porter in Dess, Lumpkin, and Eisner (2007) outlines five models of industry competition, namely competition with companies that already exist in the industry, entry barriers for new competitors, power of suppliers, power of buyers, and the availability of product substitutions. Wheelen and Hunger (2001) add one more model to be six, namely the relative bargaining power of other stakeholders such as government, local communities, and other groups that can affect industrial activities.

According to Porter in Dess, Lumpkin, and Eisner (2007), competitive strategy (generic strategy) consists of three strategies, namely cost leadership, differentiation, and focus. Cost leadership focuses on less expensive products by operating business in efficient way for example by managing relationships across the value chain. Meanwhile, differentiation focuses on providing products that are unique and appreciated, while the non-price attributes indicate the customer willingness to pay a premium price. This strategy can take various forms such as prestige or image of the brand, technology, innovation, features, customer service, and dealer networks. In focused strategy, the company achieved good profits through differentiation or cost leadership by narrowing product lines and focusing on the segment of buyers or targetting geographic markets. These three generic strategies are typically used to address the five powers in order to achieve firm performance.

Wheelen and Hunger (2001) believe that the industrial competitive forces played a key role and should be considered in formulating a strategy to achieve the desired performance. More specifically, Lahiri (2007) suggests that companies operating in a very dynamic industry, such as electronics, needs to be more proactive in meeting industry demands and preferences of consumers compared to companies operating in an environment which is less dynamic industries such as the furniture industry. Furthermore, Ingga (2008) found that the external environment has significant effect on cost leadership and differentiation strategy.

Besides Ingga's finding (2008), Yani (2010) also find that five competing power factors, which is also commonly referred to as the industry environment has a positive and significant relationship with competitive strategy in Islamic bank in south Kalimantan.

Based on the opinions above, the first hypotheses can be stated as follows:

H1: Industrial competitive force affects significantly competitive strategy orientation

Management Capability and Competitive Strategy

Management capability can basically grouped based on the operational functions of management that have been discussed and developed by management gurus like Fayol, Koontz and ODonnel, Urwick, Stoner, and others. Some management scholars devide operational management into financial activity, human resources, production and innovation, and marketing. In the process, these functions continue to develop along with the more complex of the recent business activities.

Claver-Cortes, and Molina-Azorin (2008) believe that the internal environment of the company have a correlation with the competitive strategy. This opinion is supported by Qu and Chai (2007) who find a significant relationship between

the internal environment factors and competitive strategy. Ingga (2008) also find that the internal environment has a positive and a significant effect on cost leadership strategy, but the internal environment has no a significant effect on the differentiation strategy. The internal environmental factors described in Ingga's study (2008) includes marketing capability, financial capability, the ability of human resources, production capability, and the relevance of accounting information.

Furthermore, Chew, Yan, and Cheah (2008) find that there is a positive relationship between the core capabilities and competitive strategies. The dimensions of the core capabilities investigated by Chew, Yan, and Cheah (2008) are the ability of the entrepreneur, marketing capability, and the ability of innovation, while the competitive strategies are broken down into four dimensions: cost, quality, delivery, and partnerships.

Based on the opinions above, the second hypotheses can be stated as follows:

H2: Management capability affects significantly competitive strategy orientation

Industrial Competitive Force, Competitive Strategy Against Firm Performance

Entrepreneurial studies consider the profitability as a very important issue for survival in a competitive environment. Evaluation of financial performance in the entrepreneurial business is a very important aspect for achieving company's main goal that is to maximize profits (Hisrich & Peters, 1989). In addition, management in the furniture industry is more emphasis on how to make money than other company performance measurement methods. As the furniture industry is not held by public, the measurement of financial performance is the right choice to measure the firm performance.

Grant (1998) states that the strategic management can be defined as an effort to achieve profitability. Schaffer and Litschert (1990) showes that revenues and profits are important variables to compare the competitiveness of enterprises. In some types of companies, evaluation of competitive advantage based on profitability and sales growth has been commonly used as in the hospitality business (Tse & Olsen, 1988; West and Olsen, 1988), in the food service industry (Singh & Gu, 1994), and in the lodging business (Damonte, Rompf, Bahl, and Domke, 1997; and Jogaratnam, 1995). Therefore, the instrument used to measure the performance of companies in this research is the sales and profits achieved by the company in a given period.

Herri & Wafa (2003), and Yonggui, Yuli, & Hing (2003) suggest that the external business environment has a positive influence on business performance. Yan (2010) believes that a dynamic environment is positively related to the performance of SMEs in China. While Wan and Bullard (2009) who conducted research on the wood

furniture industry for the households in the US, found that most of the dimensions of the strength of industry competition like competition among companies and bargaining power of buyers had a significant impact on firm performance.

Furthermore, Tan, Shen, and Langston (2012) who conducted a study in the construction company found that industrial environments negatively affect the performance of the construction company. This, according to Tan, Shen, and Langston (2012) show that the tighter competition in the construction industry the lower the performance achieved the construction company. On the contrary, in relation to the task environment, Tan, Shen, and Langston (2012) find that a good relationship with other parties such as government, consultants, and suppliers can affect the performance of the construction company.

Analoui and Karami (2002) who conducted a study of 132 chief executive officer (CEO) of SMEs electrical and electronic in England, believe that the effectiveness of the scanning of the environment is viewed increasingly important industry to align the competitive strategy with environmental demands and achieving outstanding performance of SMEs.

Based on the opinions above, the third and fourth hypotheses can be stated as follows:

H3: Industrial competitive force affects significantly firm performance.

H4: Competitive strategy mediates between industrial competitive force and firm performance.

Management Capability, Competitive Strategy Against Firm Performance

Hakim (2007) illustrates that the cooperative business performance is influenced by a number of latent variables directly and positively, namely entrepreneurial manager, organizational capability, and business strategy. Entrepreneurial variables used by Hakim (2007) consist of four dimensions, where each dimension comprises several indicators. The four dimensions in the study of entrepreneurship by Hakim (2007) are entrepreneurial attitude, motivation, competence and personal value. The organization capability by Hakim (2007) is described as the internal capability of the organization with regard to participation of members, institutional capacity and operational capability to support business success. Furthermore, the business strategy is defined as all strategic activities undertaken to support business success. While the variable is defined as the achievement of business performance achieved by the organization in a certain period measured from a financial perspective, customer perspective, internal business processes, and learning and growth perspective or popular termed as balanced score cards.

Tan, Shen, and Langston (2012) show that the internal capabilities of the company correlated positively to the performance of the construction company. This, according to Tan, Shen, and Langston (2012), indicate that when contractors wish to achieve company performance they should pay more attention to technology and innovation, marketing capabilities, as well as organization and human resources factors, if contractors desire to achieve company performance.

Lema, Cortes, Lizano, and Achovo (2012) who conducted research on 1,170 SMEs in Spain found that SMEs which had no a specific strategy (reactive strategy) were more competitive and had much lower efficiency compared to SMEs who had a particular strategy (prospective or defensive). Lema's, Cortes', Lizano's, and Ochovo's (2012) research findings assert that internal factors that greatly contribute to the achievement of the performance are innovation process, management innovation, control system management, and human resource factors. However, the weight and urgency of the order of those factors are dependent on the strategy chosen by SMEs.

Based on the opinions above, the fifth and sixth hypotheses can be stated as follows:

H5: Management capability affects significantly firm performance

H6: Competitive strategy mediates between management capability and firm performance

Competitive Strategy and Company Performance

Several previous studies such as Pearce and Robinson (2009) find that the company performance is affected by the strategy adopted by the company. Yonggui, Yuli & Hing (2003); Herri & Wafa (2003) also find that business strategy has a direct positive effect on the firm performance.

Based on the opinions above, the seventh hypotheses can be stated as follows:

H7: Competitive strategy affects significantly firm performance.

METHOD OF RESEARCH

The data for this study were collected by distributing of structured questionnaires to a sample of small and medium enterprises in Pasuruan City. Pasuruan city is chosen as the site for this study since over thirty seven percent (37%) industries in East Java are located in this city (Industrail & Trade Department of East Java, 2013). It implies that Pasuruan city can serve as a good representative site for this study.

The experimental variables examined in this study are industrial competitive forces with 3 dimensions (bargaining power of buyers, bargaining power of suppliers and threat from rivalries); management capabilities with 3 dimensions (quality of human resources, marketing, and production & innovation); business strategy with 3 dimensions (cost leadership, differentiation, and focus); profitability and sale of the company that result from the application of competitive strategy by SMEs. The questions were tailored along a five point likert scale. The responses were coded and mapped into numeric values; for example, considering the extent of the use of strategic approach in the management of SMEs. The scale mapping used in this study are: strongly agree = 5 points, agree = 4 points, neutral = 3 points, disagree = 2 points, strongly disagree = 1 point (Asika, 1991).

Partial Least Scales (PLS) analysis was employed on the coded data to determine the relationship among industrial competitive forces, management capabilities, competitive strategies, and company performances. PLS is used in several steps. Firstly, testing the validity of the data using convergen validdty. Secondly, testing the data using composite reliability and cross loading. According to Chin in Latan & Ghozali (2012), loading factor is assumed to be valid and reliable if it greater than 0.60. Finally test the hypothesis using the inner model in PLS. This study used t-statistics to test the hypothesis.

The effect of exogen variable on endogen variable is significant if the value of t-statistic is greater than the t-table (1.96) at significant level of 5%. To test the hypothesis indirect effect (mediation effect) this study used Sobel test procedures (Baron and Kenny in Latan & Ghozali, 2012).

RESULT AND DISCUSSION

This research involved 197 samples. The copies of the questionnaires were distributed randomly to owners of selected SMEs wooden furniture in Pasuruan city. All copies of the questionnaires were duly completed and returned were used as the basis of the analysis. The data were examined and analysed using smart PLS.

Validity Testing with Outer Loadings

From table 1, it can be explained that initial validity test found out two items were not valid they were item X123 and X131 with outer loadings 0.431 and 0.405 respectively. Therefore, these two items should be dropped and be tested again. The second validity test (after dropping) showed that all items were valid because their validity scores were above 0.6.

Table 1
Validity Testing with Outer Loadings

Variables	Dimensions	Items	Outer Loadings		Remark
			Before Dropping	*After Dropping*	
Industrial competitive force	Bargaining power of buyers	X111	0.738	0.741	Valid
		X112	0.873	0.869	Valid
		X113	0.723	0.726	Valid
	Bargaining power of suppliers	X121	0.877	0.923	Valid
		X122	0.885	0.929	Valid
		X123	0.431		Not Valid
	Threat of competitors	X131	0.405		Not Valid
		X132	0.667	0.673	Valid
		X133	0.932	0.934	Valid
Management capability	Human resource	X211	0.745	0.745	Valid
		X212	0.915	0.915	Valid
		X213	0.871	0.871	Valid
	Production and Innovation	X221	0.764	0.764	Valid
		X222	0.603	0.603	Valid
		X223	0.784	0.784	Valid
	Marketing	X231	0.880	0.880	Valid
		X232	0.682	0.682	Valid
		X233	0.910	0.910	Valid
		X234	0.891	0.890	Valid
Competitive strategy	Cost leadership	Y111	-0.624	-0.623	Valid
		Y112	-0.734	-0.737	Valid
		Y113	-0.940	-0.940	Valid
	Differensiation	Y121	0.845	0.845	Valid
		Y122	0.860	0.860	Valid
		Y123	0.782	0.782	Valid
		Y124	0.752	0.752	Valid
	Focus	Y131	0.914	0.914	Valid
		Y132	0.922	0.922	Valid
		Y133	0.905	0.905	Valid

	Y21	0.958	0.958	Valid
Firm performance	Y22	0.969	0.969	Valid
	Y23	0.697	0.697	Valid

Source: Smart PLS, 2015

Composite Reliability

Composite reliability was used in this study to test the reliability of the data. Chin in Latan & Ghozali (2012) states that unidimensionality from a collection of variables can be assessed using a composite reliability standards for minimum 0.7. All variables and dimensions were reliable since all of them had composite reability scores above 0.7 as shown in table 2.

Table 2
Composite Reability Testing Results

No		*Variabel and dimension*	*Composite Reability Score*	*Remark*
I		Industrial competitive force	**0.769**	**Reliable**
	1	Bargaining power of buyers	0.823	Reliable
	2	Bargaining power of suppliers	0.923	Reliable
	3	Threat of competitors	0.792	Reliable
II		Management capability	**0.857**	**Reliable**
	1	Human resource	0.883	Reliable
	2	Production and innovation	0.763	Reliable
	3	Marketing	0.908	Reliable
III		Competitive strategy	**0.774**	**Reliable**
	1	Cost leadership	0.817	Reliable
	2	Differensiation	0.885	Reliable
	3	Focus	0.938	Reliable
IV		Firm performance	0.913	Reliable

Source: Smart PLS, 2015

Cross Loadings

Cross loading is part of the goodness of fit which aims to test the quality of the data, where the value of the correlation between variables with their indicators must be greater than that of the indicator correlation with other variables. Cross loadings

can be seen in table 3. The value of cross loadings showed that the correlation between items with dimensions is always greater than that of items with other dimensions. This indicates that these data are eligible to be used in testing the hypotheses.

Table 3
Cross Loadings

Item/ Dimensi	KM-1	KM-2	KM-3	KP	KPI-1	KPI-2	KPI-3	SB-1	SB-2	SB-3
X1.1.1	0.222795	0.085062	-0.09058	0.12928	0.740723	0.133605	0.160115	-0.09287	0.0027	-0.04745
X1.1.2	0.348062	-0.01082	-0.09701	-0.01602	0.86912	0.236239	0.207279	-0.10552	-0.11559	-0.02981
X1.1.3	0.188919	0.024424	-0.02611	-0.04454	0.725515	0.286505	0.191615	-0.16179	-0.04797	0.006374
X1.2.1	0.277187	0.063131	0.06949	0.084068	0.247288	0.923459	0.055885	0.032086	0.115217	0.119419
X1.2.2	0.225395	0.013671	0.005419	-0.0197	0.278896	0.928769	0.055505	-0.10046	0.062853	0.012089
X1.3.2	-0.0426	0.020738	0.064741	0.003533	0.098049	-0.04576	0.67267	-0.0338	-0.01824	0.011693
X1.3.3	0.040272	0.044599	0.059691	-0.04693	0.254988	0.097898	0.93354	-0.202	-0.06432	0.155102
X2.1.1	0.744959	0.185413	0.027239	0.062005	0.244698	0.241522	-0.00099	0.05206	0.244303	-0.04705
X2.1.2	0.915315	0.349759	0.191261	-0.02577	0.284619	0.230328	0.032405	0.036778	0.241729	-0.00478
X2.1.3	0.871055	0.385788	0.123917	0.07565	0.305464	0.230669	0.001439	-0.00466	0.232897	-0.03807
X2.2.1	0.218134	0.764365	0.482652	0.27472	0.059583	0.018612	0.088459	0.011791	0.400785	0.332063
X2.2.2	0.502518	0.602766	0.184145	0.104307	0.187084	0.080196	0.048754	-0.04738	0.200658	0.136507
X2.2.3	0.192892	0.783815	0.636095	0.385285	-0.09608	0.009712	-0.02698	0.125263	0.489472	0.526234
X2.3.1	0.104893	0.617345	0.879747	0.372029	-0.13696	-0.01245	0.034324	0.175498	0.562331	0.481996
X2.3.2	0.312487	0.449129	0.681897	0.244621	0.093043	0.005162	-0.01968	0.220659	0.486648	0.208915
X2.3.3	0.087987	0.573028	0.909662	0.371154	-0.07259	0.118581	0.144919	0.167414	0.528231	0.560283
X2.3.4	0.031805	0.525706	0.890469	0.371518	-0.16659	0.017814	0.071514	0.166671	0.479333	0.588839
Y1.1.1	-0.00232	0.028151	0.002015	0.155166	0.119214	0.175044	0.124042	-0.62258	0.037642	-0.0148
Y1.1.2	0.030917	0.007404	-0.09101	0.039429	0.117045	0.076001	0.034548	-0.73697	-0.01229	-0.0314
Y1.1.3	-0.0505	-0.08651	-0.24884	-0.06946	0.13952	-0.00761	0.197091	-0.93987	-0.15529	-0.08064
Y1.2.1	0.221506	0.400436	0.390705	0.290262	-0.11577	-0.01821	-0.12878	0.011983	0.845234	0.261277
Y1.2.2	0.192384	0.386402	0.448012	0.287574	-0.10715	0.045946	-0.09271	0.086046	0.860156	0.323413
Y1.2.3	0.158978	0.505391	0.658395	0.424171	-0.03181	0.125859	0.060238	0.178663	0.782074	0.517901
Y1.2.4	0.356002	0.411824	0.44502	0.270599	0.020364	0.157382	-0.04383	0.081696	0.75182	0.229742
Y1.3.1	-0.01494	0.495451	0.529019	0.347444	-0.05399	0.066569	0.092202	0.120372	0.403375	0.91417
Y1.3.2	-0.02376	0.430047	0.509894	0.301356	-0.02808	0.090221	0.116709	0.078208	0.361457	0.921901
Y1.3.3	-0.04654	0.43214	0.481798	0.379654	0.002541	0.035214	0.141699	-0.00352	0.396728	0.905385
Y2.1	0.06861	0.381537	0.441374	0.957636	0.044455	0.057185	-0.01037	0.067336	0.406336	0.402239
Y2.2	0.017297	0.35197	0.402062	0.968522	-0.01037	0.022538	-0.05467	0.076072	0.364749	0.36459
Y2.3	-0.01007	0.255761	0.157073	0.697136	0.0269	-0.00897	-0.03773	-0.18477	0.268465	0.170761

Source: Smart PLS, 2015

Hypothesis Testing

Inner weight (structural model) was used in this study to test direct effect hypothesis. The path coefficient from variables to dimensions (reflective model) is shown in table 4, while the hyphoteses testing for direct effect is shown in Table 5. Table 6 shows the hypotheses for indirect effect

Table 4 shows that only one dimension is not significant; that is the path coefficient from competitive strategy to cost leadership, while other paths have significant coefficient since their t-statistic is greater than 1.96. Furthermore, table

Table 4
Path Coefficient from Variables to Dimensions (Reflective Modle)

Variables	Dimensions	Path Coefficient	t-statistics	Remark
Industrial Competitive Force	Power of Buyers	0.839	34.0807	Significant
Industrial Competitive Force	Power of Suppliers	0.695	13.59197	Significant
Industrial Competitive Force	Threat from Competitors	0.453	5.51344	Significant
Management Capability	Human Resources	0.458	4.503766	Significant
Management Capability	Production & Innovation	0.858	40.12966	Significant
Management Capability	Marketing	0.912	49.56686	Significant
Competitive Strategy	Cost Leadership	0.203	0.913463	Not Significant
Competitive Strategy	Differentiation	0.859	54.16216	Significant
Competitive Strategy	Focus	0.820	46.44661	Significant

Source: Smart PLS, 2015

Table 5
Path Coefficient and Hypotheses Testing for Direct Effect

Endogenous Variables	Exogenous Variables	Path Coefficient	T- Statistics	Remark
Industrial Competitive Force (X1)	Competitive Strategy (Y1)	-0.055	1.345655	Not Significant
Industrial Competitive Force (X1)	Firm Performance (Y2)	0.005	0.091044	Not Significant
Management Capability (X2)	Competitive Strategy (Y1)	0.713	27.56173	Significant
Management Capability (X2)	Firm Performance (Y2)	0.168	2.354169	Significant
Competitive Strategy (Y1)	Firm Performance (Y2)	0.337	5.439952	Significant

Source: Smart PLS, 2015

5 shows that from 5 hypotheses 3 of them are significant since their t-statistic is above 1.96 and the rest are not significant since their t-statistic is below. Finally, table 6 shows that from two indirect hypotheses one is significant and the other one is not significant with the same reason.

Table 6
Path Coefficient and Hypothesis Testing for Indirect Effect

Endogenous Variables	Mediating Variable	Exogenous Variables	Path Coefficient	T- Statistics	Remark
Industrial Competitive Force (X1)	Competitive Strategy (Y1)	Competitive Strategy (Y1)	-0.019	1.302	Not Significant
Management Capability (X2)	Competitive Strategy (Y1)	Firm Performance (Y2)	0.240	5.331	Significant

Source: Smart PLS, 2015

The First Hypothesis Testing Result

The first hypothesis is rejected. This indicates that the industrial competitive force faced by the owners of SMEs wooden furniture industry in Pasuruan city did not affect the strategy that would be implemented by them. The pressure of buyers and suppliers, as well as the threat of competitors did not direct the owners of SMEs wooden furniture industry to adopt certain competitive strategy, both for cost leadership strategy, and for the strategy of differentiation and focus.

The findings of this study partly support the findings of Lahiri (2007), but are contrary to the findings of Ingga (2008), of Yani (2010), and of Tan, Shen, and Langston (2012).

The Second Hypothesis Testing Result

The second hypothesis is accepted. This indicates that the management capability affect ability the owners of SMEs wooden furniture to implement competitive strategy. Therefore, human resource quality, production and innovatiaon ability, and marketing ability direct the owners of SMEs wooden furniture to implement certain competitive strategies; cost leadership, differentiation and/or focus strategy.

The study results support the findings of Chew, Yan & Cheah (2008) who believe that the ability of management significantly affect competitive strategy, but these findings are contrary to those of Qu and Chai (2007), of Jauch, Osborn,

and Glueck (1980) in Prescott (1986). In the main time, Ingga (2008) asserts that the ability of management does not have any significant relationship with competitive strategy.

The Third Hypothesis Testing Result

The third hypothesis testing is not proven. Thus the results of this study cannot prove that the stronger the pressure to the industry the lower the firm performance will be. This empirical evidence indicates that although the seven items in industrial competitive force variable are reliable, these variables do not have any significant effect on the firm performance.

The power of buyers has the highest mean response among the dimensions of industrial competitive forces (3.95) compare with the mean response of suppliers' power (2.92) and of the treat from rivalries (2.80). This shows that the owners of SMEs wooden furniture have more awareness on the power of buyers than other dimensions of industrial competitive forces. Many options and the easiness for the buyers to access the information in regards to the price, the product quality, and the service quality have become the main factors for the owners to aware of the power of buyers.

The owners of the SMEs wooden furniture do not worry about the power of suppliers and the threat from the rivalries since they believe that so many material suppliers in the field and therefore they should compete to find customers, and they also believe that their competitors don not promote their products intensively.

These findings support Wan's and Bullard's finding (2009) that most of the environmental dimension of industry such as competition among similar business and buyer's pressure have a significant impact on the firm performance, but the threat from new entrants is found to have no significant effect to the firm performance. However, these findings contradict the finding of Herri & Wafa (2003), and of Yonggui, Yuli, & Hing (2003).

The Fourth Hypothesis Testing Result

The analysis result showed that based on the path coefficient there is not significant influence of industrial competitive force on the firm performance through the mediation of competitive strategy with value -0019 and has a value t-statistics of 1.302, which means < 1.96. This result proves that the industrial competitive force does not significantly influence the company performance through the mediation of competitive strategy.

This finding also indicates that the competitive strategy failed to mediate between industrial competitive force and the company performance. This explains that the owners of SMEs wooden furniture do not implement competitive strategy,

such as price leadership strategy, differentiation strategy and focus strategy, as a way to achieve their business performance when they are encountring the pressure from stakeholders, especially the pressure of buyers, bargaining power of suppliers, and threats from competitors.

The finding above can also be interpreted that the owners of SMEs wooden furniture do not have any clear competitive strategy in response to pressure from stakeholders (buyers, suppliers, and competitors) popularly termed by Porter in Dess, Lumpkin, and Eisner (2007) as "stuck in the middle".

This insignificant finding is supported by Wan and Bullard (2009) which state that the factors threat of new entrants (as one of the industrial competitive forces) does not significantly influence the company performance, especially profitability. However, the finding contradicts Yani's finding (2010) who believe that organizational capabilities and business strategy are powerful intervening variables in supporting the relationship between the industrial competitive force and the business performance.

The Fifth Hypothesis Testing Result

The fifth hypothesis shows that based on the path coefficient there is a direct influence of management capabilities on company performance which obtained value of t-statistics 2.354. This result proves that management capability significantly influences the company performance. Hence, this fifth hypothesis is accepted. The positive path coefficient means that the relationship between the two variables is unidirectional.

The positive and significant relationship illustrates that the capability of management associated with the ability in the field of human resources, production & innovation capability, and marketing capability are crucail factors that must be considered by the owners of SMEs wooden furniture in order to improve their company performance.

The results support Hakim's finding (2007), which examined the cooperative in Southeast Sulawesi, Chew, Yan and Cheah (2008) who studied in the SME construction in China, and Tan, Shen, and Langston (2012) which examined the construction company in Hongkong, but these findings are contrary to Umar's finding (2015) who stated that the capability of management does not have any significant effect on firm performance in SMEs Food in Gorontalo

The Sixth Hypothesis Testing Result

The analysis result showed that based on the path coefficient there is indirect effect of management capability on corporate performance through the mediation of competitive strategy with value of 0.240 and has value of t-statistics 5.331, which

means > 1.96. This result proves that the management capability significantly influence the company's performance through competitive strategy.

A positive sign on the path coefficient in indirect affect of management capability on firm performance through the mediation of competitive strategy shows that the effect of management capabilitiy on the firm performance through the mediation of competitive strategy is unidirectional. This finding indicates that the competitive strategy is a partial mediation between management capabilitiy and firm performance.

The Seventh Hypothesis Testing Result

The seventh hypothesis of this research is that the higher capability of implementing competitive strategy, the higher the firm performance will be. Based on the analysis to this hypothesis it can be asserted that the relationship between the two variables showes a positive correlation at 0.337. The relationship between the two variables is significant since it has a value t-stastitic of 5.440, which means > 1.96.

This means that the higher the ability to apply the competitive strategy the higher the company performance will be, and vice versa. In more detail it can be put forward that if the owners of SMEs wooden furniture in Pasuruan city are able to implement the competitive strategy that fits their business environment then they wll be able to improve their company performance.

This finding supports Miller (1988) who believe that the companies which consistently apply competitive strategy in accordance with business environment will have better performance. This finding also supports the finding of Pono (2009), of Tan, Shen, and Langston (2012) of Chew, Yan, and Cheah (2008). However, this finding contradicts the finding of Pertusa-Ortega, Claver-Cortes, and Molina-Azorin (2008).

CONCLUSION

From the hypothesis test results, it can be concluded that firstly, industrial competitive pressures do not significantly influence firm performance either directly or through the mediation of competitive strategy. This finding confirms that the high and low pressure of buyers, bargaining power of suppliers, and the threat from competitors do not direct the owners of SMEs wooden furniture in Pasuruan city to implement competitive strategy, and neither influence their firm performance; Secondly, the management capabilities proved to have a significant effect on their firm performance either directly or through the mediation of competitive strategy. Thus it can be stated that good management capabilitiy can help the owners of SMEs wooden furniture in Pasuruan city implement the competitive strategy to reach the desired firm performance.

The implementation of competitive strategy proves to have a significant impact on the firm performance. Therefore, the owners of SMEs wooden furniture are recommended to apply competitive strategy to achieve better firm performance.

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