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The Role of Competitive Strategy as Mediation Variable to Improve Business Performance

Brian Pratistha¹, Ina Primiana², Umi Kaltum³, Erie Febrian⁴, Anggono Raras Tirto Sakti⁵, Diana Sari⁶, and Yudi Azis⁷

¹LAPAN/Universitas Padjadjaran

^{2,4,6,7}Universitas Padjadjaran

⁵STIE Inaba Bandung

ABSTRACT

Company leaders always attempt the right competitive strategy formulation to ensure the most optimum business performance achievement by the end of the year. Such effort is done in order for a company not only to survive, but also capable of making a competitive company in its business environment.

This article used literature review to develop theory and proposition concerning (a) dimension in competitive strategy variable; (b) competitive strategy variable as moderation variable in improving company's business performance; (c) correlation between competitive strategy and business performance.

The result shows that there are three dimensions in competitive strategy variable. Competitive strategy also play a critical role as mediating variable for strategic control, orientation strategy, and business environment to business performance in companies who are users of Indonesian space technology

Keywords: Competitive Strategy, Dimension of Competitive Strategy, Mediating Variable, Business Performance, and Companies Who Are Users of Indonesian Space Technology.

1. INTRODUCTION

The lack of research and development of Indonesia's space technology by its company users makes space technology industry in Indonesia difficult to grow. Undeniably, in comparison to first world countries, this causes Indonesia gets left far behind in space technology development. Research and development activities can be one of the indicator for business performance (Narin, Noma, and Perry, 1987; Ayuningrat, Noermijati., and Hadiwidjojo, 2016; Kurniawati, and MeilianaIntani, 2016). Incorrect the formulation of

competitive strategy becomes the main reason for the low business performance of Indonesian companies who use space technology.

Tan dan Litschert (1994) explain that a company's effort in achieving its business performance must be supported with building the correct competitive strategy. This opinion is also supported by the following research done by Kotha and Paul (1999), Pelham (2009), and Awino and Kariuki (2012). Competitive spirit is common in this day and age (Pratistha, 2016). It's obvious that a company has to determine the correct competitive strategy. A mistake in determining a competitive strategy could cause the company's performance to be under average; even worse, it could make the company gets stuck in the middle (Porter, 1985). Next, Porter (1985) also explains that correctly chosen competitive strategy can make the company's performance to be above average.

Evaluating the cause of the low level of business performance from companies who are users of Indonesian space technology requires empirical analysis. To provide a foundation for that analysis, this article develops theory and propositions concerning dimensions in competitive strategy variable; competitive strategy variable as moderation variable in explaining company's business performance; and correlation between competitive strategy and business performance that is well-measured financially and non-financially. This article also requires synthesizing several literatures, the article begins with an organizing framework and a brief overview to knowing dimensions in competitive strategy.

2. COMPETITIVE STRATEGY AND ITS DIMENSIONS

Widokarti (2013) explains that competitive strategy is an option to enable companies to compete. Competitive strategy has a very close connection with the environment of a company and the effect of the chosen competitive strategy will influence the achievement of the company's business performance (Kim dan Lim, 1988; Krisnawati, Perangin-Angin, Zainal, & Suardi, 2016; Stefan, Popa, & Dobrin, 2016). To build a competitive strategy, companies must be able to understand the minimum requirements of its resources in order to achieve their strategic targets (Pratistha, 2016a). Then, Siti (2009) explains that the essential values of competitive strategy can be illustrated as a process of how a company build and develop its various strategic resources that have the potential to produce the competitive advantage. This advantage can have double meanings. On one hand it acts as an instrument to generate performance. On the other hand, it is an instrument to neutralize competitors' assets competitive competencies. Sande (2014) also explains that the construction of competitive strategy by a company is done to build sustainable competitive advantage over its competitors. Such competitors include local or other foreign rivals (Luo and Zhao, 2004).

Porter (1985) divides three dimensions in competitive strategy: cost leadership strategy, differentiation strategy and focus strategy. Cost leadership strategy has a great impact for a company's success divides three dimensions in competitive strategy : cost leadership strategy, differentiation strategy and focus strategy. Cost leadership strategy has a great impact for a company's success (Dowling and McGee, 1994). Then, Wijbenga dan Witteloostuijn (2007) explains strategy dimensions into two parts : product innovation and low-cost strategies. Such opinion was also previously used by Miller (1988). Product innovation strategy is very suitable to be used in a stable environment, whereas low-cost strategies are very suitable to be applied in a dynamic environment (Rotter, 1966). Next, Huu Le and Jorma (2009) use differentiation strategy and low cost strategy dimensions in their effort to explain competitive strategy. In a different research, Ge and Ding (2005) explain that competitive strategy consists of innovation, quality enhancement, and cost leadership. Dimensions of competitive strategy is also shown in a research conducted by Santos-Vijande, et.

al. (2012) which explains that differentiation strategy and cost leadership strategy are the correct dimensions to describe competitive strategy.

Based on the above details, we can conclude that competitive strategy could consist of differentiation strategy, cost leadership strategy, and focus strategy.

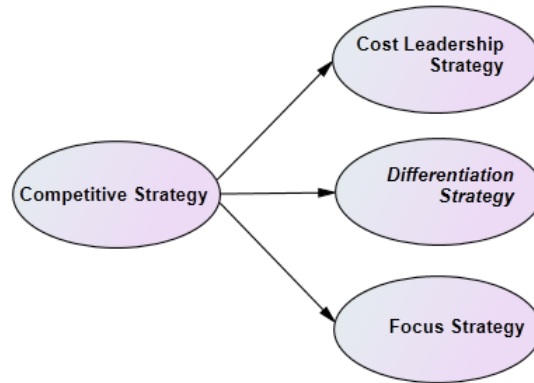


Figure 1: Competitive strategy dimension

Companies who apply a combination or a mixture of differentiation and cost leadership strategies are usually ones who still get stuck in the middle and always achieve below-average business performance (Porter, 1985; Murray, 1988; Kim, Nam, and Stimpert, 2004; Ortega, 2010). However, their explanation on the hybrid strategy receives an opposition from Johnson and Scholes (2002) who describe that Japanese car manufacturers successfully apply that strategy during the 1980s and 1990s. Apart from that, Spanos, et. al. (2004), Pertusa-Ortega, et. al. (2009), and Acquaah and Ardekani (2008) also strongly defends the use of hybrid competitive strategies to achieve better performance.

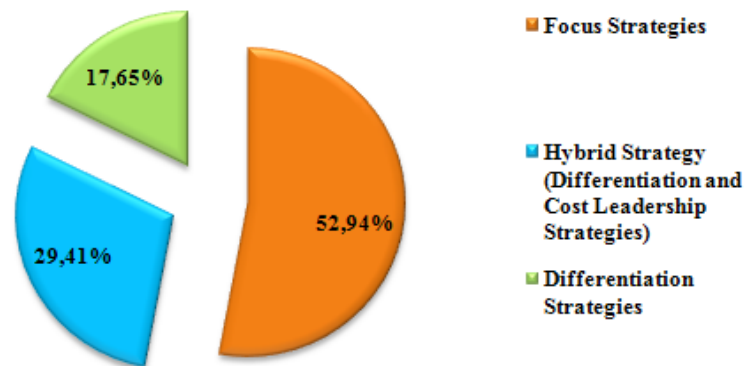


Figure 2: Percentage of Selection of Competitive Strategy for Companies who are Users of Indonesian Space Technology

3. COMPETITIVE STRATEGY AS MEDIATING VARIABLE TO IMPROVE BUSINESS PERFORMANCE

Ge and Ding (2005) explain that competitive strategy is the right variable to play the role as mediating variable to explain correlation between market orientation and performance. The role of competitive strategy as mediation variable has also previously stated by (Kotha and Swamidass, 1999). They explain that competitive strategy is capable of mediating advanced manufacturing technology to influence a

company's performance. The role of mediation from competing strategy towards business performance has been tested and gives a positive impact (Gupta, 1987). It is then validated by Taggart (1998), Roth, et. al. (1991), and Kostova and Roth (2002). Luo and Zhao (2004) also explain that competitive strategy can mediate corporate link to improve business performance. In a different research, Camison and Villar-Lopez (2010) place competitive strategy as a mediating role in explaining international experience of small and medium sized enterprises (SME) towards performance improvement. In the same year, Vazquez, et. al. (2010) explain market orientation and innovation as a variable mediated by competitive strategy to improve company performance. Then, Santos-Vijande, et. al. (2012) mention that organizational learning and strategic flexibility can improve business performance by being mediated by competitive strategy. The latest research that explains the mediation role done by competitive strategy is also researched by Pratistha (2016b). He describes that competitive strategy variable can play the role as mediation variable from strategic control, business environment, and orientation strategy to improve business performance in companies who are users of Indonesian space technology.

Based on the above explanation, we can conclude that competitive strategy can play the role of mediating variable towards business performance. The variable are advanced manufacturing technology (Kotha and Swamidass, 1999), market orientation (Ge and Ding, 2005; Vazquez, et. al., 2010), innovation (Vazquez, et. al., 2010), (international experience of small and medium sized enterprises (SME) (Camison and Villar-Lopez, 2010), organizational structure (Claver-Cortes, et. al., 2012), organizational learning and strategic flexibility (Santos-Vijande, et. al., 2012), strategic control, orientation strategy, and business environment (Pratistha, 2016b). Another conclusion is that competitive strategy mediation's role towards other variables can improve business performance.

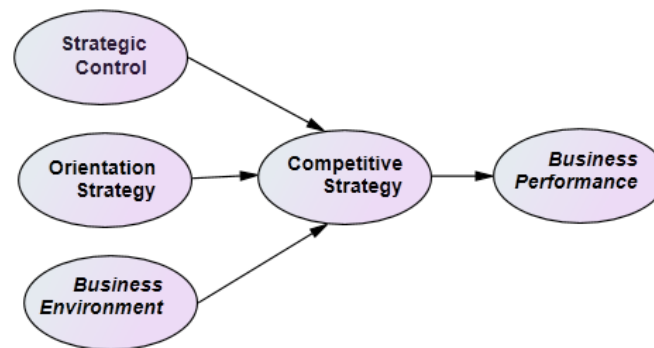


Figure 3: Competitive strategy in mediating strategic control, strategy orientation, and business environment in improving business performance of companies who are users of Indonesian space technology

4. THE RELATION BETWEEN COMPETITIVE STRATEGY AND BUSINESS PERFORMANCE

Business performance is the result of a company's activities in moving its strategic resources. In practice, business performance can be measured financially (Daft, et. al., 1988; Deshpande, et. al. 1998; Deng and Dart, 1994; Wang and Lo, 2003; A. Neely, 2005; Monsur and Yoshi, 2012). Monsur dan Yoshi (2012) explicitly explain that the level of asset return, capital growth, profit level growth, and sales growth are financial performance indicators. Apart from financially, business performance can also be measured non-financially (Chiesa and Frattini, 2007). Such as through research and development activities.

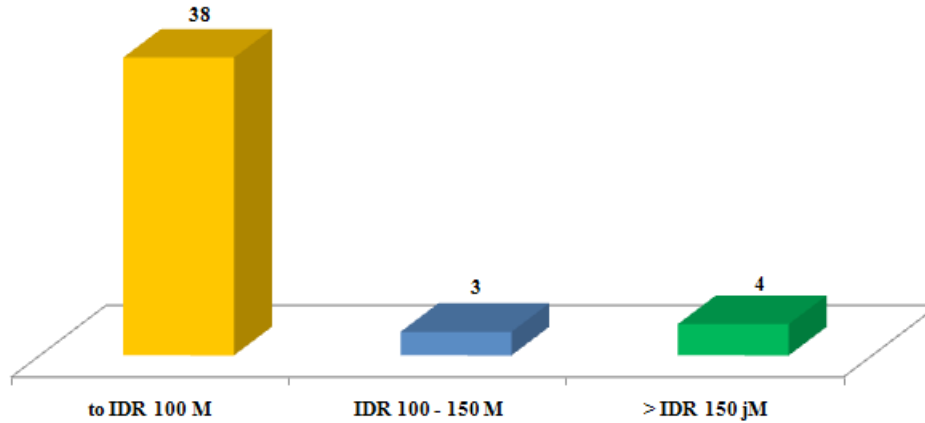


Figure 4: Company grouping based on research and development activities

There are many literature and empirical studies explaining the relation between competitive strategy and business performance (Mosakowski, 1993; Miller and Dess, 1993; Parnell and Carraher, 2001; Camison and Villar-Lopez, 2010). Ge and Ding (2005) which describes in their research that the whole competitive strategy dimensions have insignificant influence towards company financial performance.

Research on competitive strategy variable's effect towards business performance is also discussed by Tan and Litschert (1994), Kotha and Paul (1999), Pelham (1999), Acquaah and Ardekani (2008), and Awino and Kariuki (2012). Competitive strategy positively influences firm performance in terms of return on sales and return on assets (Acquaah and Ardekani, 2008). In the next research, Monsur and Yoshi (2012) explains that competitive strategy can strengthen company business performance. Whereas Claver-Cortes, et. al. (2012) explain in detail that competitive strategy has a direct significant influence on performance.

5. CONCLUSION

Based on exploration on research previously done and based on empirical studies, result shows that the right dimension on competitive strategy in companies who are users of Indonesian space technology are differentiation strategy, cost-leadership strategy, and focus strategy. Literature review results also show that competitive strategy's role as mediating variable towards business performance has been proven. Apart from that, competitive strategy also affects business performance.

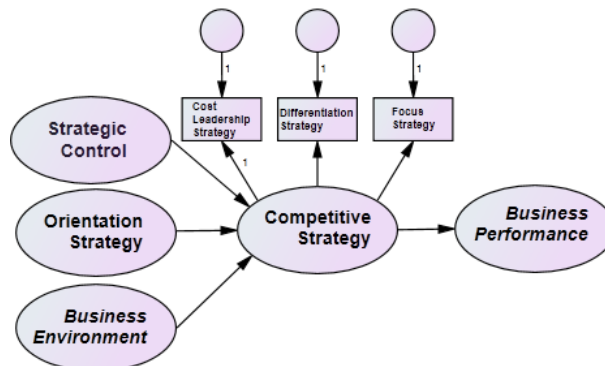


Figure 5: Competitive strategy dimension and its role in mediating strategic control, orientation strategy, and business environment on business performance in companies who are users of Indonesian space technology

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Suggestion for Future Research

This research is still based on literature review to explain dimension in competitive strategy and its effect on business performance. It is hoped that the future researches could be undertaken through statistic data to explain these variables interrelation in numbers. This will aid to observe which variable influences for company to achieve their better performance.

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