

The Effect of The Resources and Capabilities to Competitive Advantage and Company's Performance of "Batik" Micro

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Abstract

Purpose

: This study aims to demonstrate and explain the effect of the resources and capabilities to competitive advantage and company's performance in a comprehensive.

Desain/Methodology

/Approach

: This research use quantitative methods with positivism approach using associative research type. Total sample 255 companies. Data analysis using SEM (Structural Equation Modelling).

Finding

: The results show that the resources are valuable and rare has an effect significantly to competitive advantage and company's performance. While the company's capabilities are valuable, rare and inimitable does not affect to the competitive advantage but has an effect significantly to company's performance.

Originality/Value

: This study measure the company's performance by combining the perspective of the resources, capabilities and competitive advantage on batik micro in Madura Island, Indonesia.

Keywords Resources, Capabilities, Competitive Advantage, Company's Performance, Batik

Paper Type Research paper

I. Introduction

Performance for each company is very important because it shows the achievement efforts. A number of theories explain many factors that affect the company's performance, but in general can be divided into internal and external factors (Sampurno, 2011; Kuncoro, 2006; Purnomo and Zulkieflimansyah, 2005; Hitt *et al.*, 2001; Wright *et al.*, 1996). The internal factors that affect of company's performance are the resources and capabilities, while the external factors are competition. This research focus more on the internal factors that are known as the concept of resource based view (Penrose, 1959; Wernefelt, 1984; Barney, 1991; Barney *et al.*, 2007).

The substance of the resource based view considers the placement as well as the proper use of the resources and capabilities to create a competitive advantage, which in turn affect company's performance (Penrose, 1959, Wenerfelt, 1984, Barney 1991; Teece *et al.*, 1997; Barney *et al.*, 2007). Corporate's resources are all assets that could shape tangible and intangible. Company's capability is in fact the company resources that intangible yet due to its specific then some experts distinguish it from company resources in general (Penrose, 1959; Amit and Schoemaker, 1993; Barney 1991; Ljungquist, 2007; Barney *et al.*, 2007; Makadok, 2001 in Landroquez *et al.*, 2010). The core difference with other resources capabilities are capabilities inherent in the processes and routines of that firms become spesifications or uniqueness, which can not be traded while other resources can be traded.

Company's resources referred to as company supplies (Amit and Schoemaker, 1993) a very meaningful or strategic for the company (Barney 1991; Barney *et al.*, 2007; Caharbaghi and Lynch in Hsieh, 2008; Eisenhardt and Martin, 2000 in Wiklund *et al.* , 2003) when included in VRIN, valuable, rare, inimitable and non substitutable for futher processing. Company's capabilities is the ability, proficiency, expertise, personnel skill of

the company in placing the resources that belong to the best combination to be processed in order to achieve the expected goals (Hitt *et al.*, 2001).

Some research have proved the company's performance has any relationship or influenced by the company's resources and capabilities that are VRIN and competitive advantage (Yi Chien *et al.*, 2012; Pinto *et al.*, 2012; Spasova *et al.*, 2011; Murat Ar *et al.*, 2011; Kamukama *et al.*, 2011; Hung *et al.*, 2010; Lava, 2010; Gruber *et al.*, 2010; Inmyxai *et al.*, 2009; Bani-Hani *et al.*, 2009; Newbert, 2008; Ainuddin *et al.*, 2007; Wu, 2007; Wu *et al.*, 2007). However, there are still a number of shortcomings in the research, which is just testing some variables only. In addition, a number of previous studies that examined the company's performance none carried on the batik micro company in resource perspective, capabilities and competitive advantage in a comprehensive, whereas batik micro company is not only found in Indonesia. On that basis, the research was conducted at the batik micro company in Madura Island, Indonesia.

Batik company generally managed by family for generations (Wahono *et al.*, 2010, 2012). Hitt *et al.*, (2003) stated the company maintained by a micro scale family generally have the following disadvantages : (a) difficult to obtain and retain who have high qualified managers, (b) no investors outside of the family and limited availability of financial capital, (c) The limited of access network, (d) not all family company has resources, and (e) many family firms has no effective structure, confidence, and strong family ties. Thus, making the cost higher.

Although there are some challenges, the fact remains they are able to pass him up to now. This implies there is "a force" associated with resources and capabilities. Though they existed until now, they have not a business growth experienced significantly, so that it can be likened to "beautiful outside but vulnerable inside". "Beautiful" because quite a number of batik micro company have sprung up, thus implying there is a potential market that very promising for business growth, despite the other hand competition increasingly. "Vulnerable" because of the many batik micro company is alleged to have interfere with the performance of their company, therefore this research is very important. This study aims to demonstrate and explain the effect of the resources and capabilities to competitive advantage and company's performance batik micro comprehensively.

II. Literature Review

2.1 Company Resources

Resources can be told a strategic if it meets the criteria of "VRIN" that is valuable, rare, inimitable and non substitutability, which can be used as a base to create competitive advantage as a "bridge" to realize the desires of company's performance (Wernefelt, 1984, Barney 1991; Peteraf, 1993). Barney (1991) and Barney *et al.*, (2007) defines the company's resources as "all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable it to conceive of and implement strategies that improve its efficiency and effectiveness". Hitt *et al.*, (2001) states that resources are assets belonging to the company.

2.2 Company Capabilities

According to Hitt *et al.*, (2001) the company capability is the capacity of firms using resources that are integrated with the aim of achieving the desired end goal. Hitt *et al.*, (2001) also states there are four criteria for determining capabilities are strategic, that is (a) precious or valuable if it's able to help company to neutralize the threat or exploit opportunities, (b) rare if not owned by competitors, (c) is too expensive to be replicated in a historical, cultural organization or brand names are valuable, unique, ambiguous cause, the cause and the use of core competencies are not clearly, social complexity; inter personal relationships, trust and friendship among managers, suppliers and customers, (d) there are no substitute product or if there is no strategic equivalent.

2.3 Competitive Advantages

Barney (1991) states the company can be said to have a competitive advantage when implementing strategies for value creation is not simultaneously performed by competitors or potential competitors. Furthermore, Barney (1991) said that the company has a sustainable competitive advantage when implementing strategies for value creation is not simultaneously performed by competitors or potential competitors and when rivals others can not duplicate the benefits of such a strategy. Competitive advantage in the RBV perspective depending on the resources and capabilities that are valuable, rare, hard to imitate and hard to substitute (Barney, 1991; Barney *et al.*, 2007).

2.4 Company Performance

Euske and Lebas in Neely (2007) defines performance as activities performed are now directed to generate future value that can be measured with certainty. So they declare it necessary for causal models (input, process, output) that can be identified and managed.

III. Hypotheses

3.1 Company Resources and Competitive Advantage

Company's resources can be told a strategic if it has valuable characteristic, rareness, inimitable and non substitutable, which can be a source of competitive advantage creation (Clulow *et al.*, 2007; Hitt *et al.*, 2001; Mata *et al.*, 1995; Wenerfelt, 1984 ; Barney 1991, Barney *et al.*, 2007; Peteraf, 1983), whereas that's not strategic, it can not be used as a source of competitive advantage. Teece *et al.*, (1991) state that resources can be used as a foundation or a source of competitive advantage. Based on the above description, it can be hypothesized:

H1 : Company's resources are valuable and rare has an effect significantly to competitive advantage.

3.2 Company Resources and Company Performance

There is a relationship of resources with company performance through the creation of competitive advantage, but with a note that resources are valuable, rareness, inimitable and non substitutable then placed on a place that has the best position or strategic (Clulow *et al.*, 2007; Mata *et al.*, 1995 ; Wenerfelt, 1984, Barney 1991, Barney *et al.*, 2007; Peteraf, 1983). Based on the above description, it can be hypothesized:

H2 : Company's resources are valuable and rare has an effect significantly to company's performance.

3.3 Company Capabilities and Competitive Advantage

The company's strategic capabilities that have the valuable characteristic, rareness, inimitable and non substitutable (Hitt *et al.*, 2001; Barney *et al.*, 2007) which is closely linked to the creation of competitive advantage (Clulow *et al.*, 2007; Mata *et al.* , 1995; Wenerfelt, 1984, Barney, 1991, Barney *et al.*, 2007; Peteraf, 1983). Based on the above description, it can be hypothesized:

H3 : Company's capabilities are valuable, rare and inimitable has an effect significantly to competitive advantage.

3.4 Company Capabilities and Company Performance

Competitive capabilities related to economic performance Bendoly *et al.*, (2007) and Koufteros *et al.*, (2002), in Hallgren *et al.*, (2010). Based on the above description, it can be hypothesized:

H4 : Company's capabilities are valuable, rare and inimitable has an effect significantly to company's performance.

3.5 Competitive Advantage and Company Performance

According to Barnet *et al.*, (2007), Clulow *et al.*, (2007) there is a relationship between competitive advantage and superior performance. Based on the above description, it can be hypothesized:

H5 : Competitive advantage has an effect significantly to the company's performance.

IV. Research Method

4.1 Research Context

Based on problems, objective and existing theory then this research uses quantitative methods with positivism approach using associative research type.

4.2 Population and Sample

The research population numbered 700 batik micro companies in Madura Island. According to Slovin, the number of samples for research in 255 companies, it's based on the calculation of proportionate sampling

method (Noor, 2011) i.e. 98 unit of Pamekasan, 80 unit of Bangkalan, 55 unit of Sumenep and 22 unit of Sampang. In addition, to research respondents beside as business owners also can as batik craftsman or craftswomen. Research analysis unit at the level of firm is represented by the business leader.

4.3 Measurement

Company's resources are company assets that tangible and intangible as measured by an indicators valuable and rare. Company's capabilities is a skill to manage resources to produce business profit which measured by using valuable, rare and inimitable indicators. Competitive advantage based on indicators Newbert (2008): (a) cost reduction, (b) the exploitation of market opportunities and (c) defending against known competitive threats, while the company's performance indicators, namely: performance compared to competitors (Madsen, 2007). This study measured the attitudes of respondents manifested into daily behaviour. Application of Likert scale measurement using five alternative answers (1-5) in stages, from answers "strongly disagree" to "strongly agree."

4.4 Data Collection Method and Analysis

Data collection using the enclosed statement instruments. Each enclosed statement is provided five answers alternative according Likert scale, that have to choose one correct answer by respondents that reflect respondent's attitudes in performing its daily business activity. Data analysis using SEM (Structural Equation Modelling).

V. Result and Discussion Research

5.1 Instrumen Testing

In this study, tests were conducted on 30 respondents instrument that shows all items of the statement of the five studied variables declared invalid evidenced from the correlation coefficient of each item statement is greater than 0.3. Furthermore, it demonstrates the level of reliability is well proven from Chronbach's Alpha coefficient values greater than 0.6. Thus, the instrument can be distributed throughout the target sample set in this study.

5.2 Responden Description

The number of male respondents 109 people or 42,75% while the female respondents 146 people or 57,25%. The age of the respondents ranged from 33 years to 37 years old, and 38 years up to 42 years old, which is sequentially by 40 people or 15,69%, and 39 people or 15,29%. The second largest age of the respondents ranged from 48 years to 52 years old as many as 36 people or 14,12%, and followed by 35 people or 13,73%. Rest as many as 26 respondents ages ranged from 23 years to 27 years old or 10,20%, as many as 24 people ranged from 43 years to 47 years old or 9,41%, as many as 23 people ranged from 53 years up to 57 years old or 9,02%, a total of 15 people aged between 58 years to 62 years old or 5,88%, 11 people aged between 18 years to 22 years old or 4,31%, and as many as 6 people aged over 62 years old or by 2,35%.

Most of the respondent's education, i.e. as many as 147 people or 57,65% passed the elementary education or equivalent, then followed by 50 people or 19,61% graduated from junior high school educated or equivalent, followed by as many as 43 people or 16,85% passed the senior high school educated or equivalent, and there are as many as 15 people or 5,89% educated scholar.

As many as 91 respondents or 35,69% have experience to run a batik micro business is not more than 10 years, while 42 respondents or 16,47% have experience to run batik micro business ranged from more than 10 years up to 15 years. The rest, as many as 122 respondents or 47,84% have experience to run batik micro business more than 15 years. The result of hypothesis testing research are as follows:

Tabel Result of Hypothesis Testing Research

H	Dependen Variabel	Independen Variabel	Coeffisien	P-value	Result	Notes
H1	Competitive Advantage (Y1)	Company's Resources (X1)	0,389	0,011	Significant	Accepted
H2	Company's Performance (Y2)	Company's Resources (X1)	0,268	0,042	Significant	Accepted
H3	Competitive Advantage (Y1)	Company's Capabilities (X2)	-0,232	0,242	Not Significant	Rejected
H4	Company's Performance (Y1)	Company's Capabilities (X2)	0,350	0,046	Significant	Accepted
H5	Company's Performance (Y2)	Competitive Advantage (Y1)	0,440	0,004	Significant	Accepted

5.3 Discussion

Hypothesis 1 proved that there is a significant effect of company's resources to competitive advantage. This can be noticed by the p-value of 0,011 is smaller then the alpha value of 0,05. The coefficient relationship of the two variables is positive (0,389), this indicates a direct relationship of company's resources and competitive advantage. It means that the larger company's resources, result in the larger of competitive advantage. In theoretical perspective, the findings of this study confirm the truth theory of Penrose (1959), Peteraf (1983), Wenerfelt (1984), Hamel and Prahalad (1990), Mata *et al.*, (1995), Tecee *et al.*, (1997), Hitt *et al.*, (2001), Barney *et al.*, (2007), Clulow *et al.*, (2007) and the empirical findings of this study support the findings study of Wu (2010), Lava (2010), Bani-Hani *et al.*, (2009), Newbert (2008).

Hypothesis 2 proved that there is a significant effect of company's resources to company's performance. This can be noticed by the p-value of 0,042 is smaller than the alpha value of 0,05. The coefficient relationship of the two variables is positive (0,268), this indicates a direct relationship of company's resources and company's performance. This means that the larger of company's resources, result in the larger of company's performance. In a theoretical perspective, the findings of this study confirm the truth theory of Penrose (1959), Peteraf (1983), Wenerfelt (1984), Prahalad and Hamel (1990), Mata *et al.*, (1995), Tecee *et al.*, (1997), Hitt *et al.*, (2001), Barney *et al.*, (2007), Clulow *et al.*, (2007) and the empirical perspective, the findings of this study support the findings study of Masakure *et al.*, (2009), Inmyxai *et al.*, (2009), Crook *et al.*, (2008), Newbert (2008), Madsen (2007), Ainuddin *et al.*, (2007).

Hypothesis 3 is not proven, there is no significant effect of the company's capabilities to competitive advantage. This can be noticed by the p-value of 0,242 is greater than the alpha value of 0,05. The Coefficient relationship of the two variables is negative (-0,232), this does not indicates a direct relationship of company's capabilities and competitive advantage. This means that the larger of company's capabilities does not result in the higher of competitive advantage. In empirical perspective, the findings of this study do not support the findings study of Yuan Li *et al.*, (2012), Wu (2010), and Newbert (2008).

Capability is a combination of skill and knowledge that's dynamic, so it can continue to be developed through a variety ways, such as training, formal education, mentoring and experience, as well as should have happened on the respondent's capabilities. In fact, the respondent has had the capabilities that are indicated through their batik business which still exist to this day. Respondents periodically produce a batik products to serve the order or sold in the free marker. Respondent's capabilities in the context of batik technic (from determine the basic fabric, make a pattens or design, full colour and product quality), are generally obtained from family "legacy", it means the batik skill of respondent taught by "senior" in the family, such as their parents, who then had been developed up to now. Respondent's capabilities in the context of strategic is "managing" batik industry which formed from a combination of education, training and work experience. The combination of both (technical and strategic) forming the respondent's capabilities currently.

When further explored why hypothesis 3 is rejected, found the answer. In the context of training, most of respondents almost never followed the capabilities enhancement training (tecnical and strategic) of product

exhibitions organized by government agencies (eg. Department of Industry and Trade or SMEs) or other parties for augment insights and business networks, because one of the conditions to joined the training or exhibition of product are micro company must have a Certificate of Industrial Registry (STDI). In the context of work experience, from data respondent's description known most of respondent have an experience to running batik business quite a lot, which is as much as 64,31% has run batik business more than 10 years. Quite a long of work experience are supposed to have impact to the improvement of respondent's capabilities, either in the context of the technical skill and strategic knowledge, which is ultimately affect the competitive advantage, but it did not happen.

The experience of the majority of the respondents in the Batik business run more than 10 years has not been able to fix "quality" of company's capabilities to become a source of strength to build competitive advantage. The explanation indicates company's capabilities does not include what is called by Bendoly *et al.* (2007) and Koufteros *et al.* (2002), in Hallgren *et al.* (2010) as competitive capabilities so it can be understood if company's capabilities does not have a positive effect significantly to competitive advantage.

Hypothesis 4 proved that there is a significant effect of company's capabilities to company's performance. This can be noticed by the p-value of 0,046 is smaller than the Alpha value of 0,05. The coefficient relationship of two variables is positive 0,350, then this indicates a direct relationship of company's capabilities and company's performance. This means that the larger company's capabilities, result in the larger company's performance. In a theoretical perspective, the findings of this study confirm the truth theory of (Peteraf, 1983; Wenerfelt, 1984 Penrose, 1959; Barney, 2007; Teece *et al.*, 1997; Clulow *et al.*, 2007; Hitt *et al.*, 2001; Mata *et al.*, 1995; Schlemmer *et al.*, 2008; Chmielewski, 2007; Bendoly *et al.* 2007 and Koufteros *et al.*, 2002, in Hallgren *et al.* 2010). In empirical perspective, the findings of this study support the finding study of Yi Chien *et al.*, (2012); Sirmon *et al.*, (2010); Gruber *et al.*, (2010); Hung *et al.*, (2010); Newbert (2008); Ferreira *et al.*, (2008), Wu (2007); Ainuddin *et al.*, (2007).

Hypothesis 5 proved that there is an effect significantly of competitive advantage to company's performance. This can be noted by the p-value of 0,004 is smaller than the Alpha value of 0,05. The coefficient relationship of the two variables is positive 0,440, then this indicates a direct relationship of competitive advantage and company's performance. This means that the larger competitive advantage, result in the better company's performance. In a theoretical perspective, the findings of this study confirm the truth theory of Clulow *et al.*, (2007), that there is a relationship between competitive advantage with company's performance. In empirical perspective, the findings of this study support the findings study of Leonidou *et al.*, (2012); Kamukama *et al.*, (2011); Newbert (2008), Wu *et al.*, (2007).

VI. Conclusion

Company's resources are valuable and rare has a affect significantly to competitive advantage. This means that more resources are valuable and rare which owned by batik micro batik enterprises result in the higher the competitive advantage of the company. Company's resources are valuable and rare has a positive affect significantly to company's performance, this means that the greater resources are valuable and rare which owned by batik micro enterprises result in the better performance of the company. Company's capabilities are valuable, rare and inimitable does not affect significantly to competitive advantage. This means that the greater capabilities are valuable, rare and inimitable of batik micro enterprises does not cause the higher the competitive advantage of the company. Company's capabilities are valuable, rare and inimitable has a positive affect significantly to company's performance. This means that the greater capabilities are valuable, rare and inimitable of batik micro enterprises result in the better performance of the company. Competitive advantage has a positive effect significantly to company's performance. This means that the higher competitive advantage of batik micro enterprises result in the better performance of the company. Limitations of this research is homogeneous sample, therefore, for an upcoming research, sample research should be heterogeneous.

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