Innovation Strategy of Small Industry Batik in Competitive Advantage

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Abstract:

This study analyzing the effect of competence in marketing to competitive advantage, especially seen from a comparison of relative market share and growth in market share. By using Structural Equation Modelling (SEM) this study tested independent variable (Variable Marketing Strategy and Innovation Strategy) as exogenous variables and the dependent variable (Competitive Advantage) as endogenous. Based on data processing by Standardized Coefficient of Software LISREL on 108 respondent, the study found (a) Marketing strategy has a coefficient value of 0.36 and T-count is > t-probability or 3.07 sig > 1.96 to competitive advantage. This means accepting H₀ and reject H₁. (b) An innovation strategy has a coefficient of 0.01 and T-count is <t-probability sig or 0.10 < 1.96 to competitive advantage and this means rejecting H₀ and accept H₁, innovation strategy does not affect the competitive advantage.

Keywords: Innovation strategy, marketing strategy, competitive advantage

1. INTRODUCTION

Batik small industry shows that marketing performance can be improved through competitive advantage which the competitive advantage can be created with product innovation. (Agung, 2006). In batik companies, some of the resources that are considered important such as labor, network, reputation, culture, and marketing (Kareem, 2009) is an important marketing capability to ensure that each batik produced can be sold according to the market demand.

One of the ways that can be taken for improving the competitive advantage of companies is to develop the capability or competence of the company (Tambunan, 2001). This study tried to look at the effect of the in marketing to competitive advantage, especially seen from a comparison of relative market share and growth in market share. We hope this research can be used as an alternative solution for the company in exploring sources of competitive advantage, especially in the field of marketing in order to improve the performance of manufacturing industry in Indonesia.

According to Smith, et. al. (1989), the typology of the strategy from Miles and Snow (1978) might reflect the complexity of the environmental problems of organization and the organizational process from various dimensions, for example, competition, consumer behavior, the situation and the response of the market, technology, organizational structure and other managerial characteristics. Meanwhile, the orientation of the theory of the strategy that based on Porter’s typology (1980) only represents the behavior of market competition in general.

Marketing strategy is defined as an attempt to use a company or organization marketing communication tools to promote their products or services. The definition of marketing communications is the process of development and implementation of various forms of persuasive communication programs to its customers on an ongoing basis (Shimp, 2003). Marketing is an act of interaction using effective communication with the purpose of the
exchange, taking into consideration the advantages on both sides. The marketing process basically involves a group to be able to apply marketing through four marketing tools (marketing mix) or commonly called the 4Ps: product, price, place, promotion.

According to Yeshin (1999), Innovation strategy is defined as the activity of conceptualization, as well as ideas to solve the problem by bringing economic value to the company and social value for the community. So innovation departs from a preexisting, then given added value. Innovation emerges from things that seem small to receive aspiration or complaints of consumers, employees, surrounding and the society. The subject of the application of innovation itself can be individuals, groups or companies. This means that there may be any very brilliant and innovative individual or group in a company. Ideally, companies to be an institutionalized place for the people who gathered to exploit new ideas. (Myers and Marquis, 2003).

2. THEORETICAL FRAMEWORK AND RESEARCH METHODOLOGY

Theoretical Framework

Increased global competition, changes in markets and technologies, increased complexity and uncertainty creates a new competitive environment. Those changes resulted in the company engaged in marketing carefully make changes from the efficiency-based industrial system into a new industrial system whose success depends on the rapid response to consumer demand for a quality product and in accordance with their needs. In response to these conditions and to achieve sustainable competitive advantage in today’s competitive business situation, companies should adopt and implement a marketing strategy if it wants to stay competitive (Shimp, 2003). In the process of marketing strategy, environmental considerations play a significant role in determining the marketing strategy.

The interests of managers and researchers towards marketing strategies are on the rise, in line with many industries who seeks to find practical solutions to improving the environmental changes and competitive pressures. In this research, marketing strategy is defined as a strategy that is used to coordinate the marketing, advertising, and marketing planning; including technology adoption, suppliers, production planning and control system, labor and quality implementation (Bates et al.,1995), while competitive advantage generally is the company’s efforts to acquire, maintain and manage valuable resources to generate superior customer value (Chumaidiyah, 2014). This is reinforced by the opinion of Christensen (2010) that competitive advantage is whatever value a business provides that motivates customers (or end users) to buy their products or services rather than competitors and creates an impediment to being copied by an actual or potential direct competitors.

According to Gronhaug and Kaufman (1988) in Han et al. (1998), innovation is a tool for the company's survival, not only for growth in terms of performance but also win the competition in terms of sustainable competitive advantage. According to Droge and Vickery (1995), in order to survive in a dynamic market, the company should always be involved in the continuous innovation that is a fundamental requirement in resources that to create a sustainable competitive advantage. This in line to some researchers such Henard and Szymanski (2001) and (Hana, 2013) who supports that product innovation as a strategy to increase the value of the product as are considered component of a successful business operation brought a company to a competitive advantage and determines the economic success of each organization.

Research Methodology

In modeling Structural Equation Modeling (SEM), the independent variable is called exogenous variables and the dependent variable is called endogenous. Based on the description above, thus the exogenous variables are the marketing strategy and innovation strategy, while the endogenous variable that is the competitive advantage, although, in the stage of data processing, each variable can be independent variables and the dependent variable.

![Figure 1. Relationship between Variables](image)

**Hypothesis formulation**

Based on frameworks and the establishment of the previous model, an initial hypothesis can be formulated as follows:

Hypothesis 1

$H_0$: Marketing strategy affect to the competitive advantage.

$H_1$: Marketing strategy does not affect to the competitive advantage.

Hypothesis 2

$H_0$: Innovation strategy affect to the competitive advantage.

$H_1$: Innovation strategy does not affect to the competitive advantage.
3. DATA COLLECTION

The population of this study is the small industry batik trusmi Cirebon in Indonesia, the questionnaire used as the main instrument of this study. The sample was chosen by random sampling technique with the sample number of 108 respondents. The results of data collection were analyzed using SEM LISREL 8.70.

4. RESULTS AND DISCUSSION

Once the model is analyzed in previous chapters through confirmatory factor then each indicator in that fit model can be used to define latent construct, so that the SEM full model can be analyzed. The data processing result can be seen in figure 2 below:

Figure 2. Loading Factor Value Diagram of Full Model

Based on the full picture of the model, almost all indicators have a loading factor value and T-count meets the minimal standards required. Only indicator Price, External Sources, price competition, and rare loading factor having a value smaller than 0.5, but greater than 0.3 so it is still acceptable. The size of the goodness of fit which indicates conditions that do not fit, it can be seen from the figures Chi-square of 255.57 with probability figures however 0.0026 (> 0.05). The size of the other goodness of fit is described as follows:

Table 1. Value recapitulation Goodness-Of-Fit Full Model

<table>
<thead>
<tr>
<th>Goodness-Of-Fit</th>
<th>Cut-off Value</th>
<th>Model Result</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-Square</td>
<td>96.35, df =61</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Probability</td>
<td>≥ 0.05</td>
<td>0.0026</td>
<td>does not fit</td>
</tr>
<tr>
<td>RSMEA</td>
<td>≤ 0.08</td>
<td>0.07</td>
<td>Fit</td>
</tr>
<tr>
<td>GFI</td>
<td>≥ 0.90</td>
<td>0.88</td>
<td>Marginal Fit</td>
</tr>
<tr>
<td>AGFI</td>
<td>≥ 0.90</td>
<td>0.82</td>
<td>Marginal Fit</td>
</tr>
<tr>
<td>NFI</td>
<td>≥ 0.90</td>
<td>0.81</td>
<td>Marginal Fit</td>
</tr>
<tr>
<td>CFI</td>
<td>≥ 0.90</td>
<td>0.91</td>
<td>Fit</td>
</tr>
<tr>
<td>IFI</td>
<td>≥ 0.90</td>
<td>0.92</td>
<td>Fit</td>
</tr>
</tbody>
</table>

The results of the analysis of data processing from table 1 above shows that the indicators used to establish a research model, the process of confirmatory factor analysis have not fully met the criteria of goodness of fit predefined. Therefore make an improvement based on the proposal of LISREL program as the following display:

Table 2. Full Model Improvement Suggestion

<table>
<thead>
<tr>
<th>The Modification Indices Suggest to Add an Error Covariance Between and Decrease In Chi-Square New Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>JDJ</td>
</tr>
<tr>
<td>INPR</td>
</tr>
</tbody>
</table>

Repairs carried out by selecting a value of ‘decrease in chi-square’ from the largest to so that smallest so that the value goodness of fit standard meets the minimum criteria. At table 2 view, means the first step in a way to correlate the measurement error between the indicator INPR (Product Innovation) and PRD (Product) which will lower the Chi Square values of 11.6, after that, too, correlate between indicators JDJ (Rare) and UNK (Unique) which will lower the value of Chi Square of other Goodness-Of-Fit is as follows:

Table 3. Value Recapitulation Goodness-Of-Fit Full Model after Improvement

<table>
<thead>
<tr>
<th>Goodness-Of-Fit</th>
<th>Cut-off Value</th>
<th>Model Result</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi-Square</td>
<td>75.71, df =59</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Probability</td>
<td>≥ 0.05</td>
<td>0.07</td>
<td>Fit</td>
</tr>
<tr>
<td>RSMEA</td>
<td>≤ 0.08</td>
<td>0.051</td>
<td>Fit</td>
</tr>
<tr>
<td>GFI</td>
<td>≥ 0.90</td>
<td>0.9</td>
<td>Fit</td>
</tr>
<tr>
<td>AGFI</td>
<td>≥ 0.90</td>
<td>0.85</td>
<td>Marginal fit</td>
</tr>
<tr>
<td>NFI</td>
<td>≥ 0.90</td>
<td>0.85</td>
<td>Marginal Fit</td>
</tr>
<tr>
<td>CFI</td>
<td>≥ 0.90</td>
<td>0.96</td>
<td>Fit</td>
</tr>
<tr>
<td>IFI</td>
<td>≥ 0.90</td>
<td>0.96</td>
<td>Fit</td>
</tr>
</tbody>
</table>

Table 3 shows there are two criteria for marginal fit. In LISREL program also does not have any more suggestions for improvement again. Overall the model, most of the indicators are considered fit so that the model can be accepted.

Hypothesis testing
First Hypothesis:
H₀: Marketing strategy affect to the competitive advantage.
H₁: Marketing strategy does not affect to the competitive advantage.
Based on the results of data processing by using the Standardized Coefficient of Software LISREL, marketing strategies have the coefficient value of 0.36 and T-count are > t-probability or 3.07 sig > 1.96 to competitive advantage. This means by accepting H₀ and reject H₁, the marketing strategies influence the competitive advantage. This quantitative phenomenon gives the sense that the marketing strategy consists of product, price, places and promotion significant effect on competitive advantage.

Second hypothesis:
H₀: Innovation Strategy affects to the Competitive advantage
H₁: Innovation Strategy does not affect the Competitive advantage

Based on the results of data processing by using the Standardized Coefficient of LISREL Software, an innovation strategy has a coefficient of 0.01 and T-count is < t-probability sig or 0.10 < 1.96 to competitive advantage. This means by rejecting H₀ and accept H₁ the innovation strategy does not affect the competitive advantage. This quantitative phenomenon gives the sense that an innovation strategy which consists of product innovation, process innovation, internal resources and external resources does not affect the competitive advantage.

5. RECOMMENDATIONS AND CONCLUSION

The results of this study concluded the following:

a. Based on the results of data processing by using the Standardized Coefficient of Software LISREL, marketing strategy has a coefficient value of 0.36 and T-count are > t-probability or 3.07 sig > 1.96 to competitive advantage. This means accepting H₀ and reject H₁, influential marketing strategies to competitive advantage. This quantitative phenomenon gives the sense that the marketing strategy consists of product, price, place and promotion significant effect on competitive advantage. It supports research Akimova (1999), which says that the positive effect of market orientation with a competitive advantage. Companies that implement market orientation has advantages in terms of customer knowledge and the excess can be used as a source for creating products that fit customer needs and requirements. Besides these results also support the view Bharadwaj (1993), which states that corporate culture that emphasizes the importance of the company to pay attention to the market will lead to strengthening the company's competitive advantage.

b. Based on the results of data processing by using the Standardized Coefficient of LISREL Software, an innovation strategy has a coefficient of 0.01 and T-count is < t-probability sig or 0.10 < 1.96 to competitive advantage. This means by rejecting H₀ and accept H₁, the innovation strategy does not affect the competitive advantage. This quantitative phenomenon gives the sense that an innovation strategy which consists of product innovation, process innovation, internal resources and external sources does not affect the competitive advantage.

REFERENCES


