The Influences of Internal Capabilities, External Network and Value Chain Strategy on Competitive Strategy in Improving Company Performance in Food and Beverage MSME Companies in East Java

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Abstract — The increasing number of food and beverage industry companies in the region and increasing competition affect the performance of small, medium and large industries. East Java Province with a population of more than 38 million people and a tropical climate is a potential market for the food and beverage industry nationally and globally. Based on data from the East Java GAPMMI based in Surabaya, the number of entrepreneurs who joined was 243 entrepreneurs. Therefore, it is necessary to conduct research that aims to determine the effect of internal capabilities, external network and value chain strategy variables on competitive strategies in improving company performance in food and beverage MSME industrial companies in East Java Province. The sample of this research is 152 companies. The analytical technique used is (Structural Equation Modeling to confirm each construct forming indicator and simultaneously test the influence between constructs. The result is that External Network, Value Chain Strategy has a significant effect on competitive strategy. Internal Capabilities, External Network and Value Chain Strategy have a significant effect on company performance. Meanwhile, Internal Capabilities have no significant effect on competitive strategy.

Keywords — Internal capabilities, external network, value chain strategy, competitive strategy, company performance.

I. INTRODUCTION

In today's increasingly open global competition, there are many challenges that must be faced. Industry is required to be able and have a competitive strategy and competitive advantage. Competitive strategies and high competitive advantages are absolutely necessary for every industry to stay ahead. Industry competitiveness, especially the food and beverage industry, achieves optimal company performance with effective internal capabilities, external networks and value chain strategy (Nurimansyah, 2011)

Competitive strategy is the search for a favorable competitive position within an industry, the fundamental arena in which competition occurs.

Internal Capabilities are the main source for companies to achieve profitability. Company characteristics, product characteristics, management commitment and business strategy are the company's internal capabilities that can improve company performance.

External Network acts as a glue that binds all people or groups in society or organizations that access financial sources, obtain information, determine jobs, start businesses and minimize transaction costs.

Value Chain Strategy is a strategy of activities that generate value from inside and outside the company, the value starting from raw materials to handling products after they are sold to consumers. The company must be able to recognize its position in the value chain that makes up the product or service.

Company performance is part of organizational effectiveness which includes operational and financial results.

Based on the description above, the researchers are interested in conducting a study by including several variables as part of the novelty. The novelty is a competitive strategy as intervening variables that mediate the influence of internal capabilities, external network, and value chain strategy to improve company performance in food and beverage MSME industrial companies in East Java Province.

Problem Formulation
1. Do Internal Capabilities affect the competitive strategy?
2. Do Internal Capabilities affect the company's performance improvement?
3. Does the external network affect the competitive strategy?
4. Does the external network affect the company's performance improvement?
5. Does Value Chain Strategy affect competitive strategy?
6. Does Value Chain Strategy affect the company's performance improvement?

II. LITERATURE REVIEW

Internal Capabilities

Internal capabilities are human and physical resources that affect the organization. Internal stakeholders, namely the organization or the company itself, consist of a. company characteristics, b. product characteristics, c. management commitment and d. business strategy (Argyriou, & Melewar, 2011).

External Network

External network is the quality of a person's behavior and character that acts as a marker that can predict how successful a person will be in the position he is applying for, consisting of a. market orientation, b. marketing creativity, c. networking quality (Kolakovic and Milovanovic, 2010:74).
Value Chain Strategy

Value chain strategy is a strategy to understand the value chain that forms a product (Porter, 2007: 218). This value chain comes from the activities carried out, starting from raw materials to the hands of consumers, including after-sales services, consisting of a. Inbound Logistics, b. Operations, c. Outbound Logistics, d. Sales and Marketing, e. Support and Service.

Competitive strategy

Competitive Strategy is the company's efforts to create added value by the company by combining various resources through new and different ways to win the competition, consisting of a. Internal, namely the company's strategy developed based on the company's internal conditions and assets, b. External, namely the company's strategy developed from external resources utilized by the company (Porter, 2007:152).

Company Performance

Company performance is the achievement or success of the company in operating the existing resources in the company, consisting of a. Internal processes, namely performance measurement with intelligence, skills, emotional stability, perception of roles and family conditions. b. External process, namely measurement by company of labor regulations, customer perspective, trade unions and economic conditions (Kaplan and Norton, 2000:349).

Hypothetically, the formulation of the hypothesis is as follows:

H1: there is an influence of internal capabilities on the competitive strategy of food and beverage industry companies in East Java.
H2: There is an influence of internal capabilities on company performance in food and beverage industry companies in East Java.
H3: There is an external network influence on the competitive strategy of food and beverage industry companies in East Java.
H4: There is an external network influence on the company's performance in food and beverage industry companies in East Java.
H5: There is an effect of value chain strategy on competitive strategy in food and beverage industry companies in East Java.
H6: There is an effect of value chain strategy on company performance in food and beverage industry companies in East Java.
H7: There is an effect of competitive strategy on company performance in food and beverage industry companies in East Java.

III. METHOD

This research is classified into associative research, which aims to determine the relationship between two or more variables that can function to explain, predict and control an analytic phenomenon (Arikunto, 2014: 126).

The data for the study were collected using a questionnaire method on food and beverage industry companies in East Java. A five-point Likert-type scale was used as the response format, with the assigned values being 1 = Strongly disagree, 2 = Disagree, 3 = Moderately agree, 4 = Strongly agree, and 5 = Strongly agree.

The population is 245 entrepreneurs in the food and beverage industry in East Java. By using the Slovin formula, the number of samples obtained is n= 245/(1+(245x 0.052)) = 152 entrepreneurs.

Based on the data in this study were analyzed quantitatively through the multivariate method, the Structural

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Equation Model (SEM) technique is a second-generation multivariate analysis technique that combines factor analysis and path analysis, enabling researchers to simultaneously test and estimate the relationship between multiple latent independent variables and multiple latent variables, dependent variable with many indicators as well as testing models with mediator and moderator effects, models in non-linear form and measurement errors (Latan, 2013:29).

IV. RESULT

Structural Equation Modeling (SEM) Test

Testing the distribution model of 152 data from the questionnaire obtained Chi-square = 125,779, Degrees of freedom = 108, Probability level = 0.129. Because the value of probability level = 0.129, above the value of 0.050, it shows that the distribution of 152 data from the questionnaire results is in accordance with the sample data.

IV. RESULT

Testing the distribution model of 152 data from the questionnaire obtained Chi-square = 125,779, Degrees of freedom = 108, Probability level = 0.129. Because the value of probability level = 0.129, above the value of 0.050, it shows that the distribution of 152 data from the questionnaire results is in accordance with the sample data.

The results of the calculation of the goodness of fit value produced by SEM are as follows:

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Model Test Results</th>
<th>Critical Value</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Probability</td>
<td>0.129</td>
<td>≥ 0.05</td>
<td>Fit</td>
</tr>
<tr>
<td>Cmin/DF</td>
<td>1.153</td>
<td>≤ 2.00</td>
<td>Fit</td>
</tr>
<tr>
<td>RMSEA</td>
<td>0.061</td>
<td>≤ 0.08</td>
<td>Fit</td>
</tr>
<tr>
<td>GFI</td>
<td>0.926</td>
<td>≥ 0.90</td>
<td>Fit</td>
</tr>
<tr>
<td>AGFI</td>
<td>0.919</td>
<td>≥ 0.90</td>
<td>Fit</td>
</tr>
<tr>
<td>TLI</td>
<td>0.968</td>
<td>≥ 0.95</td>
<td>Fit</td>
</tr>
<tr>
<td>CFI</td>
<td>0.955</td>
<td>≥ 0.95</td>
<td>Fit</td>
</tr>
</tbody>
</table>

Table 1 shows that most of the model's suitability criteria (goodness of fit) have provided a fit index, namely Probability ² square, Cmin/DF, Root Mean Square Error Of Approximation (RMSEA), Goodness-of-fit-index (GFI), Adjusted Goodness Of Fit Index (AGFI), Tucker Lewis Index (TLI), and Comparative Fit Index (CFI).

The results of confirmatory factor analysis testing on endogenous variables can be seen in the following table:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Indicator</th>
<th>Nilai p</th>
<th>Variance error</th>
<th>Loading (λ)</th>
<th>χ²</th>
<th>1 - χ²</th>
<th>Construct Reliability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategi Bersaing (Z)</td>
<td>Brand Awareness (Z₁)</td>
<td>0.000</td>
<td>0.6630</td>
<td>0.3974</td>
<td>0.5996</td>
<td>0.7623</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Strategic Partnership (Z₂)</td>
<td>0.000</td>
<td>0.8260</td>
<td>0.4543</td>
<td>0.4906</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Product and Service Innovation (Z₃)</td>
<td>0.000</td>
<td>0.6406</td>
<td>0.4977</td>
<td>0.4490</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kinerja Perusahaan (Y)</td>
<td>Finance (Y₁)</td>
<td>0.000</td>
<td>1.0000</td>
<td>1.0000</td>
<td>0.000</td>
<td>0.7673</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Business process (Y₂)</td>
<td>0.000</td>
<td>0.7090</td>
<td>0.5036</td>
<td>0.497</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Learning Growth (Y₃)</td>
<td>0.000</td>
<td>1.0130</td>
<td>1.0266</td>
<td>-0.026</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Customer Perspective (Y₄)</td>
<td>0.000</td>
<td>1.5782</td>
<td>2.4900</td>
<td>-1.490</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2 shows that the endogenous variables have a CFA (confirmatory factor analysis) value, the factor loading value is greater than 0.50, the construct reliability is all greater than 0.70, and the p-value variance error is less than 0.05 (<0.05), so it can be concluded these variables are valid and reliable in constructing the model, and can be used for further analysis.
Direct and Indirect Influence

The results of the SEM test on each variable are as follows:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Relationship</th>
<th>Direct Effect</th>
<th>Indirect Effect (Through Z)</th>
<th>Total Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Capabilities (X1) ➔ Competitive strategy (Z)</td>
<td>0.1659</td>
<td></td>
<td>0.1659</td>
<td></td>
</tr>
<tr>
<td>Internal Capabilities (X1) ➔ Company performance (Y)</td>
<td>0.2863</td>
<td></td>
<td>0.2863</td>
<td></td>
</tr>
<tr>
<td>External Network (X2) ➔ Competitive strategy (Z)</td>
<td>0.4856</td>
<td></td>
<td>0.4856</td>
<td></td>
</tr>
<tr>
<td>External Network (X2) ➔ Company performance (Y)</td>
<td>0.5712</td>
<td></td>
<td>0.5712</td>
<td></td>
</tr>
<tr>
<td>Value Chain Strategy (X3) ➔ Competitive strategy (Z)</td>
<td>0.3303</td>
<td></td>
<td>0.3303</td>
<td></td>
</tr>
<tr>
<td>Value Chain Strategy (X3) ➔ Company performance (Y)</td>
<td>0.3997</td>
<td></td>
<td>0.3997</td>
<td></td>
</tr>
<tr>
<td>Competitive strategy (Z) ➔ Company performance (Y)</td>
<td>0.6549</td>
<td></td>
<td>0.6549</td>
<td></td>
</tr>
<tr>
<td>Internal Capabilities (X1) ➔ Company performance (Y)</td>
<td>0.1659</td>
<td>0.6549</td>
<td>0.1086</td>
<td></td>
</tr>
<tr>
<td>External Network (X2) ➔ Company performance (Y)</td>
<td>0.4856</td>
<td>0.6549</td>
<td>0.3180</td>
<td></td>
</tr>
<tr>
<td>Value Chain Strategy (X3) ➔ Company performance (Y)</td>
<td>0.3303</td>
<td>0.6549</td>
<td>0.2163</td>
<td></td>
</tr>
</tbody>
</table>

Based on Table 3, it can be explained as follows:

1. The coefficient value of the Internal Capabilities variable has an effect on the Competitive Strategy of 0.1659.
2. The coefficient value of the Internal Capabilities variable has an effect on the Company’s performance of 0.2863.
3. The coefficient value of the External Network variable has an effect on the Competitive Strategy of 0.4856.
4. The coefficient value of the External Network variable has an effect on the Company's performance of 0.5712.
5. The coefficient value of the Value Chain Strategy variable has an effect on the Competitive Strategy of 0.3303.
6. The coefficient value of the Value Chain Strategy variable has an effect on Company Performance of 0.3997.
7. The coefficient value of the Competitive Strategy variable has an effect on Company Performance of 0.6549.
8. The coefficient value of Internal Capabilities has an effect on Company Performance through Competitive Strategy of 0.1659 x 0.6549 = 0.1086.
9. The coefficient value of External Network has an effect on Company Performance through Competitive Strategy of 0.4856 x 0.6549 = 0.3180.
10. Value Chain Strategy coefficient value has an effect on Company Performance through Competitive Strategy of 0.3303 x 0.6549 = 0.2163.

Hypothesis test

After knowing the magnitude of the coefficient value of each variable, the next step is to test the hypothesis using the CR value and the probability.

TABLE 4. Regression Weight Causality Test

<table>
<thead>
<tr>
<th>Variable</th>
<th>Relationship</th>
<th>Estimate</th>
<th>C.R.</th>
<th>P</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internal Capabilities (X1) ➔ Competitive strategy (Z)</td>
<td>0.1659</td>
<td>1.6831</td>
<td>0.0937</td>
<td>Not Significant</td>
<td></td>
</tr>
<tr>
<td>Internal Capabilities (X1) ➔ Company performance (Y)</td>
<td>0.2863</td>
<td>2.5411</td>
<td>0.0117</td>
<td>Significant</td>
<td></td>
</tr>
<tr>
<td>External Network (X2) ➔ Competitive strategy (Z)</td>
<td>0.4856</td>
<td>3.9244</td>
<td>0.0001</td>
<td>Significant</td>
<td></td>
</tr>
<tr>
<td>External Network (X2) ➔ Company performance (Y)</td>
<td>0.5712</td>
<td>4.7313</td>
<td>0.0000</td>
<td>Significant</td>
<td></td>
</tr>
<tr>
<td>Value Chain Strategy (X3) ➔ Competitive strategy (Z)</td>
<td>0.3303</td>
<td>2.9844</td>
<td>0.0031</td>
<td>Significant</td>
<td></td>
</tr>
<tr>
<td>Value Chain Strategy (X3) ➔ Company performance (Y)</td>
<td>0.3997</td>
<td>3.3213</td>
<td>0.0010</td>
<td>Significant</td>
<td></td>
</tr>
<tr>
<td>Competitive strategy (Z) ➔ Company performance (Y)</td>
<td>0.6549</td>
<td>5.7334</td>
<td>0.0000</td>
<td>Significant</td>
<td></td>
</tr>
</tbody>
</table>

Based on Table 4, the results of hypothesis testing can be explained as follows:

1. Hypothesis One (H1) states that Internal Capabilities have an effect on competitive advantage. The coefficient with a positive sign is 0.1659 with a C.R value of 1.6831 which is smaller than 1.96, meaning that Internal Capabilities have no effect on competitive strategy. So hypothesis one (H1) which states that Internal Capabilities have an effect on competitive advantage is not significant.
2. Hypothesis Two (H2) states that Internal Capabilities have an effect on Company Performance. The coefficient with a positive sign is 0.2863 with a C.R value of 2.5411 which is smaller than 1.96, meaning that Internal Capabilities have an effect on Company Performance. So the second hypothesis (H2) which states that Internal Capabilities have an effect on competitive advantage is significant.
3. Hypothesis three (H3) states that External Network has an effect on competitive advantage. The coefficient with a positive sign is 0.4856 with a C.R value of 3.9244 which is smaller than 1.96, meaning that External Network has an effect on competitive strategy. So the third hypothesis (H3) which states that the External Network has an effect on competitive advantage is significant.
4. Hypothesis four (H4) states that External Network has an effect on Company Performance. The coefficient with a positive sign is 0.5712 with a C.R value of 4.7313 which is smaller than 1.96, meaning that External Network has an effect on Company Performance. So the fourth hypothesis (H4) which states that the External Network has an effect on competitive advantage is significant.
5. Hypothesis five (H5) states that Value Chain Strategy has an effect on competitive advantage. The coefficient with a positive sign is 0.3303 with a C.R value of 2.9844 which is smaller than 1.96, meaning that Value Chain Strategy has an effect on competitive strategy. So the fifth hypothesis (H5) which states that the Value Chain Strategy has an effect on competitive advantage is significant.
Value Chain Strategy has an effect on competitive advantage is significant.
6. Hypothesis six (H₆) states that Value Chain Strategy has an effect on Company Performance.
The coefficient with a positive sign is 0.3997 with a C.R value of 3.3213 which is smaller than 1.96, meaning that Value Chain Strategy has an effect on Company Performance. So hypothesis six (H₆) which states that Value Chain Strategy has an effect on competitive advantage is significant.
7. Hypothesis seven (H₇) states that Competitive Strategy has an effect on Company Performance.
The coefficient with a positive sign is 0.6549 with a C.R value of 5.7334 which is smaller than 1.96, meaning that Competitive Strategy has an effect on Company Performance. So hypothesis seven (H₇) which states that Competitive Strategy has an effect on competitive advantage is significant.

V. CONCLUSION
Based on the results of the analysis, the conclusions of this study are as follows:
1. Internal Capabilities have no significant effect on the competitive strategy of food and beverage industry companies in East Java.
The results of this study are different from the results of research by Didik Purwanto's (2006) research which states that Internal Capabilities have an effect on competitive strategy.
2. Internal Capabilities have a significant effect on the Company's performance.
The results of this study support the results of research by Mita Kartikasari (2008) which states that Internal Capabilities have an effect on competitive advantage.
3. External Network has a significant effect on the competitive strategy of food and beverage industry companies in East Java.
The results of this study support the results of research by Mita Kartikasari (2008) which states that Internal Capabilities have an effect on competitive strategy.
4. External Network has a significant effect on Company Performance in food and beverage industry companies in East Java.
The results of this study support the results of research by Mita Kartikasari (2008) which states that Internal Capabilities have an effect on competitive strategy.
5. Value Chain Strategy has a significant effect on the competitive strategy of food and beverage industry companies in East Java.
The results of this study support the results of research by Mita Kartikasari (2008) and Yosef Rizal, et al (2013).
6. Value Chain Strategy has a significant effect on company performance in food and beverage industry companies in East Java.
The results of this study support the results of research by Mita Kartikasari (2008) and Yosef Rizal, et al (2013).

Suggestion
Based on the results of the study, the following suggestions can be given:
1. Internal Capabilities that need to be considered are business strategies because they provide the highest contribution to the formation of competitive strategy variables, what needs to be considered to improve business strategies are companies implementing business strategies that are not carried out by other companies.
2. External Network that needs to be considered is Market Orientation because it provides the lowest contribution to the formation of company performance variables.
3. Value Chain Strategy that needs to be considered is Sales & Marketing because it provides the lowest contribution to the formation of Competitive Strategy variables, what needs to be considered to increase Sales & Marketing is that the Company provides guidance through education and training for marketing personnel specifically.
4. Competitive Strategy that needs to be considered is Brand Awareness because it provides the lowest contribution to the formation of the Competitive Strategy variable. To increase Brand Awareness what needs to be done is the company conducts a special survey of its products.
5. The company's performance that needs to be considered is the customer's perspective because it provides the lowest contribution to the formation of the company's performance variables. To increase customer satisfaction, it is necessary to fulfill customer needs for a product.
6. For further research, it is better to expand the number of food and beverage companies studied, and it is hoped that more respondents will be obtained so that the data obtained is more varied.
7. To get better results, it is hoped that further researchers can consider adding other variables.

Research Limitations
This research still has limitations. The existence of these limitations, the writer hopes that there will be improvements for future research. Among these limitations are:
1. The limited research time severely limits researchers to further maximize the search for respondent data, because not all respondents are willing to give a short time to fill out the questionnaire.
2. There is a limitation of research using questionnaires, namely sometimes the answers given by the sample do not show the real situation.
3. The study involved a limited number of research subjects, namely as many as 152 companies, so the results cannot be generalized to a large number of subject groups.

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