

# Empirical Study The Impacts Of Competitive Strategies To Institutes Organizational Innovation In Batik Crafters Association Of East Jawa

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**Abstract:** This study carried through by analyzing the effects of competitive strategies (cost leadership strategy, differentiation strategy, focus strategy) to product innovation, process innovation, administrative innovation at the Batik Crafters Association in East Jawa. This study is an explanatory research that employs a quantitative approach. Population of this study are batik artisans at the Batik Crafters Association in East Jawa circa 57 respondents, while the samples taken were 50 batik artisans at the East Jawa Batik Crafters Association who actively participates in the program. Data collection is executed by distributing questionnaires. Data analysis technique used is a structural equation modeling (SEM) analysis with partial least square (PLS) tools. The results in this study demonstrate that the cost leadership strategy and focus strategy has a significant effect on product innovation and administrative innovation, while differentiation strategies does not show any effect to product innovation and administrative innovation. The proven variables which affect process innovation is the cost leadership strategy, while the differentiation strategy and focus strategy does not have a significant effect to process innovation.

**Index Term:** Cost Leadership Strategy, Differentiation Strategy, Strategy Focus, Product Innovation, Process Innovation, Administrative Innovation, Batik Crafters

## 1. INTRODUCTION

According to [8], small businesses proved to be capable as the national economy supporter and are able to withstand the economic crisis that had once hit Indonesia. This is because small businesses are quite flexible and adaptable to ups and downs and the direction of market demand. On the other hand, small businesses continue to face challenges because businessmen react to changes in environmental factors such as emerging markets and standards for better product quality throughout the world, the need for faster delivery times and closer business partnerships [10]. Therefore, batik artisans especially Batik Crafters Association in East Jawa required to have ability to innovate. Innovation strategies allow organizations to devote their limited resources to initiatives that will have the greatest impact on performance. Porter proposed a two-part process for developing competitive strategies. The first part involves determining the market scope of the company's products, encompassed product or service offerings that will be provided by the company and the market segments that the company will provide to them. The second part in designing competitive strategies is related to gaining competitive advantage [3].

Companies lurk competitive positions that are substantially different from rival positions and more sustainable because it is difficult for competitors to emulate [7]. The relative position of companies in the industry identifies whether the company's profitability is above or below the industry average. The fundamental basis of long-term profitability above average is sustainable competitive advantage. There are two basic types of competitive advantage a company can have: low cost or differentiation. Two basic types of competitive advantage combined with the scope activities of the company wants to achieve, lead to three general strategies for achieving above-average performance in an industry: cost leadership, differentiation, and focus [7]. Competitive strategies sought by MSMEs can contributes to competing to encourage innovation. Organizational innovation has been broadly defined as the adoption of new ideas or behaviors for adoption organizations. Because innovation is understood as a means to change organizations, both as a response to the external environment changes or as a preemptive action to affect the environment. [2] considers innovation as covering a variety of types, including new products or services, new process technologies, new organizational structures or administrative systems, or new plans or programs related to organizational members.

## 2. LITERATURE REVIEW

Competitive strategies are strategies to develop a plan about how a business will compete, what should be its purpose and what policies are needed to achieve that goal. According to [7] competitive strategies are about being different. This means choosing intentionally to do activities differently or do different activities than rivals to provide a unique mix of values. There are two basic types of competitive strategies that are combined with the scope activities of the company wants to achieve, leading to three general strategies for achieving above-average performance in an industry, namely cost leadership, differentiation (creating unique and desirable products and services), and focus (offering special services in niche markets) [7].

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1. Cost Leadership Strategy
2. Differentiation Strategy
3. Strategy Focus

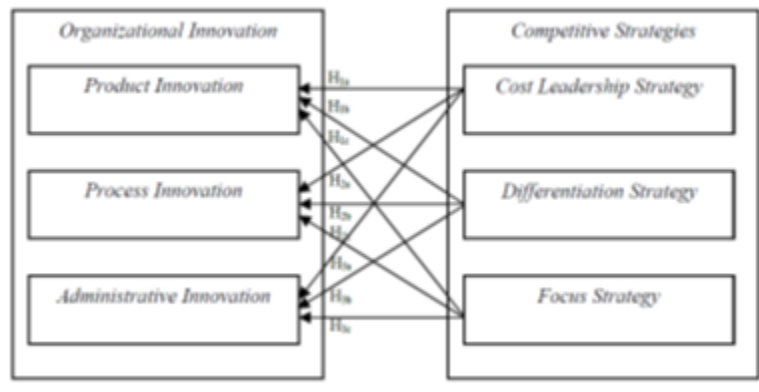
renovate ideas and knowledge into new products, services, or processes in a sustainable manner for the benefit of its stakeholders. According to [3] organizational innovation is seen as multidimensional, consisting of product innovation, innovation process, and administrative innovation.

1. Product innovation
2. Process innovation
3. Administrative innovation

**Organizational Innovation**

Organizational innovation is the tendency of organizations to develop new or better products or services and be successful in bringing these products or services to market [5]. This is also defined as the organization's ability to

**Conceptual Framework**



**Figure 1. Conceptual Framework**

**Hypothesis**

- H<sub>1a</sub>, H<sub>1b</sub>, H<sub>1c</sub> : Cost leadership strategy, Differentiation strategy, Focus strategy has significant and positive effect to product innovation on batik artisans at the East Java Batik Crafters Association .
- H<sub>2a</sub>, H<sub>2b</sub>, H<sub>2c</sub> : Cost leadership strategy, Differentiation strategy, Focus strategy has significant and positive effect to process innovation to batik artisans at the East Java Batik Crafters Association .
- H<sub>3a</sub>, H<sub>3b</sub>, H<sub>3c</sub> : Cost leadership strategy , Differentiation strategy , Focus strategy significant and positive effect on administrative innovation to batik artisans at the East Java Batik Crafters Association .

[12]. Sampling technique is a sampling technique to determine the sample that will be used in the study. To calculate the number of samples to be used, the Slovin formula according to [9] will be used, namely:

$$n = \frac{N}{1 + Ne^2}$$

$$n = \frac{57}{1 + (57 (0,05^2))}$$

$$n = 49,89$$

**Remarks :**

- N = Total population
  - n = Number of Samples
  - e = Percent of allowance for inaccuracy of 5%
- Based on the results of the Slovin formula above obtained a sample of 49.89 be rounded to 50 samples from a total of 57 populations. So the sample used in this study was 50 batik artisans at the East Java Batik Crafters Association.

**3. RESEARCH METHODOLOGY**

This study uses causality research type, namely research that is used to analyze causal relationships between variables through hypothesis testing [12]. The method used in this study is a quantitative method. According to Sugiyono quantitative method is a method that uses a number of samples and numerical data or in the form of numbers [12]. Therefore, this study was conducted so that researchers can analyze the competitive strategies effect (cost leadership strategy, differentiation strategy, focus strategy) to product innovation, process innovation, administrative innovation. Population is a generalization area consisting of objects or subjects that have qualities and characteristics set by researchers to be studied and then conclusions drawn [12]. The population in this study were all batik artisans at the East Java Batik Crafters Association as many as 57 people. Samples are part of the number and characteristics possessed by the population

**Definition of Operational Variables**

Operational definition is a concept or something that can be measured and can be seen in the dimensions of behavior, aspects or traits shown by the concept.

1. Competitive strategies (X<sub>1</sub>)  
Competitive strategies is a strategy that is directed at developing a plan for how the business will compete with competitors. According to [7] Competitive strategies can be measured through three dimensions consisting of:
  - a. Cost Leadership Strategy (X<sub>1</sub>) , which can be measured through several indicators refer to [6].

- b. Differentiation Strategy (X<sub>2</sub>), which can be measured through several indicators refer to [6].
- c. Strategy Focus (X<sub>3</sub>), which can be measured through several indicators refer to [6].

2. Organizational Innovation (Y)

Organizational innovation is the organizations tendency to develop new or better products or services and be successful in bringing these products or services to market [5]. The organizational innovation variable indicator refers to [6], namely:

- a. Product innovation (Y<sub>1</sub>), which can be measured through several indicators refer to [1]
- b. Process innovation (Y<sub>2</sub>), which can be measured through several indicators refer to [2]
- c. Administrative innovation (Y<sub>3</sub>), which can be measured through several indicators refer to [11]

4. FRAMEWORK OF ANALYSIS

Inner Model Evaluation

Inner Model Test or Structural Model Test

In assessing the model with PLS it starts by looking at the R-square for each dependent latent variable. Changes in the R-square values can be used to assess the effect of certain independent latent variables on dependent latent variables whether they have substantive effects. For endogenous latent variables in a structural model that has a

R<sup>2</sup> result of 0.67 indicates that the model is "good", R<sup>2</sup> is 0.33 indicates that the "moderate" model, R<sup>2</sup> is 0.19 indicates that the model is "weak" [4]. For the Cost Leadership Strategy variable, Differentiation Strategy, and Focus Strategy that influence the Product Innovation variable has an R<sup>2</sup> value of 0.762 which indicates a "good" model. Then, the Cost Leadership Strategy variable, Differentiation Strategy, and Strategy Focus affecting the Process Innovation variable has an R<sup>2</sup> value of 0.563 which indicates a "moderate" model. Whereas for Cost Leadership Strategy, Differentiation Strategy, and Focus Strategy variables that influence Administrative Innovation variables has an R<sup>2</sup> value of 0.762 which indicates that the model is "good". Thus, the conformity of the structural model can be seen from Q<sup>2</sup>, as follows:

$$\begin{aligned}
 Q^2 &= 1 - [(1 - R_1) * (1 - R_2) * (1 - R_3)] \\
 &= 1 - [(1 - 0.762) * (1 - 0.563) * (1 - 0.762)] \\
 &= 1 - [(0.238) * (0.437) * (0.238)] \\
 &= 1 - [0.025] \\
 &= 0.975
 \end{aligned}$$

The analysis results of the structural model conformity level built show that the overall model has been "relevant" to explain the variables studied and their effect on each variable. The calculation of the value of Q<sup>2</sup> in getting the value 0.975 or has exceeded the critical limit of 0.5 thus the structural model has been declared suitable and appropriate.

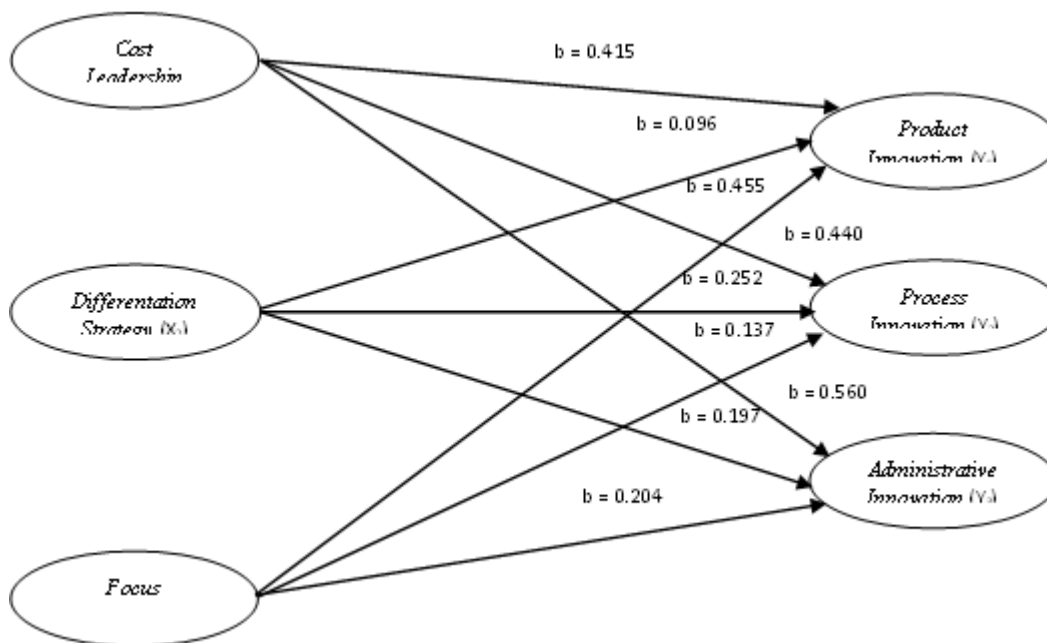


Figure 2. Inner PLS model

There are exogenous variables within inner model studied, namely Competitive Strategies consisting of Cost leadership strategy, Differentiation strategy, and Focus strategy and endogenous variables in the inner model studied are Organizational Innovation which consists of Product Innovation, Process Innovation, and Administrative Innovation. The inner weight values in Figure 2 above show that the Product Innovation, Process Innovation, and

Administrative Innovation variables both are influenced by the variable Cost leadership strategy, Differentiation strategy, and Focus strategy shown in the following equation:

$$\begin{aligned}
 Y_1 &= 0.415 X_1 + 0.096 X_2 + 0.455 X_3 \\
 Y_2 &= 0.440 X_1 + 0.252 X_2 + 0.137 X_3 \\
 Y_3 &= 0.560 X_1 + 0.197 X_2 + 0.204 X_3
 \end{aligned}$$

## 5. RESULT AND DISCUSSION

### Effect of Cost Leadership Strategy to Product Innovation

Data analysis results show that the Cost Leadership Strategy has a significant influence to Product Innovation which is evident from the t value of 3,083 which means greater than 1.96 .

### Effect of Differentiation Strategy to Product Innovation

Data analysis results found that the Differentiation Strategy does not have a significant effect but has a positive direction to Product Innovation which is proven by a t-value of 0.738 means smaller than 1.96.

### Effect of Strategy Focus to Product Innovation

Data analysis results found that the Focus Strategy has a significant influence to Product Innovation as evidenced by the t- value of 3.721 which means greater than 1.96 .

### Effect of Cost Leadership Strategy to Process Innovation

Data analysis results found that Cost Leadership Strategy has a significant effect to Process Innovation which is proven from the t value of 2.575 which means greater than 1.96.

### Effect of differentiation Strategy to Process Innovation

Data analysis results found that differentiation strategies did not have a significant effect to process innovation proven from t value of 1.738 which means smaller than 1.96.

### Effect of Focus Strategy to Process Innovation

Data analysis results found that the Focus Strategy does not have a significant effect to Process Innovation which is proven by the t value of 0.804 which means it is smaller than 1.96 .

### Effect of Cost Leadership Strategy to Innovation administrative

Data analysis results found that the cost leadership strategy has a significant influence to innovation administrative which is proven by the t value of 4.713 which means greater than 1.96.

### Effect differentiation Strategy to Administrative Innovation

Data analysis results found that differentiation strategy did not have a significant influence on administrative innovation which is proven from the t value of 1.652 which means smaller than 1.96.

### Effect of Focus Strategy To Administrative Innovation

Data analysis results found that the focus strategy has a significant influence on administrative innovation which is proven from the t value of 2.049 which means greater than 1.96 Can be predicted with certainly and does not require further [13].

## 6. CONCLUSION

1. Cost Leadership Strategy, Focus Strategy has a significant effect to Product Innovation in batik artisans at the East Java Batik Crafters Association.
2. Differentiation Strategy does not have a significant effect to Product Innovation in batik artisans at the East Java Batik Crafters Association.
3. Cost Leadership Strategy has a significant effect to Process Innovation in batik artisans in the East Java Batik Crafters Association.
4. Differentiation Strategy, Strategy Focus does not have a significant effect to Process Innovation in batik artisans at the East Java Batik Crafters Association.
5. Cost Leadership Strategy, Focus Strategy has a significant influence to Administrative Innovation in batik artisans at the East Java Batik Crafters Association.
6. Differentiation Strategy does not have significant influence to Administrative Innovation in batik craftsmen at the East Java Batik Crafter Association

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