

# ***THE INFLUENCE OF MARKET ATTRACTIVENESS AND UNIQUE RESOURCES ON COMPETITIVE STRATEGY FORMULATION AND ITS IMPLICATIONS ON BUSINESS PERFORMANCE OF BUSINESS DEFENCE-BASED STRATEGIC INDUSTRIES IN INDONESIA***

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## **Abstract**

The role of strategic industries is very important, especially to support the processing industry toward high-tech industries, create synergies and to prepare a comprehensive infrastructure's development in order to support national economic development and building a defense industry as planned. However the importance role of the industrial sector for the past 10 years becomes irony as the strategic industrial sectors even worse off. The facts from the preliminary survey (March, 2012), for past five years, generally the Strategic Industries Business Units still difficult to achieve sales target achievement reach 80%, evenless achieving 100% or more. The achievement is insignificant and even some of Business Units were closed.

The less optimum of business performance of defense-based strategic industries today is believed to be the impact of weakness in the design of competitive strategy and the building of value creation which tend to be not fully comprehend the demands of the market. In addition to the cause are, the minimum business performance of strategic industries, the inability of management in exploring market attractiveness in the area of operation, and many business opportunities that seem to be difficult to be explored. From the above issues, it is found out that the phenomenon of has not been able to be carefully anticipated. The already existing business opportunities is not well managed and the limited resources to compete with the competitors, and the difficulty to accessing the market due to the limited capabilities of human resources and supporting facilities.

It is therefore interesting to be explored in a study with the aim to expose and assess data and information about the effects of the market attractiveness, the unique resource to competitive strategy and the implications on business performance of defence-based strategic industries in Indonesia. As for the type of research is used causality to test the relationship and effect between the independent variables and the dependent variables. Analytical approach and technical solutions that will be used as a tool of analysis in this study is the Partial Least Square (PLS). PLS is an alternative method of analysis with Structural Equation Modelling (SEM) based variance.

The Market Attractiveness shows dominant influence in formulating competitive strategy when compared with the unique resources. While the dimensions that give the highest contribution in reflecting the attractiveness of the market is the market access strategy and competitive conditions.

**Keywords:** *Market Attratctiveness, Unique Resources, Competitive Strategy, Business Performance*

## **I. Introduction**

The business growth of Indonesian non-oil industry has been fluctuating, for more than the last 10 years that the growth rate is not yet as expected. The hardest hit is

strategic industry as one of the the backbones of industry in Indonesia. From the data below can be seen that the contribution of industrial sectors towards GDP (*Growth Domestic product*) of the last 5 years is the lowest compares to other industries.

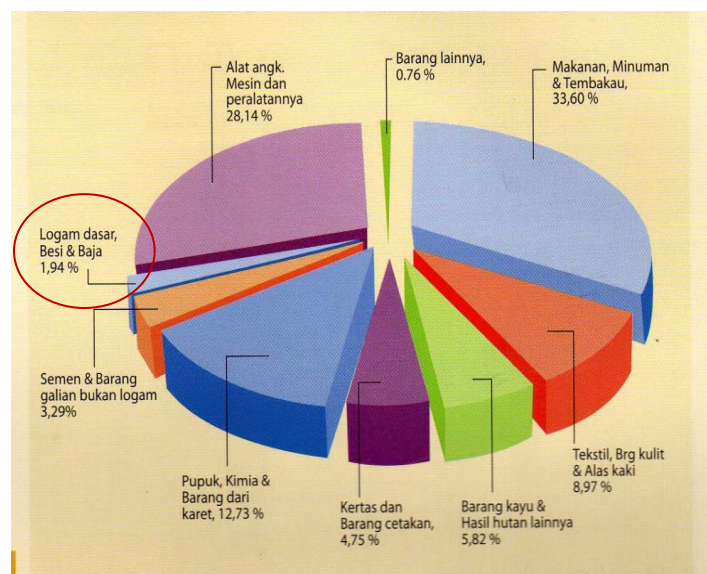
**Table 1. The Contribution of Industrial Sectors towards GDP**

**Contribution of Industrial Sector to National GDP**  
(in percent)

Description	2006	2007	2008	2009	2010
1. Agriculture, Livestock, Forestry and Fishery	12.97	13.72	14.46	15.29	15.34
2. Mining and Excavating	10.98	11.15	10.92	10.54	11.15
3. Manufacture Industry	27.54	27.05	27.89	26.38	24.82
a. Oil & Gas Industry	5.15	4.61	4.89	3.81	3.27
b. Non-Oil & Gas Industry	22.38	22.43	23.00	22.57	21.55
1). Food, Water and Tobacco	6.37	6.68	6.99	7.49	7.24
2). Textile, Leathers and Footwear Industry	2.70	2.37	2.12	2.08	1.93
3). Wood Product and Forestry Industry	1.34	1.39	1.48	1.43	1.25
4). Paper and Printing	1.19	1.15	1.05	1.09	1.02
5). Fertilizer, Chemical and Rubber Industry	2.82	2.80	3.11	2.90	2.74
6). Cement and Mineral Excavating Industry	0.87	0.83	0.91	0.77	0.71
7). Iron Metal and Steel	0.62	0.58	0.59	0.48	0.42
8). Transportation and Parts	6.27	6.44	6.66	6.17	6.06
9). Other Goods	0.21	0.19	0.18	0.17	0.16
4. Electricity, Gas and Clean Water	0.91	0.88	0.82	0.83	0.78
5. Construction	7.52	7.72	8.48	9.89	10.29
6. Trade, Hotel and Restaurant	15.02	14.99	13.97	13.37	13.72
7. Transport and Telecommunication	6.93	6.69	6.31	6.28	6.50
8. Finance, Leasing and Service	8.06	7.73	7.43	7.20	7.21
9. Services	10.07	10.08	9.73	10.22	10.19
Product Domestic Bruto	100.00	100.00	100.00	100.00	100.00
Product Domestic Bruto Without Oil & Gas	88.85	89.46	89.41	91.68	92.23

Source : BPS and Kemenperin (2011)

Further, for the last 10 years, the sector of strategic industry has been contributing at the lowest compares to other non-oil industries to the PDB (*Product Domestic Bruto*).



Source : BPS and Kemenperin (2011)

**Figure 1. Industrial Contribution towards PDB**

On the one hand, strategic industry is a processing industry that cultivates the output of the basic industry into high value-added materials. The roles of strategic industry are as follows:

- To play as the spearhead of the agricultural industry to the processing industry and heading to high-tech industry.
- To improve the development of infrastructure of the economy such as transportation, telecommunication, and electrical infrastructures.
- To create synergy and prepare the establishment of complete infrastructure to support the development of national economy and building the defence industry as needed. Kemenperin (2011)

For the last five years, the fulfillment of major weapon system from national strategic industry only hit 13,7% and 15,8% respectively, with the increase of 2,1%. This means that the budget of the major weapon system is brought from overseas with more that 80% every year. (Harry Sampoerno : 2011). From this issue, it can be observed that the competition in defence-based strategic industry has moved to a global competition with various suppliers from local and international as the competitors. This has weakened the competition power of the local defence-based strategic industry, and consequently impact negatively towards the continuation of the business of defence-based strategic industry in Indonesia.

Basic determinants of performance-based strategic defense industry business is the company's ability to anticipate and capture opportunities in the market appeal, while the dimensions of market attractiveness consists of three aspects, namely: market opportunity, competitive conditions and market access. The stipulation of the three dimensions is based on the consideration of the unit of analysis in this study that the current defence-based strategic industry is tend to reside weaknesses in those three aspects.

Market attractiveness that belongs to the aspect of corporate external environment is difficult to control, the efforts that can be made by the company is by anticipating market conditions supported with the internal capability of the company to response to the condition. Whether or not the company is able to anticipate market attractiveness is determined by optimal resource ownership or is known as the ownership of unique resources.

Company that has a unique resource to have more value than those of other competitors. Resources as such is a source of corporate excellence and will be effective if it can adapt to the market demands. The uniqueness of the company's resources is a series of strategic industrial assets owned by the company in creating superior value for the customer, where the asset is focused on tangible assets, intangible and reliability backed by an organization that has a high capability, both in terms of competence and commitment of the organization to create superior performance.

The development of competitive strategy aimed at building competitive advantage, implement, and adapt these strategies to respond to the continuous changes in the environment. Dimension of competitive strategy that tends to be most suitable to use in the unit of analysis is a strategic industry consists of; Focused Cost Leadership, Focused Differentiation and Faster. It is based on the condition that the defense-based strategic industry in Indonesia today is still difficult to compete in terms of determining the selling price of the product, and the resulting product that tends to be easily imitated by the competitors. In addition, the speed in anticipating the market demands and product delivery is relatively loose to compete with the products from other countries.

Performance assessment can be viewed from two sides, namely the financial and non-financial side. Assessment of financial performance is critical because it is a consequence of the economic decisions taken and impact an economic action. Financial performance is measured by ROI, ROE or ROA. Dimensions of business performance to measure the business performance of business units of defence-based strategic industries are aspects of sales volume and profitability. While the market is one of the indicators of a company's business performance improvement.

## **II. Research methods**

This study is a descriptive study and verification. By using the observation coverage (*time horizon*) cross section / one shot, which is in 2012. The unit of analysis in this study is business units of defence-based strategic industry in Indonesia and using the observation unit the corporate management. The Approach to the analysis and solution techniques that will be used as a tool of analysis (analysis tool) in this study is the Partial Least Square (PLS).

This study consists of two exogenous variables, namely Market Appeal (X1) and the Uniqueness Resources (X2). While the endogenous variables, namely Business Performance (Z) and intervening variables that is Competing Strategy (Y).

### **2.1. Population**

The target Population in this study is business units of defence-based strategic industry in Indonesia. Based on the results of the documentation study, it is noted that industrial companies included strategic business unit amounted to 41 public and private companies. Due to the small population size of the data collection, this study uses census method.

## 2.2. Techniques of Data Collection

The Primary and Secondary Data needed in this study is taken by using Data Collection Technique as follows:

1. Questionnaires, for the corporate management of the business units belong to defence-based strategic industry.
2. Interview, conducted by providing open questions to the management of the company, and related departments.
3. Secondary Data, by conducting cooperation and coordination with related institutions such as Central Bureau of Statistics, Indonesian Department of Defence.

## 2.3. Hypothesis

1. Market attractiveness and uniqueness of the resource affect the competitive strategy of the business units defence-based strategic industries in Indonesia either simultaneously or partially.
2. Market attractiveness and uniqueness of resources affect the business performance of the business units defence-based strategic industries in Indonesia either simultaneously or partially.
3. Market attractiveness and uniqueness of resources simultaneously influence on business performance through competition strategic of business units in defence-based strategic industries in Indonesia.

## III. Results and Discussion

### 3.1. The Results of Structural Model Test (*Inner Model*)

**Table 2. The Results of Structural Model Test (*Inner Model*)**

Variabel	R Square	Communality	GoF	Q-Square
Market Appeal	-	0,933	0,794	0,983
Uniqueness Resources	-	0,796		
Competing Strategy	0,65	0,935		
Business Performance	0,56	0,864		

Source: Primary Data analysed by Smart PLS(2012)

The Above Table gives critical value to test model both GoF as 0,794 and the Q-square as 0,983 appoacing 1, meaning that the research study has been supported by empirical condition or fit model.

### 3.2. hypothesis Testing

#### 1. First hypothesis testing,

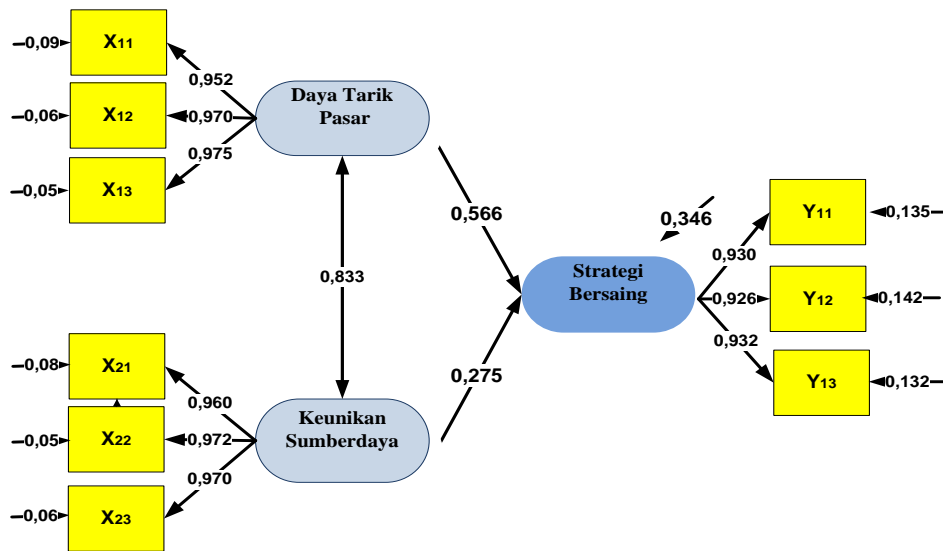


Figure 2. Hypothesis testing result 1

Structural Model for the above diagram is:

$$Y = 0,566X_1 + 0,275 X_2 + \zeta_1$$

The test results show that there is a simultaneous effect of market attractiveness and uniqueness of resources on competitive strategy at 65.4% and the remaining 34.6% influenced by other factors.

Based on simultaneous hypothesis testing, it finds out that the market attractiveness has a dominant influence on the competitive strategy compared to unique resources, this indicates that the formulation of competitive strategy based on strategic industries is strongly influenced by the ability of the management to take advantage of potential market opportunities, examine the condition competition and the ability of business units in designing market access strategy. Nevertheless, adequate resource ownership such as intangible asset that can be in the form of qualified human resources, or the reputation of the company that is supported by a tangible asset ownership as a source of working capital and supported by the reliability of the organization will ensure the creation of competitive advantage.

The Effect of Market Attractiveness to Competitive Strategy is significant of 44.9%. The hypothesis test results revealed that the competitive strategy of defence-based strategic industries in Indonesia, is mostly determined by the capability of the business units in designing strategies to enter the targeted market, where the condition is likely to be determined by the high level of competition in the target market targeting today conditions of competition of defence-based strategic industries that leads to the condition of hypercompetition.

Overseeing the situation, the Management should be more observant in scrutinizing potential market opportunities to the global market, not only targeting the already existing national market, but also important to standardize the products that demanded by the world market.

The effect of Resource Uniqueness to Competitive Strategy is significant positive effect of 20.5%. From the results of hypothesis testing revealed that, intangible assets contribute to the most dominant competitive strategy although its implementation has not been optimized.

This indicates that the study results are consistent with the empirical conditions currently experienced by business units in defence-based strategic industries where the main drawback is the ownership of intangible assets of which include the competence of the employees, the company's reputation and the quality brand of products that tend to be less known in the world market, even in the domestic market preferences were more likely to favor foreign brands.

Another dimension that is highly influential is the reliability of the organization, followed by the ownership of the tangible assets that the handling of those two issues dimensional is not fully optimized. Remembering that the current's condition of the business units of defence-based strategic industries is not yet reliable, as it can be indicated by the weakness in the preparation of planning, coordination and monitoring the development of organizational culture, the improvement of internal business process as indicated by lack of effective and efficient use of working capital as well as the lack of adequate career pathway programs. On the other hand, the quality of intangible assets of business units of defence-based strategic industry today is relatively low in general, it is characterized by weak mastery of modern technology, the already existing means of production are relatively outdated when compared with the competitors from other countries.

## 2. Second hypothesis testing,

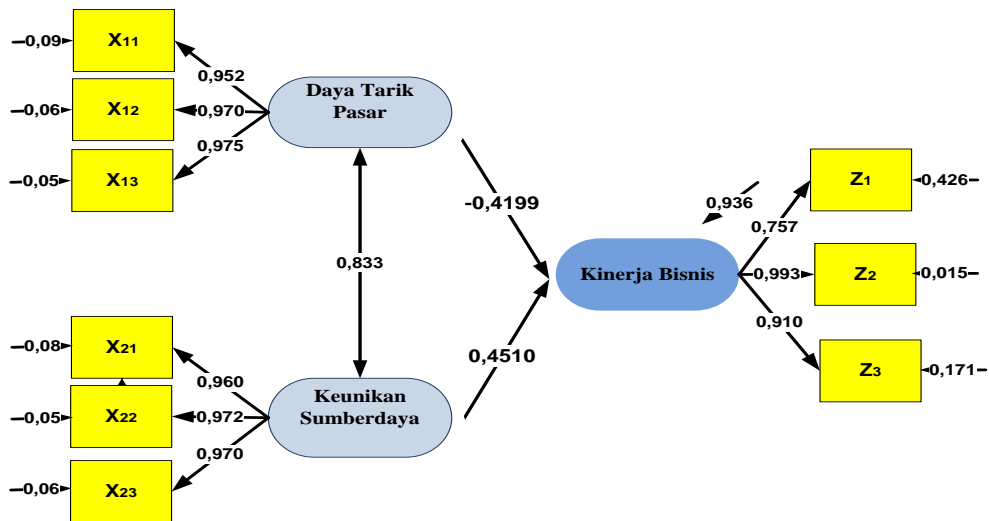


Figure 3. Hypothesis testing result 2

The Structural Model structural of the above diagram is:

$$Z = -0,4199 X_1 + 0,4510 X_2 + \zeta_3$$

The results show that there is no simultaneous significant effect of market attractiveness and uniqueness of resources on business performance with the coefficient of determination is equal to 6.4%, compared to the remaining 93.6%, of the other factors that were not studied. Business performance tends to be predominantly influenced by the optimization of resource ownership, but the increase of business performance of defence-based strategic industries is not directly affected by the appeal of the market, because these variables are variables that can not be controlled by business unit (uncontrolable).

The effect of Market Attractiveness is not significant, the effect of market appeal is very small that it does not impact on the improvement of business performance of defence-based strategic industries.

The influence of Resource uniqueness is a significant with the coefficient of determination R<sup>2</sup> is 4.6%. The uniqueness of the resource has a significant impact on business performance, which the dimension that reflects the uniqueness of the resource is the dominant intangible asset ownership and reliability of the business units in defense-based strategic industry.



### 3. Third hypothesis testing,

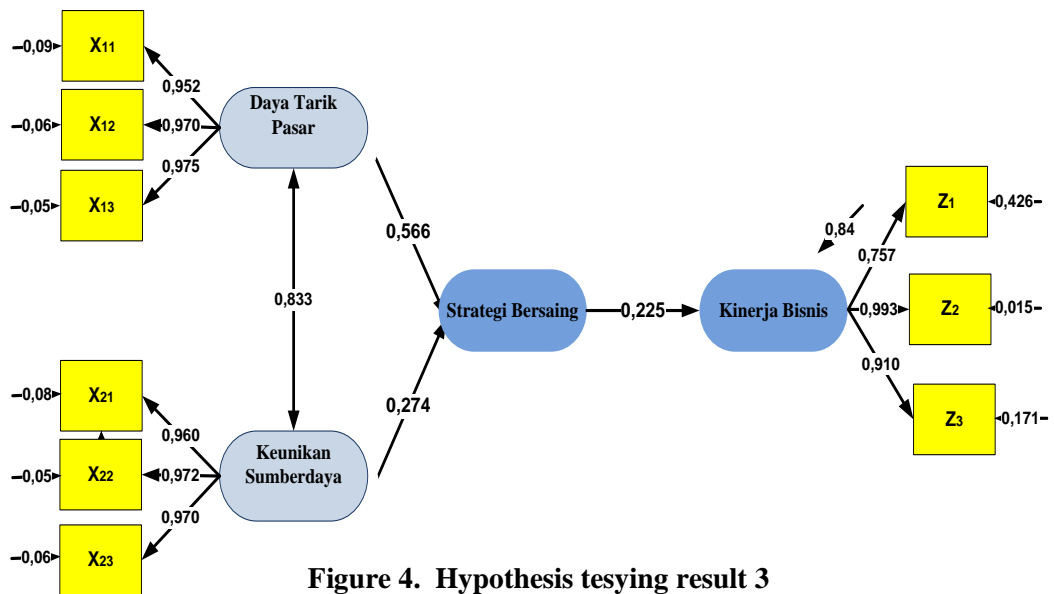


Figure 4. Hypothesis tesying result 3

The results show that there is a simultaneous effect of market attractiveness and uniqueness of the resources on the performance of the business through the competitive strategy of 18.6%.

The Coefficient of determination R<sup>2</sup> of Market Attractiveness on business performance through competitive strategy has a value of 12.7% while the uniqueness Resources competing strategies on business performance by 6.2%.

The synergy of the solution variable consisting of market attractiveness and uniqueness of resources will be able to support the formulation of competitive strategy that has a positive impact on the development of business performance in defence-based strategic industries in Indonesia.

Defense industry as one of the elements in a supporting component of the state defense system, is expected to achieve independency in fulfilling the needs of defense system, thus providing deterrent power and a reliable defense force (deterrence effect) . To conduct national defense, the development policies in defense industry implemented not only in supporting the needs of the defense system, but also oriented on commercial aspects. The support to the defense industry in the current administration addressed in order to realize an advanced defense industry, independent and competitive. Advance means that it can improve the productivity and efficiency of the working field and job opportunities, and improve the welfare of the people. Independent means capable of transforming the condition of full dependency on outside parties to be mutually

dependent. Competitive means that the products not only to meet the standards to support the needs of domestic users, but also able to support the needs for export opportunities.

The policy of the defence-based strategic industrial business development should also consider the realization of independency in the field of defence . Thus it is required compensation spectrum of both commercial products as well as products based on the weapons systems with the state in peacetime or emergencies. Likewise implications on investment should as far as possible keeping in mind the business aspect. Thus the defense industry is expected to be developed through the approach to security, technology, and professionalism.

Operational strategic should in line with the condition where the defence-based strategic industry has its own peculiarities. The resulting products must be unique, branded, and widely recognized. The weakness of the defense industry in Indonesia that it does not own the ability to test weapon, in other words, it does not own intangible assets such as hermetic-technology, ballistic test equipment, speed and pressure measurement, internationally standardized operational human resources, also, intangible assets such as product brands, patents rights that are not widely familiarized yet.

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