

THE IMPACT OF VALUE CREATION ON BUSINESS PERFORMANCE: THE CASE OF SMALL AND MEDIUM BUSINESSES IN WEST JAVA

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ABSTRACT

Although value creation has been proven to be effective factor for good business performance, it may not be the case for small and medium enterprises (SMEs). This study is aimed at investigating the impact of value creation on the performance of small and medium businesses. The study employed path analysis and data of 30 samples of leading small and medium businesses in West Java, Indonesia. This province has considerable potential to serve as a center of small and medium industry development for its abundant source of raw materials and being the largest market potential in the country. The results of hypothesis testing revealed that the network partnership, benefits of customer and business domain had great and significant correlation with business performance. The results also indicated that SMEs failed to consider the creation of benefits over their product.

Keywords: SMEs development, Value creation

1. INTRODUCTION

Referring to the Indonesian Act 32 of 2004 and the Act No.33 of 2004, which basically aim to change the approach to economic development and political centralism, i.e., from a top down to a bottom-up approach, economic development and resource management in any province should be carried out as an integral part of economic development and national resource management in Indonesia.

One of the most important pillar in supporting the economy in the country is the small and Medium business sector (Small and Medium Enterprises, SMEs). This sector is one of the backbone of the Indonesian economy, which has been proven resilient to the crisis, so the potential for business development is very high. As an illustration of the Year 2006 national SMEs amounted to 48.9 million units, of which 99.99% or approximately 48,895,100 units are small and medium

business group in which 90 percent of that amount, or about 44,005,599 units of which are small businesses. Indonesian SMEs are able to absorb 85.46 million or 96.19 per cent of the workforce of the total national workforce. Contribution of SMEs to the GDP amounted to 53.28 per cent, this means big business group that represents only 0.01 percent of GDP accounted for 46.72 percent (CBS, 2007).

SME sector plays its role in driving economic regional / local job creation and new business field. Small and Medium Enterprises is also one of the leading driving forces in economic development. The motion of the SME sector is very important for triggering economic growth and jobs. It is quite flexible and can easily adapt to the direction of the market demand, creating jobs faster than other sectors, and quite diversified as an important contribution to exports and trade.

Some provinces in Indonesia show the presence of some of the advantages and disadvantages of respective region to support the sustainability of the development of SME business performance. As well as West Java province, in terms of regional competitiveness which is viewed from various aspects, ranking seventh in Indonesia following Jakarta, East Kalimantan, East Java, Central Java, Bali and Yogyakarta. Despite the region's economy to rank quite high, other aspects of regional competitiveness indicators are still considered relatively low. Though West Java is a buffer zone economy that is the state capital of Jakarta, but the position of the relative competitiveness of the region lagging when compared to other regions far from Jakarta.

The number of SMEs in West Java in 2008 reached 8,214,262 units, able to absorb 13,911,531 workforce and contributing to the Economic Growth Rate of 8.04 per cent in West Java and West Java GDP of Rp 345.187 trillion. Meanwhile, based on data of August 2010, number of cooperative reached 22,664 units, consisting of 14,771 active cooperatives and 7,893 inactive cooperatives. This sector employs 4,576,978 people, with a business volume reached USD 10.312 billion, assets of Rp 8.831 trillion of Business (SHU) reached Rp 1.017 trillion.

Even so there are some West Java Provincial Government policies to encourage the growth of SMEs such as the development of SMEs through the SME Sentra. Empowerment and development center of existence is needed in setting a strong foundation and ongoing, but it is not yet fully supported by breakthroughs in order to survive and can anticipate economic conditions and changes in an increasingly dynamic environment.

Based on the results of SME Department's study in West Java in 2010, the number of SME centers reach 138 centers spread

spatially in 5 regions of Cirebon, Bogor, East and West Priangan, Purwakarta. The distribution is almost evenly with less concentrated in the East and Bogor. Conditions for SMEs in the region Priangan centers concentrated in the district of West Bandung (44%), followed by the City of Bandung (30%), Sumedang District (17%) and Cimahi (19%). Conditions center for MSMEs in the region of the eastern Priangan is concentrated in Garut (28%), Tasikmalaya District (26%), Ciamis District (23%), City of Tasikmalaya (17%) and Banjar (6%).

Center of commodities in West Java in general has an almost homogeneous characteristics. Approximately 86% of centers commodities in West Java have the same characteristics. While the results of the analysis of primary data obtained through field survey, the result show that the majority of the commodity in the center of West Java's is dead are nearly 42 pieces (62%), only 22 centers (32%) of active centers, and the rest of the 4 pieces (6 %) is there but inactive (dormant).

This phenomenon is caused by the inability of SMEs to respond to market opportunities (capability gap). that the main problems faced by the company is the Capability gap is the gap between the company's internal capabilities with market opportunities. Still not unqualified entrepreneurs in developing value creation according to the demands of the capital market is in doing the right competitive strategy implementation that will generate superior customer value in the form of lower cost relative or unique benefits. As disclosed Doyle (2000:70-71) and Wright (2004:77) that: There are only there basic ways to gain competitive advantage; make-your product cheaper, different or of better value.

Weak creation of value creation is indicated by the difficulty of the businesses in meeting market demands, continued weakness in business

domainitas particularly on product differentiation and diversification of the business, plus today's leading SMEs tend to be weak in doing fragment collaboration with various stakeholders.

Assessing the above phenomenon, this study aims to observe the level of implementation of the leading industry sector SME in implementing the creation the value creation, measure the impact of value creation performance on business performance, as well as explore ways to do SMEs in order to improve business performance in the future.

2 LITERATURE REVIEWS

Value creation refers to the dimensions discussed the consumer experience and benefits relating to the benefits to consumers (Kotler & Keller: 2009), the utilization of the core advantages that come from business domains and the management of business partners.

Customer value creation management process should be done by analyzing the situation first. This is because the analysis of the situation also requires companies to find strategic congruence between external opportunities and internal forces, in addition to pay attention to external threats and internal weaknesses. One way to analyze the situation using SWOT analysis techniques. Given that SWOT stands for Strengths, Weaknesses, Opportunities, and Threats of the organization, all of which are strategic factors of the company. So, the SWOT

analysis to identify unique capabilities (distinctive competence) company that expertise and resources owned by a company and the way they use excel. Unique capability is sometimes regarded as a set of core capabilities, strategic capabilities that make the company to be different. Using the unique capabilities of the company in a timely (core capability) will provide sustainable competitive advantage or sustainable competitive advantages (Best, 2005).

The company is one form of business belonging to the services and manufacturing sectors. The success of an organization, in this case the company service providers in achieving marketing objectives depends on how far the company is able to improve the performance of the company. Aaker (2004) revealed that the company's performance can be measured by measuring the volume of sales, market share and profitability, while according to Walker, Boyd and Larreche (2003) that the performance of the company is a picture of the achievement of the company through increased sales and market share. This is similar to what is revealed by Hitt, Ireland and Hoskisson, (1999), the performance of the company is a control device to achieve its intended purpose, among others, can be measured by the profitability of the company.

Based on the literature review above, it can be revealed a paradigm research model as follows:

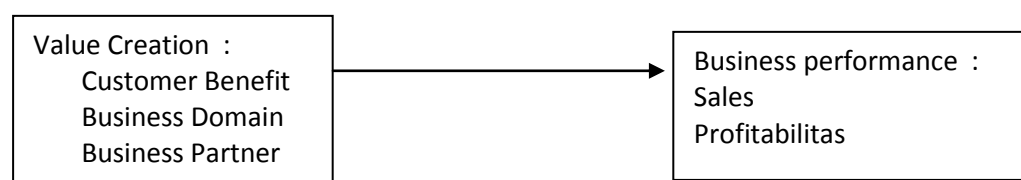


Figure 1 Research Model

The following research hypothesis is then developed based on framework of the above research model:

"Creative Performance Value consisting of three-dimensional covering Customer benefit, business domains and business

partners affect business performance with sales and profitability dimensions"

3 RESEARCH METHOD

This study used the Explanatory approach that can be performed to test the hypotheses with inferential statistics to generalize to the population sample data to draw a random sample from a population. So considering the type of research consisted of descriptive and verification conducted by collecting data in the field, there are two methods of survey (descriptive survey) who applied the descriptive and explanatory survey surveys.

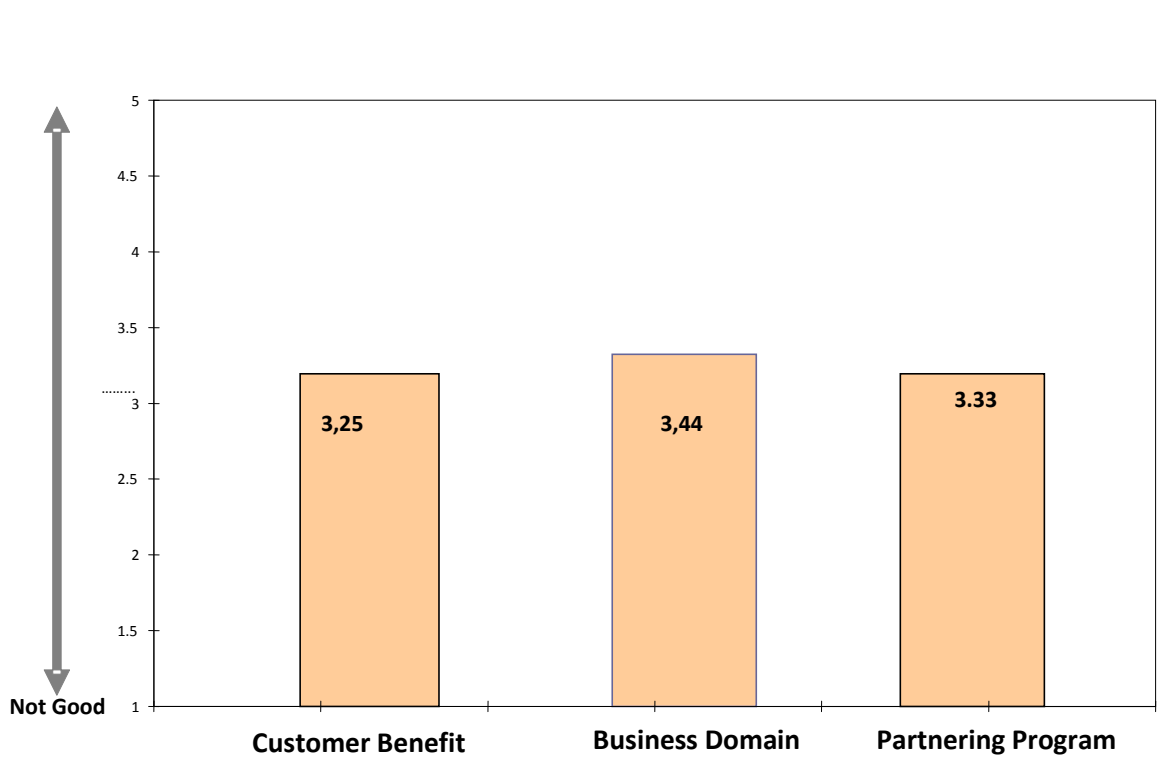
The unit of analysis and unit of observation in this study is the management of the companies included in the leading SME industry by the Ministry of industry and trade in West Java with a

sample size of 30 respondents. By using the observation coverage time (time horizon) is a cross section / one shoot, meaning that the information or data collected directly at the scene empirically at a certain time Sekaran (2010: 119) that in 2012, while hypothesis testing instruments in this study is Path Analysis.

4 RESULT

4.1. Value Creation Performance of leading Industry in Bandung

The results in the field revealed that the implementation of performance consisting of value creation, customer benefits, business domains, and a business partner in the field showed that the value creation performance of the seed industry is relatively not well today, as expressed in the Figure 2.



Source: Preliminary Survey Data are processed, N = 30, (2012)

Figure 2 Value Creation Performance of Leading Industry

Business actors of leading industry today, relatively not fully considering the creation of more benefit of a product. The creation of more benefit of a product - it is

expected that consumers give positive value to the product or company - is still relatively difficult to implement due to limited understanding of the various

business actors about needed information such as customer profiles, rivalry and other conditions. Through the results of this survey are expected, by continuously improving the quality of the product is expected to have a high selling value, able to compete with other companies and can even be a market leader. But in fact businesses do not fully consider the improvement of quality, because, according to the company / business as long as no complaints from consumers and consumers remain loyal to buy, meaning a quality that remains now is still considered good.

In addition, most of the leading industrial businesses in Bandung is still not implemented optimally in terms of maintaining business relationships with customers. Customer Relationship

Management is a combination of business processes and technologies that aim to understand the customers from different perspective to differentiate products and services on a competitive basis. Where the technical aspects of maintaining business relationships with customers can be done for example by caring / sensitive to the needs, desires and interests of its customer. If these things are done by the company then the relationship with consumers will be good, and consumers will remain loyal to a product.

4.2. Hypothesis Testing Results

The results of hypothesis testing using Path Analysis are shown on Table 1 below.

Table 1 Path Analysis(Correlation Analysis) Results

	Business Performance	Customer Benefit	Business Domain	Business Partner Network
Business Performance(X1.1)	1	0.715	0.7	0.744
Customer Benefit(X1.2)	0.715	1	0.522	0.488
Business Domain(X.3)	0.7	0.522	1	0.513
Business Partner Network (Y)	0.744	0.488	0.513	1

Source: processed data

Based on the correlation matrix between variables of value creation (X) on business performance Y, obtained correlation results in a sequence that is, the benefits of the product (0.715), the business domain (0.7), and a network of partners (0.744).

The table shows the direct influence of the three variables of X with

Y variables, which variables have the greatest correlation with the performance of the business partner network that is equal to 0.744. The greatest correlation between the variables X is customer benefit and the business domain that is equal to 0.522. The coefficient indicates that between the customer and the business domain has a significant relationship

Table 2 Results of F-test

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4.288	3	1.429	29.834	.000 ^a
	Residual	1.246	26	0.048		
	Total	5.534	29			

Source: processed data

Based on the Table 4.12 above, the value of $F_{\text{value}} = 29.834$ while F_{table} with degrees of freedom in α (0.05) is equal to 2.63. Thus $F_{\text{value}} (29.834) > F_{\text{table}} (2.63)$ with a significance value 0.000. Significance value smaller than the significance level of 5%, so obviously H_0

is rejected and H_a accepted. In the value of significance 0.000, a significance value smaller than the significance level of 5%, so it can be concluded that H_0 is rejected because the overall model fit and partial test can be done.

Table 3 Partial Test (t-test) Results

Number	Path Coefficient		t value	t table	Decision	Conclusion
1	P _{yx1.1}	0.355	3.104	19,659	H ₀ rejected	Significant
2	P _{yx1.2}	0.301	2.584	19,659	H ₀ rejected	Significant
3	P _{yx1.3}	0.417	3.668	19,659	H ₀ rejected	Significant

Source: processed data

A complete structural causal between variables shopping destination strategy consisting of sub variable customer benefits (x1), business domains (x2), and a

network of business partners (x3) and business performance can be described on Table 4 as follows;

Table 4 Direct and Indirect Effect of Creative Value to Business Performance

X	Direct Effect of Y	Indirect Effect through			$R^2_{YX1.1, \dots, YX1.3}$
		X1	X2	X3	
X1	0.126	0.000	0.056	0.072	0.254
X2	0.091	0.056	0.000	0.064	0.211
X3	0.174	0.072	0.064	0.000	0.311
Total					0.77533

Source: processed data

Based on the results of testing path coefficients, direct and indirect creation of value to business performance, it can be seen that the network of business partners

(x3) directly affect business performance with a maximum value of 0.174 (17.4%).

4.3. Improving Business Performance of Leading Industry

. Capabilities mismatch that occurs in leading industry resulted in the disruption of the organization's ability to offer customers superior value. This value is the conditions which are seed industry required to create the positional advantage. Thus, the mismatch capabilities be a source of problems in terms of lack of ability of leading industry in creating a positional advantage through the development of distinctive resources.

. Flexibility and adaptability strategy of leading industries related to the effectiveness of the strategy in response to market demands and dynamic competitive forces. In a strategic marketing perspective, current strategies and future must focus their attention on the students (customers focus) and competitors (competitor-centered) with increasing synergy operational functions seed industry

Seed industry officer needs to identify unique or distinctive resources of its capabilities and match them with the opportunity value of the service. A resource categorized as distinctive capabilities if superior, difficult to imitate, valuable, rare and can be used in various situations of competition. Resources such as this is a source of organizational excellence and will be effective in creating value for the customer if they can match it with the demands of customers that are rapidly shifting.

Leading industry that has no distinctive capabilities will encounter difficulty in meeting the demands of the market and the value of service. Thus, identifying the distinctive capabilities and effectively connect with student demands is important to considered in the design of the service value creation strategy.

Leading industry officer must decide where, when and how to offer superior value services. This can be done by way of effecting the fit between the

demands of students with distinctive capabilities (capabilities match). Distinctive capabilities can be empowered to improve customer value by offering a unique product or a relatively low price or a combination of both.

In situations where the organization and its competitors have resources that are relatively the same, then the creation of a positional advantage and organizational performance can be a competitive advantage based approach to customer value perspective on the market or market-based. While the potential customer value creation by weak organizational capabilities (capability gap) will be inferior and do not have a relative positional advantage. Inferiority customer value created by weak organization capability (capability gap) can be overcome by effective strategic relationship marketing through the use of the power of information and technology in achieving positional advantage.

The demands of the rapidly changing has made the situation of market competition more uncertain. Because it is in the process of formulating the marketing strategy is preceded by defining the target market as an arena of competition. Although the target market has been defined by a single company, the reality is also served by competitors, resulting in positioning a firm in the target market should focus on finding the benefits (advantages).

Given a means of competitive advantage is the customer value of marketing mix has been the cornerstone for companies to access the market. The success of the company in designing the marketing mix in the end it depends on the company's ability to realize the internal process / coordination across functions (activities). At each stage of the strategic management process is always followed by a change of environment. Therefore, at each step required for adaptation to ensure positional advantage and superior performance.

SMEs increasingly required to understand the situation of the existing business environment, and must try to adapt to every demand of emerging markets. Through organizing the resources or internal forces are present in all the major functions that include power production companies, financial strength, strong human resources and marketing power in particular. This can be done with effective cross-functional coordination, so that the resources of the company more synergistic and effective in responding to the opportunities and mitigate the impact of external threats (global).

In an effort to improve business performance must perform business strategy with the following steps:

Step I ; Design the positioning

How to put the product in the minds of customers, through the creation of unique products.

Step II ; analyze available resources

Available resources are used to differentiate the following steps;

- a. What *value* (more benefit) that offered to
- b. How to offer value to customers through innovative product attributes with more competitive prices perceived by customers.
- c. *Communicating program*, increasing the performance of integrated marketing communication that is done regularly and continuously with the customer's business to business.
- d. The factors that enable the realization of differentiation among others include:
 - (i) Labor Capability
 - (ii) technology ownership
 - (iii) Ownership of adequate facilities

In doing development, value creation businesses, seems still to be constantly developed, especially in terms of fundraising partnerships with various stakeholders that have likely still not fully meet the expectations of stakeholders directly as business customers, suppliers, and distributors or channel . Creation of value for businesses still seem merupakan something new, even though they in turn revealed that it was enough to consider doing development in creating sustainable value creation efforts in the future.

5 CONCLUSION AND RECOMMENDATION

Business actors of leading industry today relatively not fully consider the creation of more benefit of a product. The creation of more benefit of a product - it is expected that consumers give positive value to the product or company - is still relatively difficult to implement due to limited understanding of the various business actors about needed information such as customer profiles, rivalry and other conditions.

In addition, most of the leading industrial businesses in West Java is still not implemented optimally in terms of maintaining business relationships with related parties up, especially in terms of Customer Relationship Management which is a combination of business processes and technologies that aim to understand the customers from different perspective to differentiate products and services on a competitive basis.

In Priority of handling value creation, there are five pillars of action steps to be taken by some sectors of the seed industry:

- 1) Creating more benefits of the product compared to competitors' products. In this effort, all sector done by crucial handling, where it is so fundamental to priority handling of creation the value. A product should

have more benefits than any other product that the product is superior to its competitors.

competitively priced compared to other products so that the product is superior to its competitors.

2) Maintain / develop product benefits to customers.

4) Maintain business relationship with the customer.

3) Creation of value / benefits at competitive prices. In this action efforts, all sector done by crucial handling, where it is so fundamental to the priority handling of creation the value at competitive prices. A product must have a value of more

5). In this effort all sector the done by crucial handling, where it is so fundamental in value creation handling priority.

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