

**PRODUCT DEVELOPMENT MODEL CORE COMPETENCIES RESOURCES BASED  
REGIONAL APPROACH TO VIEW  
(STUDY ON MANUFACTURING SMEs IN PALU)**

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**ABSTRACT**

*SMEs greater role in the economy is an opportunity to improve the performance of SMEs the various problems. SMEs should be able to grow through the development of their core competencies so as to sustainable competitiveness. RBV Model is one of the solutions offered to build the capacity of SMEs by strengthening some strategic resources. This study analyzes how the strategic resources of SMEs (tangible and intangible) and the dynamics of the environment affects the ability of SMEs to choose and design the best strategy, which in turn how it affects the election strategy for financial performance. The research carried out on 42 SMEs manufacturing in the Palu city, and analyzed by SEM PLS. The result is a significant variable for tangible effect on competitive strategy, but not significant effect on the financial performance. Intangible assets affect to the competitive strategy and financial performance. Environmental dynamics significantly influence competitive strategy, but no significant effect on financial performance.*

Keywords: Strategic assets, tangible assets, intangible assets, environmental dynamics, competitive strategy, financial performance.

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**Introduction**

Indonesia's economic development paradigm has shifted by the economic development of large-scale industrial growth oriented toward economic development that emphasizes more democratic economy (Riyanti, 2003). The amendment directs to the important role of empowerment for SMEs in the national economy to grow and develop, as well as the challenge in the face of global competition to gain competitive advantage and realize the success of business (anatan & Ellitan, 2009). Increasing the role of SMEs strategic worth, and concerns the lives of many people, so its presence into the national economy. (Husnah, 2015). However, many obstacles still faced by SMEs to grow and develop . One problem is that SMEs is not be able to compete when faced by dramatic changes in the global business environment, so it is not able to maintain its existence (anatan & Ellitan, 2009). Despite the competitiveness of SMEs is still relatively low, but its existence spread in various regions. The existence of SMEs in the Palu city has now provide greater employment opportunities, where total labor absorption reached by 144 098 people, of a total labor force of 152.329 people. Nevertheless, a number of SMEs are still haunted by the various constraints that affect to the financial performance of both internal and external problems. (Supartman, 2011).

Ardiana et al. (2010) specifies that in generally, the problems are keeping SMEs in low productivity, low added value, low the amount of investment, range of the narrow market, business networks are limited, access to sources of capital and raw materials are limited, management is still not professional, and Human Resources (HR) in general do not have the quality that can compete in the global market.

A one solution can be regarding the problems faced by SMEs through the management of resource-based enterprises, due to the management of the company is able to create specific competencies (Grand, 2010). To achieve a sustainable competitive advantage that cannot be separated from Resources Based View (RBV), which provides guidelines for the management company to identify, control and develop strategic resources in order to produce optimal performance (Barney, 2005).

The business performance can improvement the resources conformity with the strategy of the company. This is consistent with Wernerfelt (1984) and Grand (2010) that the resources of strategic owned and controlled by the company is used as a base formulation and implementation of strategies to achieve optimal performance. A viability or corporate excellence depends on available resources, as well as what strategies were chosen to empower resources, so it can respond the opportunities and challenges of business environment, (Barney, 1995). Based on this background, it appears that the process of organizational transformation necessary to achieve competitive advantage by presenting the core competencies of strategic resources (tangible and intangible), as well as the dynamics of environment, as the basis for determining the business strategy that is ultimately able to realize a SME manufacturing performance in Palu city.

**Concepts and variables**

Several previous studies have shown that the role of enterprise resources as a determinant of corporate performance (Ferreira & Azevedo, 2007; and Suardika, 2011). Resources as the basis for determining the strategy can be evidenced from the various studies. Specific tangible resources can affect to business performance evidenced by Husnah (2005) and Suardika (2011). Furthermore, Intangible resources can provide demonstrable influence to performance of the research, Edelman (2002), Suardika (2011), and different with Husnah (2013). According to Porter (1991: 32), that there are three kinds of cost leadership, differentiation, and focus. The company's strategy is an important part of the enterprise organizational systems that will play a

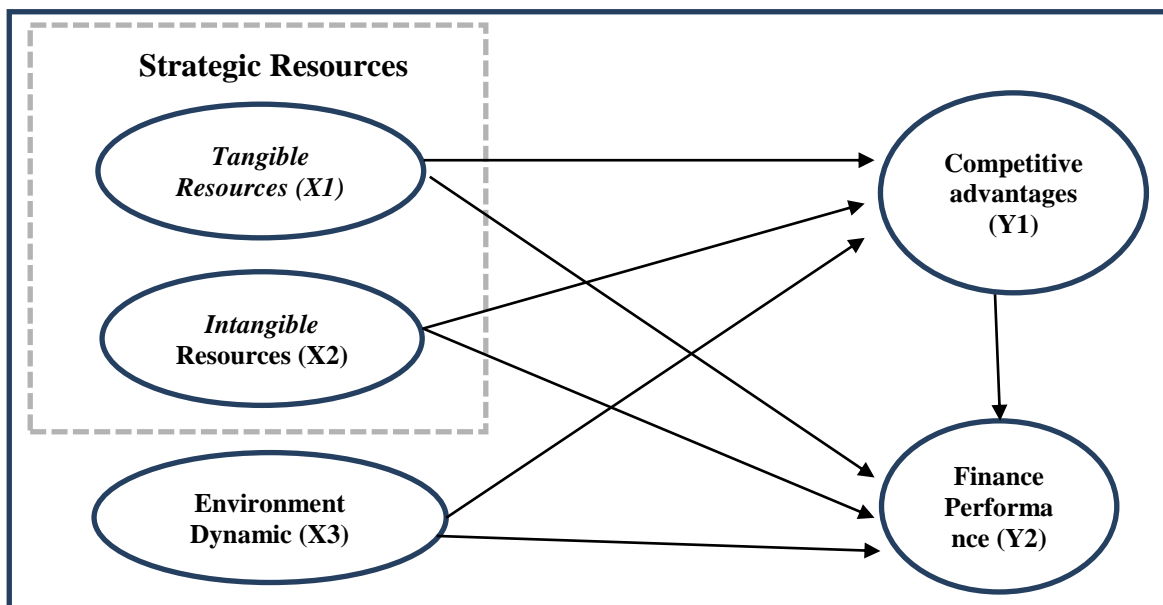
role to improve a business performance. The concept of research proved by Slater (2006), Sulastri (2006) and Muafi (2008), Suardika (2011), and Husnah (2013).

For a globalization, the competitive advantage of a company is determined by the business environment factors (external). Thus, the viability and success of the company depends on the ability to monitor and adapt to the business environment (Porter, 1998), so it can use the business strategy to realize the effective achievement of objectives (Jones, 2009 in Suardika, 2011). Business environment focused on the dynamics of the environment, conceived as a rapidly changing of environment and discontinuous on market demand, competitors, technology, and regulation, so that the information is often inaccurate, and identified their environmental uncertainty and high competitive intensity (Hashim, 2001). This opinions from Surahman (2002) that the analysis and diagnosis of resources with the external environment must be synergistic, and used as input in the adjustment of company's strategy to create sustainable performance. This can be proved from research that produces some positive influence between the dynamics of the environment as the basis of determining the business strategy and corporate performance (Suardika 2011 and Yuliani, 2013;).

### Research development

In a study to be measured about the influence of independent variables are include tangible resources, intangible resources, and some dynamics of the environment, adapt to the dependent variable 1 (Y1) as the competitive strategies by SMEs and the dependent variable 2 (Y2) as the financial performance. Furthermore, testing the effect of the dependent variable 1 (Y1) to the dependent variable 2 (Y2), as a research model below:

Picture 1. Research development



Based on the above models, the hypothesis is being developed by:

1. Tangible resource has a positive and significant influence to select the competitive strategies of SMEs
2. Intangible resource has a positive and significant influence to select the competitive strategies of SMEs
3. The dynamics of the environment has a positive and significant influence to select the selection of competitive strategies of SMEs
4. Tangible resource has positive and significant influence to select the financial performance of SMEs
5. Intangible resource has a positive and significant influence to select the financial performance of SMEs
6. Dynamics of the environment has a positive and significant influence to select the financial performance of SMEs
7. The ability for competitive strategy has a positive and significant influence to financial performance.

### Methodology

Data collected by census of all manufacturing SMEs in Palu city and the data obtained from Central Bureau of Statistics in Palu. Based on data collection, obtained by 42 of SMEs are still actives. The analyze of the data were used by SEM PLS, by the small sample size and the ability to perform re-sampling by PLS. Analyzing the relationship between variables (inner model), first performed by the measurement analysis (outer model) which are includes outer loading, cross loading, Average Variance Extracted (AVE), composite reliability, and the calculation of cronbach alpha. The model showed that the entire outer are valid and reliable items.

### Result

The testing of structural models were analyzed by R-square and coefficient parameters.

**R Square (R<sup>2</sup>)**

R-square is a coefficient that describes a large proportion of the contribution of independent variables on the dependent variable. PLS analysis results can be summarized as follows:

**Table 1**  
**R square**

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	P Values
Financial Performance	0.817	0.821	0.035	0.000
Competitive Strategies	0.808	0.809	0.035	0.000

From R Square above shows that the variables for X1, X2, and X3 have an impact on the ability of determining and designing competitive strategies by 80.8%. Meanwhile, if the total of these variables (X1-X3) and competitive strategy (Y1), it will be able to create a financial performance (Y2) with a share of 81.7%, the rest is influenced by other factors not analyzed by the model. The coefficient parameter is describing an influence of each exogenous variable to endogenous variable.

**Table 2.**  
**Coefficient parameters**

	Coefficient	P Values	Results
Environment dynamic -> financial performance	0.015	0.765	Non Significant
Environment dynamic -> competitive strategy	0.212	0.001	Significant
Intangible -> financial performance	0.521	0.000	Significant
Intangible -> competitive strategy	0.577	0.000	Significant
competitive strategy -> financial performance	0.335	0.000	Significant
Tangible -> financial performance	0.079	0.240	Non Significant
Tangible -> financial performance	0.184	0.016	Significant

From the table above shows that all coefficients have positive relationship to variable competitive strategy and financial performance. However, the effect of tangible resources variable (X1) and the dynamics environment (X3) on the financial performance (Y2) is not significant. The biggest positive coefficient is the effect of intangible assets variable (X2) on competitive strategy (Y1). These findings are provide a different perspective of strengthening the SME models based on the concept of resources based view (RBV).

**Discussion****The Effect of Tangible Variable to Competitive Strategy**

Tangible variables measured by two main indicators, such as financial resources and physical resources. The result showed that the tangible variables have a significant influence on ability SMEs in designing appropriate strategies for their business. Sufficient for financial resources, along with the carrying capacity of good physical facility will allow SMEs to modify their competitive strategy. This means that the aspects of company internal conditions to financial ability and physical resources owned by the main force that determines the SMEs were able to pick the right strategy. The inherent disadvantages of financial resources, are particularly the lack of access to funding sources is still covered by the ability of SMEs to make better financial management. Difficulties faced by SME business people can realize and survive the competition, because of the availability of financial resources limited must be utilized by optimally through manage some resources and supervision of funds owned. At this point, the internal forces can create by physical support resources, such as power for businesses and design their competitive strategy on the market.

This finding meant that the company's internal strength is reflected by tangible resource capable of providing power and valuable input to determine companies and determine their competitive strategy. A part of the core competencies for SMEs are likely to be different between the companies. This finding is consistent by Nurhajati (2004) that internal factors, one of which is the tangible variables play an important role to helping companies in setting business strategy. It gives meaning the tangible resource control as one of the strategic resources of the company, will be able for SMEs to build their competitor position in the market, which in turn impact on their business performance. (Suardika, 2011)

**Effect of Intangible Variable to Competitive Strategy**

Intangible variables in this study consisted by human capital dimension of organizational resources and relationships. As a relatively for small business entity, if SMEs are managed by the support of intangible adequate resources, that will give strength to the competitiveness for SME business.

Intangible variables influence to competitive strategy is positive and significant. This means how the variables are consisting the human resources, organization relations have a central role to success the companies by competitive strategy, which an impact on achieving for high performance. Human Resources as a central asset of companies thinking about a great significance for the development of business, determining the right strategy design, the business environment dynamics. Ability and skills of organizing all its resources is a force for SMEs. As one of the intangible assets, organizational resources contribute positively the company's ability to build a business strategy.

Sharabati & Bontis (2010) which states that there is a strong relationship and positive effect to the management of intellectual capital include human capital, structural capital, and relational capital as part of the intangible assets, which in turn affects to the business performance. Based on the test results either directly or indirectly, the resources owned SMEs, that intangible assets are comprised by the human capital, organizational capital, and relational capital that it can improve a financial performance. This is relevant to the concept of financial performance is part of the financial statements which indicates the position of the resources owned by the company during the period and the financial statements for the financial performance, then the company's ability to generate revenues from its resources (Darsono & Ashari, 2005).

#### **Effect the Environment Variables Influence To the Dynamics Competitive Strategy**

The dynamics of environment is a challenge for business, so that the unpreparedness of businesses to environmental change, it will be kill the business itself. The business environment is especially distimuli by technological changes that impact on customers, the main challenge an SME business. To exist, companies should be able to adapt itself and to changes in the environment. (Covin & Slevin, 1989; Dess and Keats, 1987).

Efforts environmental monitoring dynamically changing continuously is a company needs to capture the perfect information for the design of appropriate strategies. (Suardika, 2011). The result is significant positive relationship and for the dynamics of environment effect to strategy for a provide information that any changes in the business environment faced by SMEs, to encourage SMEs and to make adjustments strategy used. These findings of Suardika 2011 said that any change in the environment by company in the form of elections and determining the right strategy. This finding also has a strong connection by Gelderen et al (1998) said that each company will design and use strategies based on the degree of environmental uncertainty. Any change in the environment is basic information for strategic decision making by SMEs.

For long term, the business is needs to be able to cope with change, to be able to produce competitive advantages. Business networks can involve some logistics supplier as inbound and outbound customer by a variety of strategies and tactics designed by business people.

#### **Effect of Tangible Variable to Financial Performance**

The results of this study indicate that the effect of the variable is not significant tangible assets. This means that a variable will ultimately have a positive impact on financial performance, but not direct to strong influences, but through the mediation of the strategy as well.

The investment and management of the tangible assets will give firms some abilities to create efficiency and give a ability to company position in the market. It makes tangible assets as an internal force of SMEs. The strategy is only able to run, if SMEs have realized by sufficient assets and support the company's operating performance. Without it, the company's ability can determine the best strategy would collide with the internal capabilities of SMEs as its carrying capacity. This finding is consistent by Suardika (2011) that among the strategic resources, human resources is the most important factor in shaping the business performance. For the powerful asset management should be directed not only on the acquisition of physical assets alone, but should be focused on key strategic resource for organizational resources and human resources to produce the performance of SMEs. It provides important information about the identification of resources is building a model of SMEs and on the basis of RBV for SMEs, because not all resources are a key resource for successful development strategies performance of SMEs.

#### **Effect of Intangible Variable to Financial Performance**

Intangible variables have a positive and significant impact both on the election strategy and financial performance. Intangible assets in the form of human resources, relationships resources, and organizational resources, is an important force and as the core strength of a business. Human resources are strength to determine the success of a business and to prove the significance of this variable about determining and selecting the company's competitive strategy, as well as in forming a good financial performance. Human resources in the organization or company with a set of skills, knowledge, and capability as a representation of human capital, it is very difficult to imitate by competitors (Fletcher et al., 2005). It is based on the theory that explains the company RBV company performance differences due to variations in the differences of resources and capability. Human capital for VRIN criteria (Valuable, Rare, Inimitable, Non-substituable) is fundamental to gain the competitive advantage of companies that will have an impact on financial performance (Barney, 1991; Wright, 1993; Hitt et al. 2001; Choo & Bontis, 2002; O' Regan & Ghobadian, 2004; Pablos & Lytral, 2008; Kong & Thomson, 2009).

The results also showed a high investment of human capital that can improve the financial performance of SMEs. The results of this study are consistent by of Hitt, et al. (2001), Coleman (2007), Leitao (2008), Sharabati & Bontis (2010). This study also has a relationship with research by Coleman (2007), which is conducts research on the owner (male or female) small businesses in the US field retailer. There is effect between intangible assets, especially human capital to financial performance. Sharabati & Bontis (2010), which are conducts the research on Pharmaceutical manufacturing company in Jordan, also showed by the assets of intangible assets (human capital) affect a business performance.

### Environment Variables Influence on Performance of Financial Dynamics

Changes in the business environment is constantly moving to dynamics of company adapt. The dynamics of the business environment also visible from the intensity of competition and the uncertainty of the business environment, making firms always will "wait and see" policy on what should be taken. This experiment reveal information that influences the dynamics of a non significant impact on financial performance as measured by rate of inventory turnover, profit growth and return. Changes in the business environment that occur, not necessarily by financial performance changed significantly.

This finding is consistent by the Holy (2008) and Judge (2007) said that the variation facing companies did not provide a direct impact on business performance. This finding is contrasts by Riverd et al (2005) that found an increase in hostility environment and achievement of the company's marketing performance. These findings provide to bring existing of SMEs, generally have a weak managerial ability, and tend to be weak in controlling the impact of environmental change on their business performance (Suardika, 2011). The extent to meaning a environmental business change or a threat depending on the extent to the company that able to adapt through specific and strategic decision making in the short term and long term.

### Effect of Competitive Strategy to Financial Performance.

The competitive strategy is a perfect mediator variable for achieving a financial performance of SMEs. A competitive strategy variable is positive influence and significant impact to financial performance. These results provide a justification that the independent variables studied were tangible assets, intangible asset, and environment dynamic. It is a predictor of how the company is able to take the right business decisions. The results studies of Slater et al. (2006); Sulastri (2006) and Muafi (2008) said that there is a direct influence of Porter's competitive strategy on financial performance. These results indicate that strategy is the most dominant influence on financial performance by differentiation strategy. This finding results by Subaedi Ardiana (2010), which conducts research on SMEs in Surabaya. Nevertheless, these findings differ from the results Amoako & Acquoa (2008) are contend that a strategy has no influence on the company's performance. The design an appropriate corporate strategy only based on a resource that is dominated by a company. Because the strategic resources company owned is a basis of the formula and the implementation a strategy compete (Wernerfelt (1984) and Grant (2010). So, the survival or competitive companies depend on available resources, as well as strategies to empower these resources, and to respond the opportunities and challenges the external environment (Barney, 1991). Conceptually, based on RBV is the assumption that each organization or company has a unique set of resources and capabilities in the form for strategy and a major source of return companies. Thus, it has a relevance to the concept above, where resources and unique of companies capabilities in the form of tangible and intangible assets are great base to form a strategy. It has been suggested by the integration strategy to provide compatibility between contingency strategy with several variables and that to set a strategy in the effort, in order to achieve business performance. (Husnah, 2013).

### Limitation and Recommendation for future research.

The weakness of this study is a data collection by cross section. Cross section of research that are not able to cover all of the information changes in the business environment faced by respondents. For further research, it can perform multiple perceptions and measure the real size in measuring a business performance, in order to minimize bias arising from respondent perception. Developed not only in the manufacturing sector, but also are includes in SMEs engaged by the service sector. Longitudinal studies that need to be developed by information is covered completely about business environment is real and how SMEs can adapt to the change.

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