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Research Article

CORE COMPETENCY FACTORS AND SME's COMPETITIVE STRATEGY

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ABSTRACT

This study aims to identify Core Competency Factors that can improve SME's competitive strategy. This study analyzed 15 Core Competency Factors and their association with Competitive Strategy. Samples taken as many as 69 SME's, and the data collected were processed using correlation. From 15 Core Competency Factors it was concluded that 10 variables correlated with Core Competencies significantly at alpha level 1% (9 factors) and significant at 5% alpha level (1 factor), while the other 5 factors did not correlate significantly. Strategy is based on the factors that form the core competencies, so as to improve the competitiveness of small and medium enterprises. Small and medium enterprises can open up to receive suggestions for improving their competitiveness. Required assistance from government, private and universities in terms of guidance on the implementation of competitiveness improvement strategies.

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INTRODUCTION

In Bismala's research, *et al* (2014) identified several problems in the management of umkm as follows: (1) Less familiar with the development of SME's by agencies and other competent parties, (2) low production management capability characterized by production capacity planning, inventory, (3) weaknesses in terms of marketing management characterized by limited marketing areas, lack of familiarity with information technology that can be used as marketing media, capital turnover is hampered due to consignment system, (4) in terms of financial management i.e. the absence of continuous and systematic recordings so that SME's actors difficulties in the grouping of property, (5) from the aspect of human resource management that has a low quality so that has a value of innovation and creativity is low.

In his research, Vorzsák & Coros (2007), found that managers delegate operational decisions to several technical specialists, while managers solve managerial problems, such as increasing productivity, reducing costs and losses, choosing suppliers and consumers. The focus is also directed to customer needs to maintain loyalty, along with efforts to improve business and quality standards. This will certainly bring about an important change from the organizational culture and employers' attitude,

which becomes proactive, offensive and involves strategic planning for the future of organizational development.

The main component to achieving competitive advantage is the core competence of firms that rely on assets or skills. Core competencies consisting of: (a) Valuable Capabilities, (b) Rare Capabilities, (c) Imperfectly Imitable Capabilities, (d) Unsubstituted Capabilities (Nonsubstitutable Capabilities). This competence can be achieved by implementing the optimal management, including production management, marketing management, human resources management and financial management.

Analysis shows that the transformation towards open innovation management requires a fundamental change from SME's to move from closed to openness to innovation. Some of the key factors that make up a successful transformation process (i.e. trust, common experience, and step-by-step procedures). On the one hand the success of management change is holistic thinking and rational problem solving. On the other hand human management (belief, goodwill and individual ability) is the determinant of success. Against the background of human management, communication and motivation activities should emphasize the advantages of openness

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management innovation to reduce resistance to change. (Brunswick and Ehrenmann, 2013)

The study also shows that among all other business functional level strategies, production strategies are the most important for SME's manufacturing in Japan and Sri Lanka. In addition, the strategic business activities analyzed concluded that suppression of product quality and customer service and acquiring knowledge of competing activities is the most important strategic activity for both countries. In addition, reinvestment of profit gains and assessing employee performance in Japan and seeking financial resources and emphasizing employee productivity in Sri Lanka are also important for SME's. Findings on the relationship between strategy and annual sales and profits have a positive and significant relationship in both countries. This implies that the level of functional strategy; finance, production, HRM, marketing and R & D have a direct impact on increasing sales and profits in manufacturing SME's in Japan and Sri Lanka. Furthermore, the literature suggests that a high-performance-generating strategy identified is an activity related to an emphasis on product quality, product and service innovation, new technology development operations, emphasis on customer service and support, broad advertising, and external financial use and new market discoveries (Pushpakumari, et.al, 2013)

Research shows that there is a relationship between product features and consumer expectations, product customization with sales growth, product value addition with revenue growth. This indicates that good product quality affects the return on investment. The study recommends that in order to be more competitive, managers should pay more attention to consumer needs and the uniqueness offered by products and services that satisfy the needs (Uchegbulam, et.al, 2015).

SME's problems in many countries show similar phenomena. Factors that form the core competencies in corporate management functions need to be known, so that companies are able to design effective strategies to improve competitiveness. Product or service innovation will not mean much if it does not achieve commercial success (Byrd, 2007). The company must develop its ability to market the new product or service. Baldwin, (2009) in his research in Canada found that small and medium-sized companies will become more innovative when emphasizing greater development of marketing, financial, production and human capital capabilities. Marketing capability in this research refers to the company's ability to develop various aspects related to product marketing, including: distribution and promotion network.

There is strong evidence that launching new products to the market is critical to creating a competitive advantage. To achieve the success of new products, the company must always respond to changes in consumer needs and the movement of its competitors. Chase et al., (2006) states, due to the increase in the number of new products and new process technologies, while the product life cycle and product model are getting shorter, the company has to increase new product development projects larger than ever, more efficient power in each project. Production and operation capabilities in this study are defined as the ability of an organization to improve efficiency and effectiveness in its production / operation process, including:

material efficiency, quality control, and planning and scheduling in the production process. Development of production process capability consists of three stages namely pre-production, production, and post-production (Leonard and Barton, 2005). The first stage is the stage before the production process (pre-production) includes the implementation phase of a quality design system. The second stage is the stage of production process (production). At this stage of note is the guarantee of product quality. One way that can be used is the process of statistical monitoring, including the efficient use of materials, and the standardization of the product. Last post-production, is the quality control stage after the production process.

Theoretical Framework

The growth dimension is known as the most important performance measure, especially in small companies (Tsai et al. 2006; Wiklund 2009) and is a good performance test amid conditions of economic recession and intense competition (Swamidass and Newell 1987). Sales growth is a very common performance indicator and has become a consensus as the best growth measure. Sales growth and market share growth are a good growth measure. Market share growth can be used to measure market effectiveness. Profit growth is also an important growth indicator and can reflect the company's financial performance. The dimension of profitability to know the ability of the company in generating profit or how far the company can be managed effectively.

Innovation is the key to organizational success, but highly skilled workforce is an important factor for innovation (Baldwin, 2005). Training programs are the main methods used to improve labor skills. A survey by Baldwin et al. (2010) on small and medium-sized enterprises (Growing Small and Medium Enterprises) shows that labor skills are the most important contributors to the growth of the company. This is based on research findings, that about 52% of small and medium scale firms studied implement training programs to improve their human resources, 36% of them use formal training programs.

Innovation will arise in the event of intensive interaction and communication between the company and its environment (Sarens, 1987, Roertson and Gatignon 1987 in Slappendel, 1996). Interaction and communication with the external environment is a form of corporate interaction and communication with consumers, suppliers, competitors, external R & D institutions and Industry Associations (Romijn et al., 2001).

Interaction with consumers will contribute to innovation by generating demand (Marquize; Utterback, 1982 in Slappendel, 1996). Consumer contributions to innovation will depend on their experience and may differ across industries and across countries. Suppliers can be an important source of innovation by providing knowledge of new ideas and providing support for successful implementation.

The role of technology that is so important in a company has implications for the need to develop a technology strategy within a company. Burgelman, et al., (2006) states that technology is an important resource in organizations that need to be well managed, because technology is a fundamental

business function. Technology will be able to help the company to gain distinctive competence that enables the company to produce better products from its competitors (Tidd *et al.*, 2007), while modern technology will bring improved product quality, new product development, productivity, and efficiency (Chowdhury, 2010).

RESEARCH METHODOLOGY

This research is a research development because research will be done in long time (2 years) gradually. The approach of this research is qualitative, intended to know what factors have the greatest influence for core competencies owned by SME's. Data collection will be done, that is by collecting questionnaire data, with SME's as respondent. A total of 100 questionnaires were distributed but only 69 questionnaires were returned, for further analysis. Data is analyzed by correlation analysis which aims to know the closeness of relationship between research variables.

FINDINGS AND DISCUSSION

Correlation analysis aims to determine the relationship of research variables. In this study wanted to know the correlation between independent variables, which consists of production management, marketing management, human resource management and financial management with the dependent variable that is core competence. As for these independent variables in the breakdown again become the factors, so can know the correlation between each factor with core competence. The production management variables breakdown to capacity, process, inventory, quality, and human. Marketing management breakdown into product, place, promotion and price. Human resource management in breakdown becomes recruitment; maintenance, and development and performance appraisal, financial management becomes recording and capital acquisition. The results of data processing can be summarized in the following table:

Table 1 Results of Correlation Analysis of Indicators with Core Competencies

Factors	Correlation	P-Value	Result
Capacity	0,388	0,010**	Significant
Process	0,212	0,080	Not Significant
Stock	0,137	0,262	Not Significant
Quality	0,203	0,095	Not Significant
Human Capital	0,746	0,000**	Significant
Product	0,533	0,000**	Significant
Place	0,343	0,004**	Significant
Promotion	0,260	0,031*	Significant
Price	0,690	0,000**	Significant
Recruitment	0,134	0,274	Not Significant
Maintenance	0,494	0,000**	Significant
Development	0,397	0,001**	Significant
Performance assessment	0,507	0,000**	Significant
Recording	0,327	0,006**	Significant
Acquisition of Capital	0,180	0,140	Not Significant

(**) Significant at alpha 1%, (*) Significant at alpha 5%.

The results of data processing show that several factors that influence core competence are significantly: (1) human, (2) price, (3) product, (4) performance appraisal, (5) maintenance, (6) development, (7) capacity, (8) place, (9) recording, (10) promotion. While some factors give positive but insignificant

effect, they are: (1) process, (2) inventory, (4) quality, (5) recruitment, (6) acquisition of capital.

Humans are an important element in all activities (production management, marketing management, financial management, human resource management). Humans carry out management functions (planning, organizing, actuating and controlling). The human factor here is the function of production management, which takes account of work procedures and the physical environment. Effective and efficient working procedures and conducive working environment will encourage employee productivity. Conducive working physical environment is affected by temperature, lighting, odors and noise. Working procedures can be analogous to the way employees do the work, which is standardized, so that anyone doing the same job will spend the same time and the same way and generate the same amount.

The price of the product can be determined by calculating the cost of goods manufactured exactly, so it can compete with similar products. Price tangent to the quality, then the consumer will be willing to spend a fee comparable to the quality offered. No products have any competitors. The problem is, what is the criteria that consumers choose in buying a product. There are at least 3 aspects that consumers consider to buy goods, namely performance, price and service.

Effective performance appraisal will have an impact on increasing or decreasing employee motivation. Before conducting a performance appraisal, firstly set the criteria of assessment accurately along with rewards provided if the employee has a high performance. Maintenance of employees is intended to maintain motivation with several things, such as maintaining good relations between employees and with superiors, the exchange of work so that employees do not get bored. Adequate compensation schedule, fair treatment can also provide a sense of comfort that can reduce the high number of employee entry.

Not all employees' work according to skill or employees can do some other work when the work is done. This causes employees to grow better, with some work. On the one hand, employees do not feel boredom, but on the other hand, employees do not focus on one job only. SME's actors feel they have done the calculation of capacity appropriately, so there is not too much excess inventory. They sub-contract when the excess demand cannot be overcome.

In terms of marketing, the marketing range of the products studied averages already reached outside of Medan, even outside of North Sumatra, such as West Sumatra and Aceh. The distribution of products to the store runs smoothly, because of the easy communication that is done. Promotion is not much done by SME's actors. They only rely on the current market, which can be reached. Promotion event provided by several institutions such as product exhibition not many know. Records have been made by some SME's studied, although not systematically and regularly.

To optimize the achievement of core competencies, it is necessary to design a strategy that contains factors that correlate with core competencies as can be seen in table 2 below:

Table 2 Draft Strategies to Improve Core Competencies

Factor	Dimension	Strategy
Human Capital	Improved working environment	<ul style="list-style-type: none"> • Keep the temperature, air circulation, lighting and cleanliness comfortable • Minimize the odors generated from the production and waste process • Use safety tools to prevent noise impact
	Improved procedures / work system	<ul style="list-style-type: none"> • Create a map of the operation process • Create a flow chart for the production process • Ergonomic motion training
	Improved 5R work culture (concise, neat, clean, care and diligent).	<ul style="list-style-type: none"> • Train the 5 R culture for the SME's and its employees • Implement culture 5 R • Measuring cultural impacts 5 R • Give rewards to employees who are able to implement 5R culture
Capacity	Accurate planning	<ul style="list-style-type: none"> • Accurate and systematic records of each store (distributor), how many items sold, in a certain time size, so that can be used as a basis for capacity forecasting
	Supply chain management	<ul style="list-style-type: none"> • Have a credible supplier • Ensuring that supplies run smoothly
	Good subcontracting system	<ul style="list-style-type: none"> • Conducting subcontracting as demand increases so as to keep up with demand
Product	Perform SWOT analysis	<ul style="list-style-type: none"> • Conduct a SWOT analysis to identify the closest competitor, segment and target • Conducting product development, in terms of raw materials, production process and quality • Conduct a survey for product development
Proce	Determination of cost of goods sold	<ul style="list-style-type: none"> • Accurate calculation of cost of goods sold • Provide rebates on special events
Place	Widespread distribution	<ul style="list-style-type: none"> • Create new segments at different prices • Opening a market in a new territory
Promotion	More modern promotion	<ul style="list-style-type: none"> • Marketing products online • Attend the exhibition organized by the agency
Employee maintenance	Climate organization	<ul style="list-style-type: none"> • Creating and maintaining good and fair relationships between fellow employees, as well as with superiors • Creating and maintaining good and open communication so that there is mutual understanding
	Organizational culture	<ul style="list-style-type: none"> • Growing a healthy culture, such as praying together, helping each other's employees, has a program that is routinely implemented and cultivated so that the values adopted. • Creating an innovative culture and improvements to the work, so always want to go forward • Designing a fair compensation system
	Compensation	<ul style="list-style-type: none"> • Not only provide financial compensation but also non-financial compensation, according to SME's ability • Provide appropriate compensation on schedule
Development	Training on the effectiveness and efficiency of time	<ul style="list-style-type: none"> • Employees are trained to do the job properly and efficiently in terms of time, use of raw materials and end products • Employees are trained to look at their own work and fix it
	Work specialization and work rotation	<ul style="list-style-type: none"> • Apply specialization work to maintain the level of productivity • Periodically rotate work to avoid boredom • Perform productivity assessment of the work done to obtain work that really fit with employees
	Develop a performance appraisal system	<ul style="list-style-type: none"> • Establish performance appraisal indicators • Socialize performance appraisals to employees and why performance appraisals are conducted • Perform periodic performance appraisals • Provide rewards for employees who perform well
Performance assessment		<ul style="list-style-type: none"> • Provide training in profit and loss statement, cash
Financial records	Systematic financial recording	<ul style="list-style-type: none"> • Separating between personal finance and business finance • Monitor the recording done

Table 3 Draft Strategies to Improve Core Competencies

Factor	Dimension	Strategy
Process	Setup layout	<ul style="list-style-type: none"> • Perform layout arrangement on the basis of production process • Create a map of the operation process to provide ease of understanding of work • Evaluate the production process and standardize the time and process
Stock	Inventory management	<ul style="list-style-type: none"> • Conduct raw material inventory, taking into account the quantity discount, for raw materials that are not easily damaged
Quality	Quality management	<ul style="list-style-type: none"> • Controlling raw materials by choosing quality raw materials • Controlling quality at the stage of production process by doing work effectively
Recruitment	Consumer satisfaction	<ul style="list-style-type: none"> • Periodically conduct a survey of customer satisfaction
	Cooperation with vocational schools	<ul style="list-style-type: none"> • Establish cooperation with vocational schools in terms of labor acquisition • Can serve as an apprentice place for entrepreneurial enthusiasts
Acquisition of Capital	Partnership	<ul style="list-style-type: none"> • Conducting partnerships with agencies that provide ease of funding
		<ul style="list-style-type: none"> • Conducting partnerships with similar manufacturers to be more solid in marketing • Establish cooperatives so as to support capital

While some factors give positive but insignificant effect, they are: (1) process, (2) inventory, (4) quality, (5) recruitment, (6) acquisition of capital. This factor also needs attention, so that proper reinforcement will improve competitiveness through core competencies.

Here is a strategy design of factors that have significance in shaping core competencies.

The core competencies that want to be formed certainly cannot be separated from the sincerity of SME's actors in

implementing the above strategy. The strategy is a guide for the achievement of goals. In practice, such implementation will require the assistance of a number of parties, such as the government, private and colleges in support of human resources for guidance.

CONLUSSION AND RECOMMENDATION

Factors that influence core competence are significantly: (1) human, (2) price, (3) product, (4) performance appraisal, (5) maintenance, (6) development, (7) capacity, (8) place, (9) recording, (10) promotion. Factors that have a positive but insignificant effect are: (1) process, (2) inventory, (4) quality, (5) recruitment, (6) capital acquisition. Strategy is based on the factors that form the core competencies, so as to improve the competitiveness of small and medium enterprises. Small and medium enterprises can open up to receive suggestions for improving their competitiveness. Required assistance from government, private and universities in terms of guidance on the implementation of competitiveness improvement strategies. In addition, it is best to manage the internal factor, external factor, innovation capability and partnership barrier as well as possible, because it will improve SME's performance, SME's performance improvement, SME's should be responded as a whip to improve the performance of SME's. This phenomenon can be interpreted that SME proved able to develop well in its business. There needs to be greater support from the government and the banking sector in developing SME's, not only financial support but also skills support and business management. Efforts to create a conducive business climate for SME's should continue to be done given the strategic position of SME as a provider of employment for the community and have a small contribution in joining strengthen the national economy proved able to survive in various conditions.

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