THE ROLE OF COMPANY RESOURCES AND STRENGTH OF INDUSTRIAL COMPETITION ON COMPETITIVE STRATEGY IN INDONESIAN WHOLESALE NETWORK INDUSTRY

Moh. Riza Sutjipto, Universitas Padjadjaran
Ernie Tisnawati Sule, Univesitas Padjadjaran
Sucherly, Universitas Padjadjaran
Umi Kaltum, Univesitas Padjadjaran
Adhi Prasetio, Universitas Telkom

ABSTRACT

Despite the lucrative potential of telecommunication retail customer, the wholesale network industry in Indonesia is still suffering from its unstable income growth caused by problems in competitive strategy. This study aims to discover the influence of company resources and strength of industrial competition towards competitive strategy in Indonesian wholesale network industry.

This research used quantitative method to accomplish this task. Data collected is the results of research conducted in 2017. Wholesale network service company in Indonesia is the unit analysis, while the observations unit is the management of each wholesale network service company that deal with wholesale service. Based on the result of documentation study, the amount of wholesale network service company in Indonesia are 35 companies, and all of them become samples in this research. Data analysis uses Partial Least Square (PLS)-SEM method.

The results showed that company resources and strength of industrial competition significantly affect competitive strategy. Additionally, we found that intangible assets in company resources plays important role to drive better competitive strategy. The management of wholesale network services company in Indonesia can use this result to improve their competitive strategy in order to gain more stable income growth.

Keywords: Company Resources, Strength of Industrial Competition, Competitive Strategy, Wholesale Network Industry, Telecommunication.

INTRODUCTION

Wholesale Network is a service providing network for ICT operators, namely operators for Digital services (Internet, Video, and Voice) or more popularly also called Broadband (network) services to connect devices with devices or devices with customers. Operators, both Telecommunication and ISP are users of this service. Basically, wholesale supports retail since operators need connectivity as part of its entire network.

With the development of GSM cellular services such as voice and mobile data, operators need Wholesale Network support from other operators to provide the required network effectively and efficiently. In other words, the Wholesale Network business should grow along with retail customer and also a promising business. On the other hand, this business has a

relatively small value added, and requires relatively large initial investment costs. The fact that Wholesale Network infrastructure such as Backbone Network's (e.g. sea cable) large capacity, long-term oriented and large investment costs, and gradual utilization/commercialization according to market developments are the reason behind that condition.

Demand at retail levels and the availability of substitute products at retail levels influence the growth of wholesale network (Schwarz, 2007). Retail-level products consist of Mobile Broadband (MBB) and Fixed Broadband (FBB). The Wholesale Network business growth is prospective because the cellular's customer growth will increase the Wholesale Network's needs to support their connectivity.

Unfortunately, the wholesale network industries in Indonesia didn't growth as expected. Our previous preliminary research using data from wholesale player report showed in Table 1 that there is unstable income growth from 2012 to 2017. This unstable growth trend indicates a problem in this industry. Even though growth is something that is expected from a business, but a significant amount of instability indicates the achievement/realization of work programs that didn't meet the target or expected ideal conditions.

| Table 1 GROWTH IN WHOLESALE NETWORK INDONESIA INDUSTRY REVENUES (COMPILED FROM VARIOUS SOURCES)							
Year	2011	2012	2013	2014	2015	2016	2017
Revenue (Billion Rp)	7.094	6.164	7.081	7.870	10.104	13.412	15.121
Growth		-13.10%	14.87%	11.14%	28.39%	32.74%	12.74%

Competitive strategies significantly affect business performance. Previous researches also show the role of competitive strategies on business performance, such as the results of Andrevski's (2009) study which found that each type of strategy positively influences company performance. In addition, Valipour et al. (2012) also found that in companies with cost leadership strategies, there was a positive relationship between cost leadership strategies and performance.

Preliminary interview results with seven operator and expert employees from telecommunications operators in Indonesia who were considered to understand the Wholesale Network business from a strategic and operational level, obtained indications relating to the existence of problems in competitive strategies. The result indicated that competitive strategies applied by companies in the face of current competition are cost leadership and product differentiation. However, this strategy is considered not well implemented due to the high operational costs of the operator especially in Eastern Indonesia. The largest component of costs comes from the high value of investment needed to build a backbone network in Indonesia.

The conditions faced by the wholesale network service industry in Indonesia are also allegedly due to weaknesses in the aspect of company resources. Company resources is important in supporting strategies and improving business performance, as shown by previous researches Omerzel & Gulev (2011); Dogan et al. (2014); Kommenic et al. (2013); Pasaribu et al. (2016); Chumaidiyah (2014). The results of observations and interviews with the operators also showed that there were still weaknesses in aspects such as intangible resources relating to capital and limited expertise as well as company resources relating to a reputation that is not yet strong when compared to the largest players in the industry. Other weakness aspect revealed are infrastructure, human resources and organizational capabilities owned by the company. Some wholesale network companies have all three of these resources. Strong infrastructure, strong organization, strong human resource, but the company is still perceived as slow in the eyes of

consumers. This shows that the strength of these resources needs to be improved in winning the competition.

Industrial competition is an important variable for competitive strategy as mentioned by previous researches Chang & Horng (2010); Giaglis & Fouskas (2011); Gosman & Kohlbeck (2009). Regarding to industrial competition, it is also observed that companies engaged in the wholesale network services sector have not been able to anticipate and face the strength of industrial competition. This indication can be seen from the dominance of market share by several companies, so that some other companies are only able to reach a small amount of market share. The wholesale industry can be divided into two types of products, namely regulated products and free market products or B2B products. For regulated products, the dominant factor affecting the industry is the power of government intervention, while the free market product or B2B product is the dominant factor of the competitor's strength. In the telecommunications industry, the strength of competitors from new competitors can be a dominant factor in influencing the level of competition. For example, in the case of new entrants applying a very aggressive pricing strategy and usually supported by the government. In this period, this strategy will disrupt competition in the wholesale market. This causes the existing company to react by implementing the same pricing strategy in the form of price promos, product discounts, bundling packages, and other promotional programs. In a certain period, the market price level will return to its normal point and the level of competition returns to its original position in accordance with the quality of the network owned.
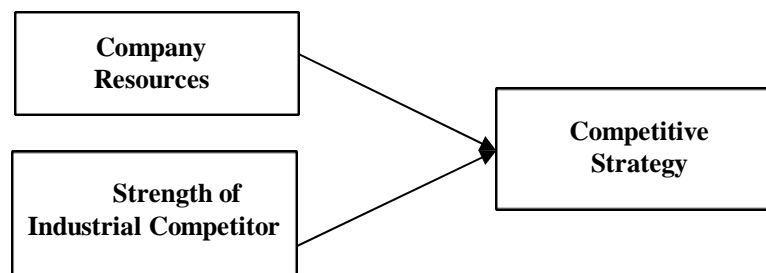
FIGURE 1
RESEARCH MODEL

Based on those background phenomena, it is important to investigate the role of company resources and strength of industrial competition toward competitive strategy in wholesale business services. Figure 1 shows the research model investigated in this research. The hypotheses for this research are as follows: objective in the introduction part, as well as the benefits for the study and the limitations.

> *H1*   *The Strength of Industrial Competition and Company Resources affect the Competitive Strategy simultaneously in Wholesale Network service companies in Indonesia.*
>
> *H2*   *The Strength of Industrial Competition affects the Competitive Strategy partially in Wholesale Network service companies in Indonesia.*
>
> *H_3*   *The Company Resources affect the Competitive Strategy partially in Wholesale Network service companies in Indonesia.*

The objective of this research to find out the influence of company resources and strength of industrial competition on the competitive strategy of wholesale network industry partially and simultaneously. The wholesale industry will benefit from this study by understanding factors that

drive competitive strategy and furthermore lead to better company performance. Nevertheless, this study results only limited to Indonesian wholesale industry since only using Indonesian company as the samples.

RESEARCH METHODOLOGY

Table 2 INDICATORS USED IN INSTRUMENT		
Variable	**Dimension**	**Indicator**
Strength of industrial competition	Potential of new entrants	Barriers to entry
		Industrial economies of scale
		Level of industrial capital requirements
		The cost of switching consumers to new arrivals
		Access to distribution channels
		Cost advantages that cannot be duplicated by new entrants
	Power of customers	The portion of products ordered by consumers from the company
		Ease of consumers to switch
		Product standardization
	Threat of substitute products	Price of substitute products
		Quality of substitute products
	Power of suppliers	Number of suppliers in the industry
		Effectiveness of supplier products
		Supplier and industry credibility
	Competition in the industry	Number of competitors in the industry
		Industrial growth rate
		Company fixed costs
		Competitor performance
		High and low barriers to exit
	Power of government intervention	Ease of licensing in the industry
Company Resources	Tangible asset	Capital ownership
		Ownership of the latest information technology equipment
		Adequate quantity of experts
	Intangible asset	Qualification of employee skills
		The ability of employees to collaborate with others
		Company reputation
		Perception of product quality, durability and product reliability
	Organizational capabilities	Effective management techniques
		Development of employee motivation
		Ability to innovate
		R&D development
		Acceleration of technology into new products and processes
		Effective customer service
Competitive Strategy	Cost leadership strategy	Efficiency of operational costs
		Competitive pricing
	Product differentiation	The uniqueness and variety of the product
		Creation of ease of service
		Utilization of technology
	Speed-based strategy	The speed of anticipating changes in customer behavior
		The speed of product development
		The speed of the network development process
		Speed accommodates technological trends

The unit of analysis of this research is the business unit of the Wholesale Network service industry in Indonesia. The definition of a business unit in this study is a company or part of a company that is a profit center that has the authority to determine its business strategy. In accordance with these definitions, in this study there were 35 business units. For the implementation of research in the analysis unit in the form of this business unit, the unit of observation is the top and middle management of Wholesale Network service companies in Indonesia. Data collected is the results of research conducted in 2017.

The type of data in this study consists of data about the general characteristics of the Wholesale Network service industry in Indonesia as well as data about each variable studied. The primary data needed in the study is the result of a questionnaire/survey. Noting the number of analysis units is small (<100), the data analysis tool from the questionnaire must be able to accommodate these conditions so that the Partial Least Square (PLS) is used because it can process small data. In accordance with Chin (2010) PLS can be used for a small amount even up to sample 30.

The definition and indicators for this research is derived from various research such as Hitt et al. (2016); Wheelen et al. (2010); Robinson & Richard (2012); David & David (2013); Arthur et al. (2017); Anggadwita et al. (2016). Strength of industrial competition in this study is organized into a construct, namely six forces outside the company that can affect the company's competitive position and determine the potential level of profit that the company can achieve, with the following dimensions: Potential of new entrants, Power of customers, Threat of substitute products, Power of suppliers, Competition in the industry, Power of government intervention. Company Resources in this study are compiled into a construct, namely a series of tangible assets, intangible assets, and organizational capabilities that are owned and able to be utilized by companies to achieve competitive advantage, with the following dimensions: Tangible assets, Intangible assets, and Organizational capability. Competitive Strategy is a series of strategies to obtain a competitive position in industrial competition compared to its competitors, with the following dimensions: Cost leadership strategy, Product differentiation, and Speed-based strategy. Table 2 showed the indicators used for each dimension.

RESULT AND DISCUSSION

Measurement model (outer model) is used as a test of the validity and reliability of indicators in measuring dimensions. Table 3 showed that Cronbach's Alpha and composite reliability value is greater than 0.70, then the dimensions and indicators are both valid and reliable in measuring the research variables. The results also showed that F_{count} (5.491) $>F_{table}$ (2.817), so that with a 95% confidence level, simultaneously there is influence from the Strength of Industrial Competition and Company Resources on Competitive Strategies in Wholesale Network service companies in Indonesia, where the effect (determined by R^2 value) is 51.3% while the remaining 48.7% is influenced by other factors not examined.

Table 3
OUTER MODEL TEST RESULTS

Variable	AVE	Composite Reliability	Cronbach's Alpha	R Square	Q square
Strength of industrial competition	0.509	0.935	0.926		0.525
Company Resources	0.648	0.967	0.963		0.638
Competitive Strategy	0.749	0.964	0.958	0.513	0.743

Table 4 shows the partial effect for each construct. Partially there is a significant effect of industrial competitive power and resources on Competitive Strategies where company resources have a greater influence (27.4%) than the strength of industrial competition (23.9%). The test results illustrate that the right competitive strategy in the Wholesale Network Services industry is more dominantly shaped by the development of company resources than by adapting to the strength of industrial competition.

Table 4 HYPOTHESIS TESTING RESULTS				
Hypothesis	**SE (γ)**	**t value**	**R²**	**Result**
Strength of Industrial Competition ⟶ Competitive Strategy	0.082	4.448*	0.239	Supported
Company Resources ⟶ Competitive Strategy	0.089	4.588*	0.274	Supported

Loading factor for each dimension in Table 5 indicated that intangible assets have a greater degree of contribution than organizational capabilities, and tangible assets in the formulation of competitive strategies. So, in the wholesale network service industry, the development of a greater competitive strategy is driven by the role of the quality of intangible assets such as employee skills qualifications, the ability of employees to collaborate with others, the company's reputation, and product quality, durability and product reliability.

The test results are in line with the results of the study by Massingham (2004) that developed a model for linking strategy and knowledge of resources to achieve significant strategic changes; Omerzel & Gulev (2011) found that companies that have access to the same resources, are able to maximize the use of resources to achieve competitive advantage; Hahn & Powers (2010) show the relationship between the quality of strategic plans, implementation capabilities, and company performance; and other researches that found the role of intangible assets like social capital on marketing goals (Prasetio et al., 2017) especially when considering the role of social media to disseminate intangible assets such as information within company (Sari & Prasetio, 2017).

Table 5 LOADING FACTOR	
	λ
Strength of Industrial Competition ⟶ Potential of new entrants	0.814
Strength of Industrial Competition ⟶ Power of customers	0.785
Strength of Industrial Competition ⟶ Threat of substitute products	0.727
Strength of Industrial Competition ⟶ Power of suppliers	0.871
Strength of Industrial Competition ⟶ Competition in the industry	0.935
Strength of Industrial Competition ⟶ Power of government intervention	0.725
Company Resources ⟶ Tangible asset	0.898
Company Resources ⟶ Intangible asset	0.959
Company Resources ⟶ Organizational capabilities	0.954
Competitive Strategy ⟶ Cost leadership strategy	0.915
Competitive Strategy ⟶ Product differentiation	0.969
Competitive Strategy ⟶ Speed-based strategy	0.983

In addition to company resources, industrial competition forces also play a role in enhancing competitive strategies. In this case, the dimensions measured from the highest to lowest level of influence in enhancing competitive strategies are competitor strength, supplier strength, newcomer strength, consumer strength, substitute product strength, and the power of government intervention.

These findings support for previous research findings by Chang and Horng which illustrate how strategies are taken based on market conditions (Chang & Horng, 2010); Giaglis & Fouskas that found that perceptions of competition intensity, threat of substitution and increased buyer strength were associated with more competitive broader innovative reactions; and also Van Pelt (2010) found that a model to secure competitive advantage through a combination of five strengths Porter, RBV and TQM that allow organizations to not only form broad strategies, but also provide the steps needed to implement the strategy, based on strength.

CONCLUSION

Both Strength of Industrial Competition and Company Resources influence Competitive Strategies simultaneously in Wholesale Network service companies in Indonesia. Partially, Strength of Industrial Competition and Company resources also affect Competitive Strategy. Additionally, this research found that Company Resources play a greater role than Industrial Competition in developing Competitive Strategies for wholesale network service companies in Indonesia. Company resources have a greater role than competitive power of the industry to enhance competitive strategies with intangible assets as the main contributor of Company Resources.

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