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# THE ROLE OF ENVIRONMENTAL UNCERTAINTY, COMPETITIVE STRATEGY, AND OPERATION STRATEGY TO ACHIEVE COMPETITIVE ADVANTAGE: THE CASE OF EAST JAVA MANUFACTURING SMEs

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## ABSTRACT

*This research has several main objectives as follows: (1). Explore how SMEs develop strategies based on strengths, weaknesses, opportunities and challenges. (2). Explore the various efforts of SMEs to anticipate the uncertainty of the business environment. (3). Exploring SMEs' efforts to formulate competitive strategies. (4). Explores how environmental uncertainty influences the choice of competitive strategy of SMEs. (5). Explores the efforts of SMEs to formulate operational strategy. (6). Explore how competitive strategies affect SME operational strategies. (7). Explores how competitive strategy and operating strategy affect the business performance of SMEs. This study uses a descriptive research approach that seeks to identify and mapping the potential and characteristic of SMEs in Surabaya and its surroundings (Sidoarjo, Gresik) with the aim to obtain a picture as accurate and as detailed as possible characteristics of potential small and medium enterprises located in Surabaya and surrounding. Based on the phenomenon of findings in this research, there are several things that can be underlined: Uncertainty of the business environment does not affect the company's business strategy. In conducting its business strategy, SMEs usually use the following strategies: (1). Concerning the development of skills to respond to opportunities created by companies that are in the first market. What often happens is many imitators repair or modify the goods and services to create higher value for the buyer. If so, entrepreneurs need to move their competitiveness to other market segments by denigrating the small market segment that big companies do not have a chance. (2). Changes in product, market or industry characteristics based on innovation. This strategy is done by changing existing products and services, for example changing the benefits, values, and other economic characteristics.*

**KEYWORDS:** *SMEs, products, services, business environment, consumers*

## 1. INTRODUCTION

### 1.1. Background of the Study

The uncertainty of the business environment has had an impact on the increasingly intense competition among companies in gaining market share and the opportunity to win the competition. Competition between companies resulted in the shortening of the product life cycle because companies are competing to offer something new and valuable for its customers. Economic system is no longer controlled by *inventory (inventory-driven system)* but is controlled by the service (*service-driven system*). In other words, consumer demand become controllers in the economic system and is no longer driven by the supply system. To achieve excellence, care should be an integral part of doing business to achieve *superior customer value* (Ellitan and Muljani, 2017).

Companies are also faced with the challenge of increasingly critical consumers in meeting their needs. In this condition the company is expected to produce products and services with high quality, low price, short waiting times, and delivery to consumers faster (Ellitan, 2017). Business competition, changes in consumer tastes, as well as socio-economic changes led to various challenges and opportunities of doing business (Permana, et. al. 2017). Companies should be able to make the best choices about what consumers need and how to meet those consumer needs or demands at the lowest possible price. To overcome these problems, companies need a strategy in determining competitive advantage and find ways to achieve these advantages.

Mintzberg (1978) suggests that strategy is an action or pattern of action taken to achieve a goal. In organizations, the strategy does not only include the planned strategy, but also includes a sequence of decision that describes the behavior of consistency in decisions. Implementation of the company's strategy focuses on developing the company's competencies, namely knowledge and skills that are specifically reflected in technology and production skills. Competence companies showed something not easily imitated by competitors and provide competitive advantage (Schoemaker, 1992).

To establish a business strategy in order to achieve a competitive advantage, then there are usually three main steps taken by the company, namely: 1. Environmental Analysis is to identify strengths, weaknesses, opportunities and threats and understand the environment, customers, industry and competitors (2). Establish the Company's Mission by defining the existence of the company and identifying the value of the product to be created by the company. (3). Establish Strategy by building competitive advantages such as low prices, design flexibility or content, quality, fast delivery,

dependence, after sales services, or extensive product lines.

Efforts to improve business performance through the achievement of company efficiency and productivity as the company's goal requires a competitive strategy based on core competence. Porter (1980) argues that the choice of a firm's competitive strategy is based on two things: the industry's appeal for long-term profitability and the factors that determine it and how the relative competitive position of firms in an industry. The choice of the right competitive strategy is crucial to the company's success because the company that can put itself well will be able to gain a high level of profitability even though its industrial structure is not supported and the industry's average profitability is below average or in an average position. Porter also proposes three generic strategies to achieve above-average performance in an industry that is cost advantage, differentiation, and focus. The focus strategy can be a cost focus strategy and a differentiation focus strategy.

The success of competitive strategy implementation is strongly influenced by business environment dynamism. Studies to determine the effect of environmental dynamism on competitive strategy carried out by Keats and Hitt (1988) using a covariance model structure to describe the relationship between the dimensions of the environment, competitive strategy, and firm performance. Kim and Lim (1988) also provide evidence of a linkage model between the environment, competitive strategy, and firm performance. The choice of competitive strategy and the success of the company's business is strongly influenced by the business environment conditions related to technological change as well as consumer demand. The company also must be able to anticipate and respond to the actions of competitors in the industry, anticipating various regulations set by the government related to changes in prices, *output*, and employment.

Williams et al. (1995) found a link between competitive strategy and manufacturing strategy and between manufacturing strategy and firm performance. While Gupta and Lonial (1998) use a model to test the linkages between business strategy, manufacturing strategy, and organizational performance. Implementation of manufacturing strategy related to what must be achieved by the functions of manufacturing within the company and choice of products or services to be made by the company. Manufacturing strategy is seen as a manufacturing power use effectively as a competitive weapon to achieve business objectives and corporate. The manufacturing strategy influences business goals and strategies, and enables the company's function to contribute to the performance and business competitiveness in the long term.

In the evolution of manufacturing strategy theories, some component variables, and the determinants of manufacturing strategies have been identified by some authors such as Skinner (1969), Hayes and Wheelwright (1984). But at that time, important factors in the manufacturing strategy did not have important concerns in the area operation management literature. Along with the development of a new era of manufacturing, research in operations management focused on the study of manufacturing strategies using empirical methods has improved. Some of the existing literature suggests that empirical research focuses on the internal consistency of manufacturing strategies and assesses the consequences for company performance. But very little empirical research discusses the linkage between environmental dynamism, manufacturing strategy, competitive strategy, and firm performance, although there has been a great deal of conceptual literature on the issue (Swink and Way, 1995).

There are still a few of research or empirical studies to examine the relationship between environmental uncertainty, competitive strategy, manufacturing strategy and business performance of the company (Ward and Duray, 2000), attracting the authors to do a confirmatory study to test the hypothesis and answer the research problem related to the conceptual model of strategy manufacturing in the context of competitive strategy and environmental dynamism by using different research settings in large-scale manufacturing companies in Indonesia.

Indonesian manufacturing companies are faced with the challenge of global competition that requires companies to be able to perform cost efficiency and product differentiation. In the era of globalization the production capability is based on the ability to create goods and services that sell all over the world in the sense of being able to compete globally and be able to take advantage of technological developments. This condition requires companies in Indonesia in particular, manufacturing companies, to be able to improve the competitiveness of goods and services based on local resources.

Based on the condition of Indonesia's manufacturing industry is far different from the setting of previous research, this research was conducted to test whether the conceptual model manufacturing strategy are still relevant when applied in different research settings, namely the SMEs manufacturing companies in Indonesia. In this research, environmental dynamism represents the level of turbulence in product, technology, and product demand in a market (Miller and Friesen, 1983; Dess and Davis, 1984). Competitive strategies represent the broad dimensions that a business uses as a basis for excellence, such as price and differentiation (Porter, 1980). Manufacturing strategy is the dimension of manufacturing

orientation to win the competition, while business performance show the company's performance as a whole.

The research model is based on a conceptual model of manufacturing strategy, in a research conducted by Ward and Duray (2000). In the model, competitive strategy is treated as a mediating variable between environmental dynamism and manufacturing strategy, and manufacturing strategy as a mediating variable between competitive strategy and firm performance. Although in previous studies the effect of competitive strategy mediation on the interrelation between environmental dynamism and manufacturing strategy (except Ward and Duray, 2000) has never been studied, environmental dynamism has been identified as an important variable in both conceptual and empirical studies in both competitive and competitive strategies manufacturing strategies (Skinner, 1969).

Some of the issues discussed in this research relate to, first, whether the data that has been collected from a sample of small to medium manufacturing firms in this research is consistent with the conceptual model of manufacturing strategy proposed and supported by some existing literature. Second, whether the manufacturing strategy affects the business performance of the company if the effects of environmental dynamism and competitive strategy are also considered. Third, to determine the effect of competitive strategy on manufacturing strategy, specifically to know the effect of environmental dynamism on manufacturing strategy, taking into account the role of competitive strategy mediation. To address these issues, the data of small to medium manufacturing enterprises used in this research will be separated between companies with low business performance and high business performance.

## 1.2. Problem Formulations

Based on the background of the problem, then this research problem can be formulated as follows:

1. How do SMEs develop strategies based on strengths, weaknesses, opportunities and challenges?
2. How is the SMEs effort in anticipating the uncertainty of the business environment?
3. How does the SMEs effort formulate its competitive strategy?
4. How does environmental uncertainty affect the choice of SMEs competing strategies?
5. How will SMEs formulate its operational strategy?
6. How does competitive strategy affect SME operational strategy?
7. How do competitive strategies and operating strategies affect SMEs business performance?
- 8.

## 2. LITERATURE REVIEW: Environmental Uncertainty, Competitive Strategies, Manufacturing Strategies and Competitive Advantages.

Conceptual and empirical literature provides some evidence of the influence of environmental dynamism on the choice of competitive strategies. Compete in a rapidly changing environmental conditions and is indicated by increasing its short life cycle of products, consumers have better information, the rapid diffusion of technology, customized product, and the increase of new competitors, requires companies to establish competitive strategies that increase flexibility and productivity achieved. Environmental uncertainty is identified as an important contingency in both conceptual and empirical studies both in competitive strategy and manufacturing strategy (Skinner, 1969, Hofer, 1975, Van Dierdonck and Miller, 1980). In this study indicated that the dynamism of the environment will support the nkeputusa competitive strategy options.

Swink and Way (1995) show that relatively few studies provide empirical evidence of the influence of competitive strategy choices on manufacturing strategies eg that manufacturing strategy is supported by the choice of competitive strategies in high-performance business businesses. Vickery et al. (1983) states that in the development of a manufacturing strategy it is important to note that low business performance is generated when manufacturing strategies are not associated with competitive strategies.

Swamidass and Newel (1987) show that performance has a positive influence on the implementation of manufacturing strategy. Several studies have shown that quality is associated with good performance. Ferdows and Demeyer (1990) and Noble (1995) have argued that effective manufacturing strategies generally begin with quality as a basis.

The literature cites evidence of a direct influence between environmental factors particularly environmental dynamics and manufacturing strategies. Swamidass and Newel (1987) examines the interrelation of environmental dynamism, manufacturing strategies, and business performance. From the results of his research found that companies with high performance, choose a manufacturing strategy that is consistent with the environment. Testing is also conducted to examine the existence of a direct influence of environmental dynamism on a manufacturing strategy taking into account the role of

Ward and Duray, 2000 argue that effective strategies are used to achieve high business performance. Implementation strategy is the key to the relationship between competitive strategy and company's success as measured by business performance. Some authors argue that the manufacturing strategy describes implementation by

providing a more detailed picture of how competitive strategies are applied (Miller, 1987, Tan et.al. 2012).

## RESEARCH METHODS

### 3.1. Qualitative Research Design

This study is an activity that is included in the descriptive research category which attempts to identify and mapping the potential and characteristics of SMEs in Surabaya and its surroundings (Sidoarjo, Gresik) with the aim of obtaining a snapshot and as detailed as possible the potential characteristics of small and medium enterprises in Surabaya and surrounding areas. Unlike conventional research that is quantitative, in qualitative research, the design of the study is not predetermined.

### 3.2 Informants and Data Collection Procedures

The population in this study are all members of the small and medium business community either in the form of individuals, business entities and or the like that resides throughout Surabaya and surrounding areas. In this study, no sample is specified because the data and information to be presented include all members of the small and medium business community in East Java. Collecting Data in this study was conducted by survey method to all SMEs business groups by using questionnaire main instrument (questionnaire) supported by indepth interview. While the data collected include primary and secondary data. The primary data in this study are data related to the objective condition of small business potential (SME) based on information and explanation from the owner (capital) as well as the manager of the company. While secondary data is supporting data about SMEs' business potential that have been available in documentation, report, database and or equivalent residing in related institution / agency or group / organization of entrepreneurs residing in East Java.

### 3.3. Analysis Technique

Analysis techniques used in these studies qualitative analysis, this study is expected to provide present information in more detail in addition to the data that is statistically about the potential and characteristics of small and medium enterprises along with a description that is more comprehensive, based on an economic development program of small businesses (SMEs) back ongoing or planned empowerment of the populist economy forward. This study is expected to produce a document on the profile of SMEs in Surabaya and surrounding areas.

## 4. DATA ANALYSIS

### 4.1. Profile of Respondents

Twenty companies have participated in this study, all of them are micro-scale manufacturing companies small and medium enterprises, according to the criteria used for this study. Twenty companies

participating in this research are selected samples and who are willing to provide a complete response to the required data. Researchers have submitted 100 proposals and questionnaires, on a micro - scale manufacturing enterprises, small and medium enterprises. Three companies provide inaccurate information that can not be included in the analysis. The profile of the companies participating in this research is viewed in terms of the business field, the old company operating, the assets held, and the general performance achieved during the last 3 years. Everything is micro, small and medium enterprises have jumped in each field for more than ten years, and only three companies are relatively new (in business less than five years).

**4. 2. Descriptive Statistics**

Table 1. shows the average rate of each variable in this research. The level of uncertainty of the business environment in Indonesia is relatively

high (3.7 on a scale of 5, which indicate the level of uncertainty is very high). The business strategy of cost leadership is more emphasized than the strategy of deference. While the operational strategy or manufacturing strategy is most emphasized is the flexibility strategy. It is not surprising that in an unstable business environment the flexibility strategy becomes more of an option for the company. It is expected that the company will be more nimble flexibility facing changes that are sometimes sudden. Strategies that reduce the cost of production to be the most undesirable. Quality and speed of delivery are more important than the emphasis on production costs alone. From a performance perspective, the average operational performance of firms in Indonesia is higher than the average financial performance.

**Table 1. Descriptive Statistics**

	<b>Mean</b>	<b>Std. Deviation</b>
Uncertainty of business environment (ED)	3.6695	0.80868
Cost Leadership Strategy (CS)	3.5141	0.68179
Differentiation Strategies (DS)	3.2847	0.75949
Flexibility Strategy (F)	4.1356	0.58781
Quality Strategy (K)	3.8559	0.80970
Delivery Strategy (P)	3.7203	0.75012
Cost Strategy (B)	3.6186	0.51141
Financial Performance (FP)	3.1864	056552
Operational Performance (OP)	3.3919	0.56784

**4. 3. Perception of SMEs to Overcome the Uncertainty of Business Environment**

It is recognized that the following factors are Competition Environment Modifiers (a). Technological Revolution. It is currently in the information age. More than 275 million people are internet users. Industry in IT field grew more than twice that of economic growth. And investment in IT covers 45% of total investment in business. Advances in technology provide ease of convenience to companies and customers to gain effectiveness and efficiency. (b). *Globalization*. Globalization is based on global economic development by opening up the market in negreri against competition from abroad by eliminating barriers to

trade (trade barriers). The discovery of new technologies encourages the emergence of globalization and in turn globalization encourages the development of new technologies. Therefore, SMEs in Surabaya and surrounding areas have various strategies presented in Table 2. With high and complex intensity of competition (hypercompetitive). So that entrepreneurs have difficulty to know who where when, as well as the strengths and weaknesses of competitors. Likewise the rapid change and the presence of hypercompetitive makes planning and market forecasts difficult, so the question of "what business are you in?" Is becoming increasingly difficult to answer.

**Table 2 Perception on Efforts to Overcome Environmental Uncertainty**

Respondents	Respondents' Perception
1	Providing the best customer service, provide different products, and provide a competitive price
2	Products that demand is high then its production capacity is improved. To the level of taste if there is a new product then the price when the new product is introduced the company takes a little profit.
3	Creating products according to the tastes that exist in the location or the surrounding markets.
4	Outdated: the company will give discounts on outdated products or sell them depending on the damage or long time to get out of date. New innovations: always update the latest trend news via the internet. Consumer tastes: see info-news which model is now much in demand.
5	Maintain product quality
6	Must adapt and keep up to date so that the company can compete with each other..
7	Adapting to the tastes of consumers, see the development of the business environment is rife.
8	Continue to maintain consistency in the company by maintaining quality.
9	Everything we certainly consider the risk of beginning.
10	Listening and following up on customer complaints to know exactly what the public wants.
11	For me there is no uncertainty of the working environment / firm for sure.
12	The quality or quality of the production goods must be guaranteed so as to make the customer feel satisfied, Delivery of goods produced on time, Prices of affordable production goods for large and small companies, and Good enough service from the company.
13	Maintaining product quality, Maintaining brand image of the community, Improving service, and Making other competitors difficult to enter.
14	Maintain good relationships with customers, taking into consideration the existence of new demand from consumers. The company also sees the tendency of consumers' wishes and tries to make it happen if possible.
15	Compete, compete in a sporty manner, and improve and innovate quality, quality and quantity, and performance on the business.
16	Innovate products that influence market demand, take small companies around and be trained so that later can work together.
17	To gain new innovations in the business field and follow the existing trends in society
18	Improving customer service to the fullest and always looking for references to new recipes from various sources and Replacing equipment to make cakes with more sophisticated equipment in stages.
19	Communicate regularly with consumers to find out all the wishes of consumers and always make sustainable development associated with the management system that is applied to meet customer satisfaction.
20	To anticipate the uncertainty of the business environment, the company adjusts the products we produce to the changing tastes of snacks.

**4.4. Strategy Formulation**

According to Porter (1980), SWOT analysis is an important strategic planning tool to help planners to compare internal strengths and weaknesses of organizations with external opportunities and threats. SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats) is a strategic planning method used to evaluate the strength, weaknesses, opportunities, and threats in a project or a business speculation . This process involves determining the specific objectives of business or project speculation and identifying internal and external factors that support

and which are not in achieving that goal. A company does not always have to pursue a profitable opportunity because by developing competitive advantage, there is a better chance of success by identifying an upcoming strength and opportunity. In some cases, companies can overcome their weaknesses by preparing for a definite opportunity. To develop a strategy that considers the SWOT profile.

The results of this research illustrates that SME companies in Surabaya and surrounding areas develop strategies based on the SWOT they do. The findings are tabulated in Table 3.

**Table 3. Preparation of Strategy Based on SWOT Analysis**

<b>Respondents</b>	<b>Respondents Perceptions</b>
1	See what the competitors lack and try to provide different products with competitors so as not to always compete with the price.
2	Strength: The product is manufactured with high-tech machines, while its technological rivals are lagging behind Weaknesses: Human resources are still low educated and not yet experts, sometimes companies bring in experts from abroad Opportunities: For tile products in East Java, this company is the largest company Challenge: Other products that have similar functions with cheaper prices such as concrete roof tiles, or similar products that have a different look.
3	Creating products with good quality and competitive prices with competitors, along with continuous service and innovation.
4	Strength: the main strategy that SMEs have is a feature of the company's features. Weaknesses: still not using technology to promote its products. Opportunities: SMEs are always looking for business opportunities where there are buyers in large quantities will be given a special price.
5	Strength: maintaining taste, quality, and economical price.
6	Established the branches of SME companies.
7	Strength: SMEs cooperate with suppliers who have affordable price with good quality, brand SME brand known by the community. Weakness: SMEs are in a less strategic area or place. Opportunities: Surabaya society has started to like western food enough Challenges: many growing restaurants provide western food.
8	Strength: create a unique product Challenge: there are emerging competitors
9	Strengths: the number of business relations that come from relatives, friends, and family, as well as the public's view of the business is supported by the high demand from customers. Weaknesses: Sometimes not able to compete with new competitors Opportunities: Our efforts are well known to the public and trusted and we believe our chances are still high. Challenge: The number of competitors who offer different offers, through one of the new innovations.
10	A good strategy for SMEs is to emphasize all kinds of costs in order to increase productivity.
11	There is no specific strategy because I have mastered my own market share.
12	Strength: instilling honesty attitude to customers Weaknesses: lack of technology in the production process, the lack of manpower. Opportunity: Creating innovative new products sold in the market Challenges: The number of competitors continues to grow.
13	Strength: brand identification and product uniqueness to take market share. Weaknesses: many competitors, competitive prices. Opportunity: Seeking new market share, making customers in new fields Challenges: create a unique product but with customer findings, manage a comprehensive and reproductive financial system.
14	Strengths: From the first year of sales up to now pursue product purity for the health of customers. Weaknesses: No preservatives sales can not be distributed to many places considering products that can not last long. Opportunity: Incessant issues in the community. Challenge: The number of competing products that enter the market.
15	Strengths: Products offered to consumers are products that are different from others, consumers will rarely see the same product in various places in Surabaya. Weaknesses: Innovate products until the public is familiar with the company's products. Opportunities and challenges: Priority quality even though many other companies are trying to imitate the company's products.
16	Strengths: Products with low cost are of good quality and lead the market for the type of bread produced Weaknesses: difficult to expand. The market demand is high but has not been able to meet the whole Opportunities: The public interest downstairs towards high Friends bread Consumer: many new players come in because making bread like this type of company is easy.
17	Disseminated through advertising media or adding employees to marketing.
18	Strengths: A taste of the bread tastes good and clean, competitive prices, a variety of breads and flavor.

	Weaknesses: Equipment for making bread is still a lot of manual labor so that sometimes can not meet a lot of orders. Opportunities: There is no more bread shop around the place of sale. Challenges: The raw material of flour price increased at any time, diverse consumer tastes.
19	a. Set goals for the quality of each division that will support the running of the company's management system oriented to customer satisfaction. b. Emphasize a continuous improvement of each division to improve efficiency, effectiveness, productivity, and product sales. c. Create self-analysis of each division to know the progress of the established quality objectives.
20	Strength: offering snack products at competitive prices Weaknesses: some of the production process is still done manually depending on human labor Opportunities: meet the high demand for food products Challenge: Compete with other snack products that already have a strong brand in the community.

**4.5. Determining Business Strategy**

In this case, strategic planning is part of the Strategy Management, because it does not cover the implementation, evaluation, and control of the strategy, but only includes the formulation of a strategy. On the other hand, business policy is an integrative and comprehensive study because it is more likely to look into the company, with a focus on the efficiency of resource utilities owned by the company. Thus, business policies focus on the

formulation of general guidelines that enable better achievement of the company's mission and objectives. Thus, in strategic management is included also business policy, but with a greater emphasis on environmental aspects and strategies. Every company has a basis for determining different business strategies. These are the responses of study participants, which can be seen in Table 4.

**Table 4. Determining Business Strategy**

Respondents	Respondents Perceptions
1	The availability of products , Assortment Distinct products a with competitors, Quality Products and Service "personalized" customer
2	The company will raise product prices tiled if demand increases.
3	Looking competitors weaknesses determine consumers' desire to hold promo
4	These SMEs only see the trends that are happening in the market through the Internet for the manufacture of the product.
5	By increasing the strength of the company.
6	Based on developments that occur in the present and determine what strategy is suitable for the company.
7	See the tastes of the majority consumers in order to compete in the market.
8	Based on the quality of goods and prevailing prices sold in the market.
9	Provide products with guaranteed quality.
10	The company determines a different business strategy than its competitors.
11	There is no competition in the local market, competitors only come from overseas / import.
12	Maintaining product quality, Removing new product innovations in the market, Working on time, Providing packaging / cover production of interesting and unique.
13	Competitors, Product Advantages, Competitive Product Prices, System Marketers, Effective Capital Allocation, and Solid Team.
14	Based on the reliability of quality that has been built since 20 years ago.
15	The acquisition of quality raw materials, product development process of production, Efficiency time and Quality is no 1.
16	Based on the surrounding environment, technological developments, the culture of the surrounding community.
17	The quality of production is further enhanced and Hitting the selling price
18	Give priority to taste and timely delivery of bread.
19	Market Conditions, Knowing all consumer desires and Expanding marketing area
20	Competitive price, we try to minimize our production cost.

**4.6. Determining Operational Strategy**

Every company in an industry that is very tight competition must have a competitive strategy. Competitive strategies can be explicitly developed through the planning process, or implicitly through the activities of the various functional departments of a company. The main formulation of competitive strategy is to connect the company with its environment. The state of the environment will affect all the existing companies in an industry, so the key to success lies in the ability of companies to create different strengths among companies in the industry. Operation strategy is one way that has been developed by companies in Japan by utilizing the operations of its factories (manufacturing operations) to compete in the international market. They can produce and design goods of better quality and at a cheaper price. An operating strategy is a vision of an operating function that provides overall direction or encouragement for decision making to be in line with the company's objectives.

Operating strategy consists of the mission, distinctive competence, objective, and policy. Three input operating strategy is business strategy, the analysis of external and internal analysis. Strategies and decisions are not always the same, depending on whether the company tends to be on a low-cost strategy or differentiation strategy. The emergence of a global corporation has altered its operating strategy, having to look at the world-wide perspective both in terms of facilities, location, resources, product design, process technology, logistics and organization. Learning curve shows the relationship between unit cost and accumulated volume produced, so that by following this curve, competitive advantage can be achieved. Each organization has a different base in determining its operating strategy. In detail the basic determination of the company's operational strategy can be seen in Table 5.

**Table 5 . Determining Operational Strategy**

<b>Respondents</b>	<b>Respondents Perceptions</b>
1	Timeliness, Satisfactory service, prices were in line with customer value, and always put out new products
2	The government insists on the operational strategy of quality.
3	Based on the location and facilities are better than others.
4	Based on the interests of consumers, the trend is outstanding, as well as real time strategy SME received the manufacture of bags, shoes, wallets, according to the desires of consumers to tika there are consumers who order.
5	By always maintaining product quality and sensitive to customer.
6	Based on customer feedback that we regularly ask to be the future reference for the company.
7	Based on customer satisfaction such as fast service and reduction of production price so as not to raise the selling price.
8	Perform efficiency in the production process.
9	Improve product quality, Flexibility, Delivery and Cost
10	The company reduced the waiting time of materials as its operational strategy in order to compete in the market.
11	Keep maintaining the quality of production.
12	Started with engine power, Developed a new marketing strategy for the company and low cost production.
13	More efficient processes, more competitive pricing, and system innovation
14	Pressing the cost of doing business is to reduce operating costs.
15	Make the product as fast as possible for time efficiency, Fast Delivery and Good Customer Service.
16	Market needs, technological developments, and community culture.
17	Increase the quantity and quality of the machine, strive to minimize production costs, and Provides convenience in the delivery of goods free of charge.
18	Based on the discipline of the workers who make bread and the skill of the workers in baking bread.
19	Attempts to improve Customer Satisfaction
20	Reduced less important operational costs and sought to improve operational and performance productivity.

#### 4.7. Perceptions on the Urgency of Competitive Strategy Operational Strategies

The company's strategy defines in what business the company is. While the business strategy defines how certain businesses compete. Many companies consist of a group of interconnected businesses, each of these business groups known as strategic units or divisions. Every business needs an Operation Strategy to find its own competition base based on specific market segments and products it has decided to enter.

However, the existing business, the ability of certain operations can make particular business strategy becomes obvious choice. So, the strategy may also affect the operation of the business strategy and vice versa. In formulating a strategy operations and strategy issues business an analysis must be made with the external and internal environment. The external environment typically include competition, customers, economic, technological and social conditions.

Besides the external environment can shape business strategy and corporate strategy can also form the operating strategy. Some examples of external influences in the past that have dramatic effects on the operating strategy is the increasing foreign competition, changes in oil prices, inflation, currency fluctuations and changes in labor demand (Akgul, et. al., 2015). The same thing, the internal environment can affect the operation strategy with the availability of resources, the existence of organizational culture, expertise and manpower

capabilities, location and facilities, the shape of the control system and so on. An analysis of the internal environment usually leads to the identification of strengths and weaknesses of existing operations. Operating strategy trying to overcome weaknesses and develop existing strengths.

Special advantages in operation is an operation must be superior in relative terms to compete. This special advantage must be in line with the mission of operation. For example, if the mission requires superior operations on new product introductions, then operations should develop a special advantage in this area. Specific advantages lead to competitive advantage, to the core of operating strategy. In general, successful businesses can define a special advantage and they work hard to protect that advantage.

Specific advantages can be seen in several forms. Operation to be superior to the target of operation: lowest price, highest quality, best delivery or greatest flexibility. Operation can also be superior by using its resources: having a people orientation, sole proprietors of raw materials, having better technology when compared to competitors. The third element of the operation strategy is the target. Goals in operations should be expressed in a specific quantitative form and in a measurable form. This goal is expected to be achieved in a short time and a long period of time. Goals should be defined as a quantitative and measurable improvement of the mission. The perceptions of the influence of competitive strategy on the full operation strategy can be seen in Table 6.

**Table 6. Perceptions About Effect of Competitive Strategy Operational Strategies**

Respondents	Respondents Perceptions
1	Companies competing for profit will try to improve its operational strategy and business flow
2	With higher technology to increase the quantity and quality so that it can become a market leader
3	Need a competitive strategy to improve the performance of human resources.
4	Customers are given the option to choose the original product or super copy, the company differentiates
5	By minimizing production costs and expanding market share.
6	Do not neglect customer input / complaints so companies must draft strategies to retain customers.
7	Our competitive strategy is to look at consumer tastes will greatly affect the operational strategy.
8	-
9	By emphasizing the cost of production it will affect the product. Therefore we still maintain the quality of the product itself.
10	-
11	There is no strategy because there are still no competitors.
12	a. Review the community by asking for products that are in demand. b. Creating a quality product at a price that can be reached by customers so that the required performance of employees to the maximum.
13	a. Affects a more competitive selling price than any other product b. Creating a quality product

14	Competitive strategy is quite well implemented by reducing operating costs, so competitive in the market.
15	Fixing velocity distribution
16	Pay attention to consumer tastes and encourage small producers to join the company.
17	Companies are trying to reduce production or operation costs, but still maintain the quality of their production in the community.
18	Seeking to apply a good and effective competitive strategy to produce and be able to implement a good operational strategy.
19	With a commitment to enhance competitive competitiveness, there must be an effective and efficient operational strategy to support it.
20	Ignoring activities that are not very necessary so as to save costs, but still prioritize product quality and customer satisfaction.

**4.8. Effect of Competitive Strategy and Strategy Operational Performance Against Business Strategy**

Applying appropriate strategy will have an impact on their ability (entrepreneurs) to compete with other businesses and increase their ability to face competition by developing innovative products. By continuing to maintain and develop other sources of competitive advantage that business continuity will be maintained.

The high level of competition should be an opportunity for small business and entrepreneurship therefore entrepreneurs not only focus on innovation strategy and partnership as discussed before, but a very important strategy that is to pay attention to the development of its performance and strive to improve performance. Table 7. Displaying Perceptions about the Influence of Competitive Strategy and Strategy of Operational Strategy to Business Performance.

**Table 7. Perceptions About the Effect of Competitive Strategy and Strategy Operational Performance Against Business Strategy**

Respondents	Respondents Perceptions
1	a. A new product that has not been out on the market to provide quality products such as flavor and interesting shapes as well as clean of goods that are less good. b. Provide fast service to customers c. Receive materials of productso in a timely manner, so that the production process can run in accordance with the standards.
2	Decide to produce products in the middle class (producing natural tile) with the competitors faced is not too large so that the company can be superior in natural tile class than ceramic tile class.
3	Competitive strategy and operational strategy affect business by increasing the profit earned by the company.
4	This SME strategy is carried out from generation to generation from 3 generations with the same strategy must do differentiation (characteristic) of SME product itself, in order to attract consumer attention and can be differentiator with other skin producer.
5	With the right strategy, SMEs can survive to run their business, even able to grow.
6	Affects the overall performance of the company
7	The existence of competitive strategy and operation become the guideline for each employee to give the best performance.
8	Do not see any connection
9	Increase sales so as to compete with other competitors. Increased sales can be done with promotion, innovation of new products, and lending of debt to the customer.
10	-
11	It does not have any impact.
12	By producing quality products at affordable prices while affecting business performance.
13	The effect of competitive strategy and operating strategy for business performance is that teams must be trained to meet company operating standards if the operating strategy is running well then business performance will improve.
14	Business performance of SMEs runs very well. This is because the competitive strategy is quite competitive, so that business performance is more efficient and better although this business is not on a large scale.
15	By doing competitive strategy / competition company, will impact on company

	performance.
16	If you choose a strong competitive strategy such as low cost and product quality and operational strategies that emphasize the use of machines and good raw materials of course the performance of the company will be good.
17	The company wants to gain greater profits and can lure customers interest (give discounts) to buy the company's products.
18	Work more effectively and efficiently
19	With the existence of a good competitive strategy and effective operational strategy it is expected that business performance will increase rapidly.
20	With the existence of a good competitive strategy and effective operational strategy it is expected that business performance will increase rapidly.

**4.9. Aspects of Performance Measurement and Corporate Positions**

Generally companies apply this competitive strategy explicitly through the activities of various existing company functional departments. The basic idea of creating a competitive strategy begins with the development of a general formula of how business will be developed, what exactly is the goal and what policy will be needed to achieve that goal. The notion of competitive advantage alone has two different but related meanings. The first sense emphasizes superiority or superiority in terms of resources and expertise of the company. Companies that have competencies in marketing, manufacturing, and innovation can make it as a source to achieve competitive advantage. Through these three areas of competence, the company can develop strategies so as to produce products sold in the market. While the second understanding emphasizes the superiority in achievement of performance over the years. This

understanding is related to the company's position compared to what its competitors are. Companies that continue to pay attention to the development of its performance and strive to improve the performance has a chance to achieve a good competition position then the company actually has a strong capital to continue to compete with other companies (Supranoto, 2010).

Some of the indicators used to measure competitive advantage are uniqueness, seldom encountered, not easily imitated, not easily replaced, and competitive prices. The uniqueness of the product is the uniqueness of the company's product that combines artistic value with customer's taste. Competitive price is the ability of the company to adjust its product price to the general price in the market. Not easy to find means its existence is rare in the current competition. Not easily imitated means imperfectly imitated. Difficult to replace means not having the same substitute.

**Table 8. Aspects of Performance Measurement and Corporate Positions**

<b>Respondents</b>	<b>Respondents Perceptions</b>
1	a. Different products so we are not always problematic in the competition b. Service "personal" customer, because typical Indonesian people always happy if served in private.
2	Employee loyalty is high enough, demand to be a high distributor, and test results from leading institutions "SII" states that the product has good quality.
3	Service and place or location
4	Understanding consumer tastes or guessing trends, maintaining honesty and good company reputation, liabilities account (debt) to suppliers.
5	The price of the product compares the price of the other product.
6	Consumers who keep relying on complaints even to advise the company.
7	The quality of information technology services used in production, ordering, and accounting.
8	-
9	Customer interest, customer needs, endurance products / services in the eyes of consumers.
10	Another aspect that can be used as a performance benchmark is the level of customer satisfaction.
11	-
12	a. Financial aspects play a very important role in measuring company performance, the focus is often to make the company stuck in the orientation of achievement of profits in the short term. b. Performance measurement can provide important information to the company about the product, service, and the resulting process.

	c. System design: Coordinate each employee and devise according to each skill.
13	Marketing costs, Profit margin, and effective capital allocation
14	The level of customer confidence about the pure essence product and this aspect is strongly emphasized.
15	Innovation in production, including the selection of materials, the way storage materials that still put the quality of the product.
16	Product innovation
17	a. Provide an appointment or the right time for the ordering. b. Giving time concessions in terms of payment of company goods.
18	-
19	Minimize customer complaints and Respond to all customer complaints.
20	Increased number of customers, Effectiveness and efficiency of the entire production process, Cost savings incurred and Customer satisfaction.

**4. 10. Discussion**

This research found that the uncertainty of the business environment did not affect the company's business strategy. Competing in rapidly changing environmental conditions and indicated by increasingly short product life cycles, better informed consumers, rapid technological diffusion, customized products, and rising new competitors, require companies to set competitive strategies so that increased flexibility and productivity are achieved (Anderson, et.al, 1995). Environmental uncertainty is identified as an important contingency in both conceptual and empirical studies both in competitive strategy and manufacturing strategy (Skinner, 1969, Hofer, 1975, Van Dierdonck and Miller, 1980). In this study it is shown that environmental dynamism will support in the choice of competitive strategy decisions. This difference with the existing literature is caused by business people in Indonesia responding to different uncertainties. Or maybe business people do not do a deep environmental analysis.

The next finding suggests that competitive strategies influence the company's manufacturing strategy, albeit in certain conditions. This means that a particular business strategy will be suitably subject to certain manufacturing strategies. Business strategies affect the quality, delivery and cost strategies, but they do not affect the flexibility strategy. Partially, the deferential strategy influences the flexibility strategy, while the cost leadership strategy has an effect on quality, delivery and cost strategy. This finding seems to be consistent with Swink and Way (1995) and Collin et al., (1998) indicating that relatively few studies provide empirical evidence of the influence of competitive strategy choices on manufacturing strategies eg that manufacturing strategy is supported by the choice of competitive strategies in high-performance business businesses. Vickery et al. (1993) states that in the development of a manufacturing strategy it is important to note that low business performance is generated when manufacturing strategies are not associated with competitive strategies.

Several studies have shown that quality is associated with good performance. Ferdows and

Demeyer (1990) and Noble (1995) have argued that effective manufacturing strategies generally begin with quality as a basis. The hypothesis is tested to determine whether there is a positive effect of manufacturing capability on business performance. This is due to the conditions in Indonesia impact of the implementation of manufacturing strategy does not directly affect the operational performance but required a certain period of time.

These findings contrast with previous literatures that provide evidence of a direct influence between environmental factors particularly environmental dynamics and manufacturing strategies. Swamidas and Newel (1987) and Ward et al. (1995) examines the interrelation of environmental dynamism, manufacturing strategies, and business performance. From the results of his research found that companies with high performance, choose a manufacturing strategy that is consistent with the environment.

Competitive strategies affect financial performance and operational performance. This is aligned and supported by some existing literature such as Ward and Duray, (2000) and Doty et al. (1993) argues that effective strategies are used to achieve high business performance. Implementation strategy is the key to the relationship between competitive strategy and company's success as measured by business performance. Some authors argue that the manufacturing strategy describes implementation by providing a more detailed picture of how competitive strategies are applied (Miller, 1987).

**CONCLUSIONS AND SUGGESTIONS**

**5.1. Conclusion**

Based on the phenomenon of findings in this research, there are several things that can be underlined: Uncertainty of the business environment does not affect the company's business strategy. In conducting its business strategy, SMEs typically use the following strategies: (1). Engage skills development to respond to opportunities created by firms that are in the first market. What often happens is that many imitators repair or modify goods and services to create higher value for buyers. If so, entrepreneurs need to move their competitiveness to

other market segments by denigrating the small market segment that big companies do not have a chance. (2). Changes in product, market or industry characteristics based on innovation. This strategy is done by changing existing products and services, for example changing the benefits, values, and other economic characteristics.

Second Finding, Competitive strategy influences the company's manufacturing strategy, though it exists in certain conditions. This means that a particular business strategy will be suitably subject to certain manufacturing strategies. Third, the manufacturing strategy does not affect financial performance and operational performance. Fourth, the uncertainty of the business environment does not affect the company's manufacturing strategy. Fifth, competitive strategy affects financial performance and operational performance. Implementation strategy is the key to the relationship between competitive strategy and company's success as measured by business performance.

### 5.2. Suggestion

Furthermore, the researchers acknowledge a number of limitations in this research that may cause disruption of research results. First, the number of companies involved in this research is still considered small so that the model and results can not be generalized, given the large population of manufacturing companies in Indonesia. Secondly, researchers only use the perception of leaders in answering questions of questionnaires and during interviews, so it is not detected whether the areas directly related to the implementation of innovation strategies have the same perception of the innovation strategy undertaken by the company. This research also focuses only on the influence of business uncertainty yet includes heterogeneity and hostility of the business environment. Researchers also consider only two strategies that are cost leadership and deferences. The researcher suggests that further studies should consider other aspects affecting the relationship of competitive strategies, manufacturing strategies and performance, such as linking with technology.

Regardless of its limitations, this research is expected to provide benefits as discussions of companies in implementing competitive strategies and manufacturing strategies to improve performance. It is expected that this research can provide guidance for managers to choose the right innovation strategy that suits company goals. The results of this research are also expected to contribute to academics and practitioners, especially in developing the production management operations literature and strategic management in general. The results of this research can at least encourage further research that is much more perfect and provide greater benefits.

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