

# Distinctive Capabilities: Can it be a source of competitive advantage?

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**Abstract**—The aim of this research was to explore the effect of distinctive capabilities to competitive advantage rattan furniture industry. The samples of this verificative research are 70 companies member of ASMINDO Cirebon, East Java, Indonesia. In this research we use stratified proportional random sampling and simple linear regression to analyze. The level of competitive advantage of rattan furniture industry Cirebon is positively influenced by the distinctive capabilities.

**Keywords**—competitive advantage; distinctive capabilities; rattan furniture industry

## I. INTRODUCTION

Indonesia is the most country with the highest level of export activities. Based on data Central Bureau Statistics Indonesia, in 2012 fishery, agriculture, forestry, and farm sectors has high contributed to Gross Domestic Bruto (GDB) amount 23.6% and the processing sector has 15% (BPS in 2012). The one of processing sector contributed from rattan industry, an estimated 80% of rattan raw materials in the world is produced by Indonesia. However on the furniture rattan indicate still unable to compete. In the world market share of producers furniture rattan held by China got 20.72%, Italy got 17.71% and Indonesia only 7.86% as shown Table 1 [1].

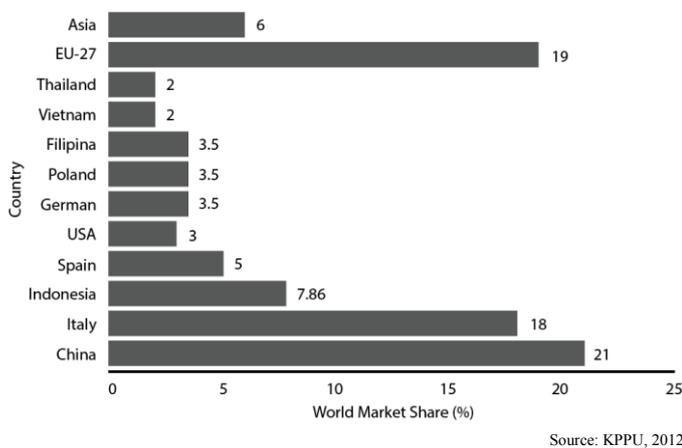


Fig. 1. World market share of producers furniture rattans.

Those indicate furniture rattan industry hasn't competed and reflected from performance of national rattan furniture, in 2004 to 2009 rattan furniture export was decreased by 45%.

And in the following 4 years, total production was decrease 30% [2]. One of the biggest producers of rattan furniture is Java and Bali and concentrated in Cirebon. In the same year, total production of furniture rattan was decrease 24% and decline year by year especially in 2009 got 985 cont/month from 1300 cont/month.

With the result of interview with the secretary of the Association of Indonesia Furniture (ASMINDO) in Cirebon and the owner of furniture rattan companies, the low of level competitiveness national rattan furniture from internal organization such as product design, prices, and human resources such as the shortage of craftsman and designer or by internal organization. They are consequently they do not achieve competitive advantage.

And the other hand, organization be required to find and allocate the opportunity through utilize what they have. It is a resource based view (RBV) concept. RBV assumed that internal organization such as resource and capabilities as a source of competitive advantage has valuable, rare, imperfectly imitable, and non-substitutable (VIRN) characteristics, they are intangible assets. The reason is because hard to imitate with competitors.

## II. THEORETICAL FRAMEWORK

Competitive Advantage it's important in business activities related with existence organization. In other literature cannot define competitive advantage, so will be find different indicators to measure it. But to know organization superior or not need will see from financial indicators or outcomes of competitive advantage such as sales presentation, sales of new product, inventory cost, productivity growth, who reflect the organization profit and ability to adapt quickly, market shares, profit, sales trends and also employees productivity [3-5].

To gain competitive advantage is needed capabilities, such as (1) non-contingent capabilities and (2) distinctive capabilities. Non-contingent capabilities are basic capabilities to being "well" organization than others, and distinctive capabilities make organization distinguish [6]. To defined firm, we know about combination from contracts and relationship. And the firm who has competed is distinguished.

Distinguish it means created by is success in putting these contracts and relationship together, so it's the quality and

distinctiveness of these contracts that promote value added and can applied in an industry and brought to a market [7]. So, it's become important for organization at this time and any organization cannot ignore it to survive in competitive landscape.

According Barney and Clark resource and capabilities as source competitive advantage has characteristic [3]: valuable, rare, imperfectly imitable, and non-substitutable (VIRN). And intangible asset has the VIRN characteristic. According to Jackson research finding distinctive capabilities has VIRN characteristics and hard to duplicate because outcomes or organizational routines which is corporate culture [6]. In strategic literature, resource based view is focus on intangible assets and the organization will easy to identification and build new distinctive. In RBV, the organization has uniqueness combination from any resources.

To response that, Kay defined distinctive capabilities are organizational ability to produce competitive advantage through their uniqueness when competitors cannot easy to duplicate, they are result for combination from external and internal resources, such as architecture, innovation, and reputation [7].

His is because architecture is characteristic of the organization or. Architecture is relationship from relational contracts beside organizational and human resources and also organizational with external organizational especially supplier, government, society and competitors (networking). Reputation related with brand image of organization or commercial mechanism for conveying information [7]. And Innovation its organizational ability to create new product with value added.

According Day (1994) capabilities is a set of organizational knowledge to help organization more productive to process their asset being effective [8]. Collins define three capabilities [9], (1) capabilities are basic functional activities of the firm such as plant layout and distribution logistic (2) includes those activities that allow the firm to learn and adapt to changing environmental condition over time. (3) "Metaphysical capabilities allow the firm to recognize the intrinsic value of other resources or to develop novel strategies before competitors." However, a common theme among scholar positioned in the capabilities camp is the notion of routines.

Based on that, capabilities consisting of functional activities to adaptation and metaphysical capability or a set of strategy choice reflected in organizational routines or operational routines. Nelson and Winter defined "routines" is current and future behavior pattern to application their know-how of the organization to process their input [10].

Operational routines will increase their input more productive and also has value added. This operation also a self-activities from individual or team work in organizational process whose became pattern or culture. These activities able to value added creation from organizational routine to hard duplicate with competitors.

That the reason why distinctive capabilities has influence organization performance such as source competitive advantage. It's important to any organization need to concentrate on the development of firm distinctive capabilities

[11]. Another research finds that distinctive capabilities as the source of competitive advantage [12,13].

But have the different indicator to measure distinctive capabilities. Several previous studies revealed that is a significant correlation between distinctive capabilities and performance of SMEs or competitive advantage, and indicators of distinctive capabilities based on Hitt and Ireland grouped according to seven functional areas [14] (1) general administration, (2) production/operation, (3) engineering, research, and development, (4) marketing, (5) finance, (6) personal, (7) public and governmental relatins [15]. The result indicates all performance SMEs indicators could be explained by the distinctive capabilities and average equity performance got the highest correlation by 64.4%.

Another research used indicators of distinctive capabilities with organizational capabilities because enhance performance, organizational capability associated with groups or individual competencies that collectively turn into organizational competencies [16].

But Jhon Kay use three indicators to explain distinctive capabilities, such as architecture, reputation, and innovation [7]. No research to uses Jhon Kay indictors to measure distinctive capabilities.

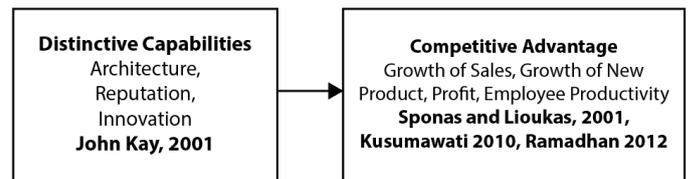


Fig. 2. Research framework.

The research framework's proposition is that there is an influence between distinctive capabilities to competitive advantage. The distinctive capabilities variables include 1) architecture, 2) Reputation, 3) Innovation. The competitive advantage includes growth sales, growth the new product, profit, and employee productivity.

The hypothesis is distinctive capabilities positive significant to gained competitive advantage rattan furniture industry.

### III. METHOD

Object of this study consist of two variable such as distinctive capabilities (independent variable/X) and competitive advantage (dependent variable/Y). The method used descriptive and verificative with a design to analyzed and generate the study of (1) distinctive capabilities and competitive advantage rattan furniture industry in Cirebon, (2) The influence of distinctive capabilities to competitive advantage rattan furniture industry in Cirebon.

The population on this research is the all member of ASMINDO Cirebon by 85 companies. The sample calculation from slovin and slovilla formula with error 5%, has 70 sample companies with 4 employee each companies or total of respondent 280 employee. Data processing used SPSS 19.

IV. RESULTS AND DISCUSSION

The result of descriptive analysis indicated that Descriptive analysis of each variable revealed that: Distinctive capabilities rattan furniture industry Cirebon categorized moderate. The highest indicators are: innovative (process and protect the result). The analyzed of this situation, rattan furniture industry has shortages of raw materials based on government regulation on 2000-2005. The implication is with strategy choice in innovation to substitute their raw material (rattan) with plastic and combination with other materials such as wood and iron.

The architecture at second level with establish good relationship supplier of raw rattan material. And has bad relationship with competitors. And also has moderate level of reputation especially to offer quality and guaranteed of product.

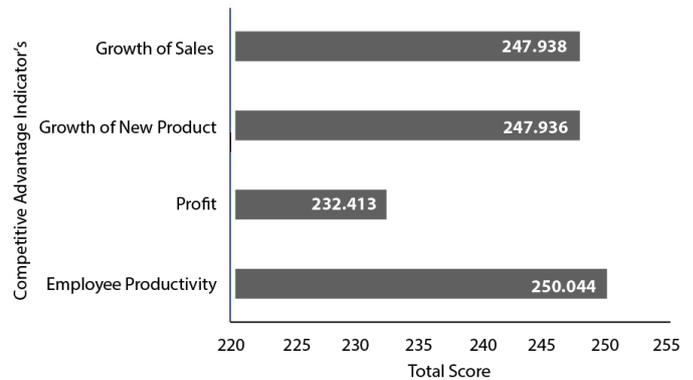
The lowest score is networking with competitors. This is because, mostly foreigners owner of rattan furniture companies. So its implication to communicate assumed they are potential competitors. Show as Figure 3.

Indicators	Score
<b>Reputation</b>	
Product Quality	704.80
Innovation Guarantee	743.81
<b>Innovation</b>	
Process Innovation	820.54
Protect Innovation Result	820.54
Innovation Standard	773.16
<b>Architecture</b>	
Organization Knowledge	743.81
Co-operative with Competitors	820.54
Co-operative with supllier	820.54
Networking with competitors	647.43
Networking with ASMINDO Members	722.14
Networking with Costumer	773.16
Networking with Supplier	820.54

Source: Data Processing, 2013

Fig. 3. Score total distinctive capabilities indicators.

The level of Competitive advantage rattan furniture industry Cirebon categorized enough who became from employee productivities. Show as Figure 2. It means the level of competitive advantage rattan furniture industry Cirebon more focus on employee productivity, because of their activities based on demand and subcontracting craftsman. Associated with resource based view perspective, indicates that the level competitive advantage rattan furniture industry Cirebon focuses on internal resources especially human resource management through increased employee productivity. In the end, human resources more productive will be affected to financial criteria such as no inventory cost and zero defects.



Source: Data Processing, 2013

Fig. 4. Score total competitive advantage indicators.

The result of the regression analysis in Table 2, indicated that competitive advantage has positively significant influence by distinctive capabilities. This is because sig. value is less than 0.05 (p<0.05). The R2 (coefficient of determination) of distinctive capabilities indicated 40.8% of the level of competitive advantage rattan furniture industry Cirebon.

TABLE I. COEFFICIENTS<sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	t table (df=70-1)	Conclusion
	B	Std. Error	Beta				
1 (Constant)	-3.077	2.497		-1.232	0.222		
Y	0.389	0.057	0.639	6.850	0.000	1.98	Ho rejected

Dependent Variable: Z

These findings appear consistent with the study conduct by Man and Wafa indicated has a significant correlation between distinctive capabilities and performance of SMEs or competitive advantage [15]. According Jackson, with distinctive capabilities the organization more friendliness than others for employees, supplier, and also the competitors [6]. Basic of the firm its contracts and relationship, so friendliness it means good relationship with all stakeholders. Can apply to keep and motivate the employee in organization. All the process is organizational capabilities who integrating with process and procedure or strategic as architecture of the organization, these hard to imitate and duplicate quickly.

Associated with theoretical concept, architecture is operational routines who applied the power of knowledge sharing and its source of organizational knowledge. In rattan furniture industry, employee are the most important because core activities is to produce product (craftsman), and other employee like export and import dept, human resource dept. and production dept (designer) all combined to work each other in product. That is important to keep and motivate the employee.

## V. CONCLUSION

The level of competitive advantage of rattan furniture industry Cirebon has level enough. And need to increase the profit. And distinctive capabilities rattan furniture industry Cirebon categorized moderate and need to fix the relationship with competitors. The level of competitive advantage of rattan furniture industry Cirebon is positively influenced by the distinctive capabilities of the remaining 40.8% and 59,2% influenced by other factors not examined.

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