

The Impact of Human Resource Ability and Market Orientation on Business Performance and Competitive Advantage

Case Study of Small And Micro Industry of Wood Craft in Gianyar Regency

1st Ni Wayan Sukartini
Business Administration Department,
Bali State Polytechnic
Badung, Bali, Indonesia
wayansukartini@pnb.ac.id

2nd Anak Agung Ayu Mirah Kencanawati
Business Administration Department,
Bali State Polytechnic
Badung, Bali, Indonesia
a3_mirah@yahoo.co.id

3rd Ni Ketut Lasmini
Business Administration Department
Bali State Polytechnic
Badung, Bali, Indonesia
lasminisw@yahoo.co.id

Abstract—The aims of this research is to: (1) analyze the impact of human resource ability and market orientation on business performance and competitive advantage ; (2) analyze the impact business performance on competitive advantage. Data were collected using questionnaires, interviews, observations, and literature studies. The research model was built using the structural equation model and analyzed with smartPLS-3 software. The results of the analysis show that (1) there is a positive and significant impact of human resource ability and market orientation on business performance and competitive advantage ; (2) there is a positive and significant influence of business performance on competitive advantage. The suggestions that can be given are (1) to have performance and competitive advantage, micro and small business owners in Gianyar Regency must be innovative so that the products marketed are in accordance with customer needs, in addition to improving human resources by conducting management training in business management; (2) stakeholders, such as government and academics, should assist the business owners in providing training; (3) further research needs to follow up the findings of this research by adding other variables included in the model, such as the role of the government.

Keywords— *human resource ability, market orientation, performance, SMEs*

I. INTRODUCTION

In addition to the tourism sector, micro and small businesses play a very large role in the lives of people in Gianyar Regency, Bali Province, i.e. they improve the local economy and employment. This condition generally occurs in

almost all countries, as stated by [1], that the small and medium enterprises (SMEs) play a critical role in the development of the country. According to [2] there is a very strong relationship between human resources management and competitive advantage management, that is poor management, lack of managerial education, lack of initiativeness are some of the reasons why SMEs cannot maintain their competitive advantage.

In this era of competition, information from customers, especially market orientation, is very important; according to [3], a greater emphasis on market orientation is concerned with increasing the introduction of new products to the world. According to [4], several previous studies indicated better performer in some companies when they focus on market orientation with particular emphasis on flexibility and speed of response. [5] emphasize the relation between competitive advantage and market orientation in order to create superior value for customers. They argue that more market orientation improves the analysis of sources of sustainable competitive advantage. [6] argued that the sustained advantage in business performance from having a market orientation is greater for the firms that are early to develop a market orientation. These firms also gain more in sales and profit than firms that are late in developing a market orientation. [7] stated that market orientation helps in fulfilling market needs with more excellence than competitors.

Micro and small enterprises producing wooden handicrafts in Gianyar Regency, like other small micro enterprises, are generally weak in management. In addition, currently there are

many competitors, both major domestic entrepreneurs and entrepreneurs from other countries, making the micro and small enterprises experience problems in marketing. The question is whether there is some effect of human resource ability and market orientation on business performance and competitiveness. Thus, the purpose of this study was to determine the effect of human resource ability and market orientation on business performance and competitive advantage.

A. Literature Review

a. Human Resource Ability

Human Resources (HR) is the main asset for the organization or agency, because of their role as the motor of the organization. This is a fundamental element for the organization / agency and is very important in the progress of the organization / institution. Therefore there is a need of human resources who are knowledgeable, qualified, capable and competitive, so as to be able to develop or maintain the position of the organization / agency in a competitive environment. In the business context, Human Resources (HR) is a person who works in a company, both large companies and small companies. The ability of human resources is the capacity of an individual to perform various tasks in a job. Capability indicators include the ability to manage a business, make decisions, lead, control, innovate, as well as situations and change of the business environment [8]. Human Resource Factor (HR) is the prime mover of a business unit. Progress and success of SMEs is determined by the quality of human resources of the actors of SMEs. Managerial ability, leadership ability, financial management ability are very influential on the performance of SMEs as a whole [8],[9],[10].

b. Market Orientation

Market Orientation, according to [11], is a marketing concept supported by four pillars, namely target market, consumer needs (focus on consumers), integrated marketing, and profitability. [11] defines market orientation as a response to market changes. In general, market orientation is organizational behavior which includes gathering, disseminating, and responding to market intelligence which is reflected in customer orientation, competitor orientation and coordination mechanisms in creating customer value. Market orientation can be measured using customer orientation, competitor orientation and coordination between functions. According to [12], market orientation is the orientation of a company with the principle to satisfy the needs and wants of consumers.

Companies that have market orientation and a basis for more rapid improvements are reflected in the success of the company's new flagship products, profitability, market share, and sustainable competitive advantage. The results of implementing strategies based on market orientation enable companies to adapt successfully to environmental changes. Market orientation is significantly an important factor that enables companies to understand the market and to develop

product and service strategies to meet customer needs and those of the market [13].

[12] study found that the greater the market orientation of an organization, the greater the overall performance will become. [5] found a positive relationship between market orientation and business profitability. [3] argued that greater emphasis on customer orientation indeed increases the introduction of new products to the world.

Market orientation is very important for micro and small businesses in order to obtain a sustainable competitive advantage by relating the degree of market orientation to the extent of success in achieving critical performance outcomes [14].

c. Business Performance

Performance is a function of ability, effort and support. Ability deals with recruitment and selection, that is the natural ability to choose talented people who have appropriate interest in the work provided. A business factor is an effort undertaken by someone influenced by human resource problems, such as motivation, incentives and work design. Support factor is organizational support such as, training, management consistency, clear and fair employees' career development, adequate equipment provided and hope [15].

Performance is the achievement of the company within a specific period of time which reflects the level of health of the company. According to growth dimension is known as the most important measure of performance, especially for smaller companies, and constitutes a test of a good performance amidst economic recession and intense competition. The sales growth is a very common indicator of performance and has become an agreed-upon measure of growth. Growth in market share can be used to measure the effectiveness of the market. Profit growth is also an important indicator of growth and can reflect the company's financial performance. Indikator untuk mengukur business performance usaha mikro dan kecil adalah a) increase number of employed; b) increase in production; c) development of business units; d) increase in volume; e) profitability [16],[17],[18]

There are two factors that determine the performance of micro and small enterprises, namely internal and external factors. Internal factors that affect the performance of MSEs are related HR [19].

d. Competitive Advantage

Competitive advantage is the capability of the organization to do its activity in a way or in different ways, that other competitors can not realize [11]. Competitive advantage is a base for a good strategy and a good one creates competitive advantage. Competitive advantages are those factors that a firm needs to have in order to succeed in business [20].

The dimension of competitive advantage includes cost, quality, and delivery [22]. Competitive advantages can be created through innovation, efficiency, quality, and customer responsiveness [21]. In an intense market, competitive

advantage is necessary for SMEs operation, especially in the emerging market, to sustain high performance [23].

TABLE I. IDENTIFICATION OF RESEARCH VARIABLES

Construct (Latent Variables)	Measurable Variables
1. Human Resource Ability (X ₁)	- Managing business (X _{1.1}) - Making decisions (X _{1.2}) - Controlling (X _{1.3}) - Leading (X _{1.4}) - Coping with situations (X _{1.6})
2. Market Orientation (X ₂)	- Customer orientation (X _{2.1}) - Competitor orientation (X _{2.2}) - Interfunctional coordination (X _{2.3})
3. Business Performance (Y ₁)	- Increase in workforce (Y _{1.1}) - Increase in Sales Turnover (Y _{1.2}) - Increase in Venture Capital (Y _{1.3}) - Increase in Profit (Y _{1.4}) - Market Expansion (Y _{1.5})
4. Competitive Advantage (Y ₂)	- Cost (Y _{2.1}) - Quality (Y _{2.2}) - Delivery (Y _{2.3}) - Desponsiveness (Y _{2.4})

II. RESEARCH METHODS

The object of the present research was the Micro Wood Craft Industry in Gianyar Regency, Bali Province, Indonesia. The population comprised 23,098 business units. The number of samples taken was 100 craftsmen. The recruitment of the respondents was done using purposive sampling method based on certain considerations. In this study the consideration was the business category, namely micro and small enterprises. Data were collected using questionnaires, observations, in-depth interviews, and documentation. The collected data were then analyzed using partial least squares-SEM (PLS-SEM) with the help of the SmartPLS 3.0 program

a. Research Conceptual Framework

Based on the theories and research findings that have been described above, it was possible to describe a concept and the development of hypotheses in this study. The research model can be determined as shown in Fig. 1 below:

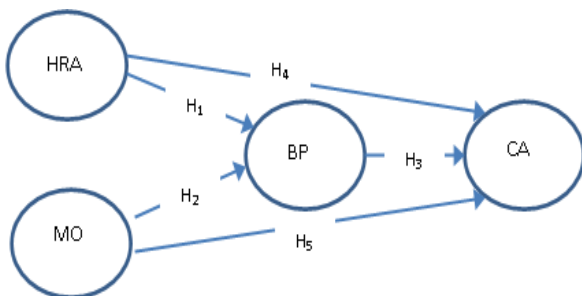


Fig. 1. Research Conceptual Framework

b. Hypothesis

- H₁ : Human Resource Ability will have a positive and significant effect on Business Performance;
- H₂ : Market Orientation will have a positive and significant effect on Business Performance.

- H₃ : Business Performance will have a positive and significant effect on Competitive Advantage
- H₄ : Human Resource Ability will have a positive and significant effect on Competitive Advantage
- H₅ : Market Orientation will have a positive and significant effect on Competitive Advantage

c. Measurement of the Variables

The variables in this study were measured from the constructs (latent variables) Human Resource Ability (X₁), Market Orientation (X₂), Business Performance (Y₁), and Competitive advantage (Y₂). Each construct consists of several measurable variables as shown in Table I.

III. RESULTS AND DISCUSSIONS

d. Assessment of the Measurement (outer) Model

The measurement (outer) model shows how each indicator block relates to its latent variable (construct). There are several tests that can be used to see the significance of each indicator making up a construct, namely test of validity and test of reliability.

1) Test of Validity

To determine the validity of each indicator of a construct can be seen from the convergent validity and determinant validity. Convergent validity of a measurement model with reflective indicators can be seen from the correlation between item / indicator scores and the construct scores. Individual indicators are considered reliable in a research, if the loading scales range 0.50 to 0.6, and thus are still acceptable. Table II shows that all indicators in the Market Orientation and Competitive Advantage constructs were valid constructs because they have a loading factor of > 0.50. While the indicator X1.1 for the construct of Human Resource Ability (HRA) and Y1.5 for the construct of Business Performance were not significant and must be removed from the model because the loading factor was <0.50.

TABLE II. OUTER LODING COEFFICIENT FOR EACH INDICATOR

	BP	CA	HRA	MO
X1.1			0.462	
X1.2			0.751	
X1.3			0.761	
X1.4			0.722	
X1.5			0.801	
X1.6			0.825	
X2.1				0.853
X2.2				0.897
X2.3				0.442
Y1.1	0.756			
Y1.2	0.777			
Y1.3	0.820			
Y1.4	0.678			
Y1.5	0.467			
Y2.1		0.815		
Y2.2		0.833		
Y2.3		0.813		
Y2.4		0.761		

Another way to measure the validity of each indicator of a construct is to look at the discriminant validity by looking at the AVE value. The model is considered good if the AVE value of each construct is > 0.50. Table 3 shows the AVE values for all constructs (Business Performance (BP), Competitive Advantage (CA), Human Resource Ability (HRA) and Market Orientation (MO)) were greater than 0.50.

TABLE III. AVE VALUES

	AVE	Akar AVE
BP	0.505	0.711
CA	0.650	0.806
HRA	0.533	0.730
MO	0.576	0.759

b) Test of Reability

The construct reliability test was carried out with two criteria, namely composite reliability and cronbach alpha from the indicator block. Constructs are said to be reliable if the composite reliability and Cronbach alpha values are greater than 0.70. Table IV shows that the constructs Business Performance, Competitive Advantage, Human Resource Ability and Market Orientation were reliable.

TABLE IV. COMPOSITE RELIABILITY AND CRONHBACH ALPHA COEFFICIENTS

	Composite Reliability	Cronbachs Alpha
BP	0.832	0.749
CA	0.881	0.820
HRA	0.870	0.817
MO	0.791	0.615

e. Assessment of the Structural Model (Inner Model)

The assessment of the structural model was done by looking at the R-square value which is a goodness-fit model test. The model of the effect of Business Performance on Competitive Advantage yielded a value of 0.547 (54.7%) and 0.407 (40.7%) was influenced by Human Resource Ability and Market Orientation, as seen in Fig. 2.

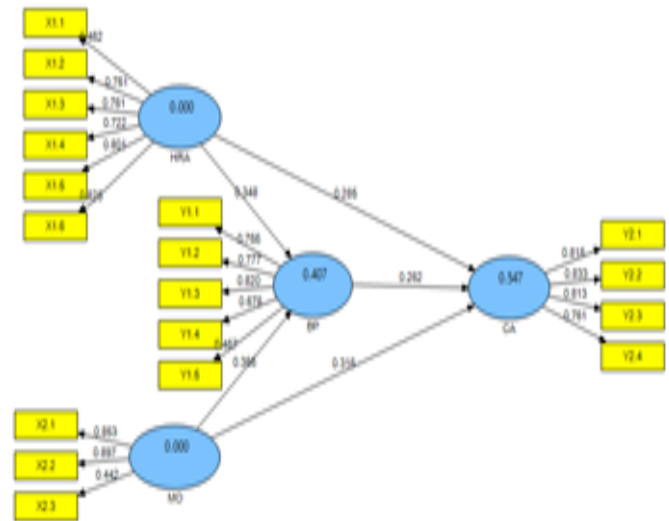


Fig. 2. Outer Loading and Path Analysis

f. Hypothesis Testing

This research was conducted to examine the effect of Human Resource Ability and Market Orientation on Business Performance and Competitive Advantage. (Case Study of Small and Micro Industry of Wood Craft in Gianyar Regency). The significance of the effect of the construct can be seen from the results of statistical tests as shown in Fig. 3 and Table V:

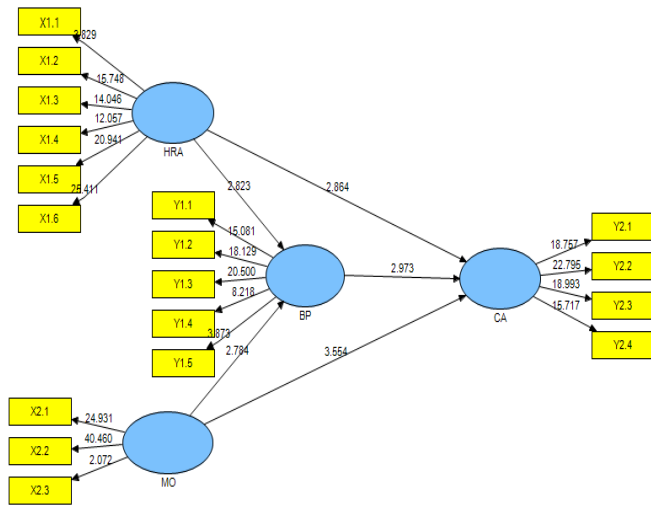


Fig. 3. Bootstrapping Model

TABLE 5. PATH COEFFICIENTS (MEAN, STDEV, T-VALUES)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (O/STERR)
BP -> CA	0.262	0.274	0.088	0.088	2.973
HRA -> BP	0.348	0.314	0.123	0.123	2.823
HRA -> CA	0.376	0.369	0.086	0.086	4.362
MO -> BP	0.356	0.409	0.128	0.128	2.784
MO -> CA	0.409	0.417	0.089	0.089	4.603

- The relationship between Human Resource Ability and Business Performance was positive and significant. This can be seen from the t-statistic value of 2.823 (> 1.96). Thus it can be concluded that there was a positive and significant effect of Human Resource Ability on Business Performance, and this means that the H1 hypothesis was accepted.
- The relationship between Market Orientation and Business Performance was positive and significant. This can be seen from the t-statistic value of 2.784 (> 1.96). Thus it can be concluded that there was a positive and significant effect of Market Orientation on Business Performance, and this means that the hypothesis H2 was accepted.
- The relationship between Business Performance and Competitive Advantage was positive and significant. This can be seen from the t-statistic value of 2.973 (> 1.96). Thus it can be concluded that there was a

positive and significant effect of Business Performance on Competitive Advantage, and this means that the H3 hypothesis was accepted.

- The relationship between Human Resource Ability and Competitive Advantage was positive and significant. This can be seen from the t-statistic value of 2.864 (> 1.96). Thus it can be concluded that there was a positive and significant effect of Human Resource Ability on Competitive Advantage, and this means that the H4 hypothesis was accepted.
- The relationship between Market Orientation and Competitive Advantage was positive and significant. This can be seen from the t-statistic value of 3.554 (> 1.96). Thus it can be concluded that there was a positive and significant effect of Market Orientation on Competitive Advantage, and this means that the H5 hypothesis was accepted.

g. Comparative Testing of Variable

Human resource ability and market orientation had a positive and significant effect on business performance and competitive advantage. Path analysis showed that the magnitude of the effect of human resource ability was 0.348 and that of market orientation was 0.356. Furthermore, the analysis showed that the effect of human resource ability was 0.285 and that of market orientation was 0.316 on competitive advantage. This shows that the effect of market orientation is greater than the effect of human resource ability. This is in accordance with the opinion of [13] that market orientation is an important factor that allows companies to understand the market and develop product and service strategies to meet customer needs and those of the market. Moreover, [12] stated that the greater the market orientation of an organization, the greater the overall performance will become. This issue must be addressed by micro entrepreneurs through innovation to reach and retain customers. In this case, stakeholders such as government play a significant role, as stated by [24], that the role of government policy has been proven to be positive which significantly affect business competitive advantage, while academics should help micro and small enterprises.

Moreover, the 0.547 effect-size of business performance on competitive advantage shows a large enough effect which means that to have competitive advantage small and micro enterprises must have a good business performance as stated by [20], Competitive advantages are those factors that a firm needs to have in order to succeed in business.

IV. CONCLUSION

On the basis of the discussion above, it can be concluded that: (1) there is a positive and significant impact of human resource ability and market orientation on business performance and competitive advantage ; (2) there is a positive and significant influence of business performance on competitive advantage. The suggestions that can be given are (1) to have performance and competitive advantage, micro and small business owners in Gianyar Regency must be innovative

so that the products marketed are in accordance with customer needs, in addition to improving human resources by conducting management training in business management; (2) stakeholders, such as government and academics, should assist the business owners in providing training; (3) further research needs to follow up the findings of this research by adding other variables included in the model, such as the role of the government.

ACKNOWLEDGMENT

This project was financially supported by Ministry of Research Technology and Higher Education, Republic of Indonesia through the competitive grant research

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