

# The Influence of Internal Capabilities, External Network and Value Chain Strategy on Competitive Strategy in Improving Company Performance in Food and Beverage MSME Industry Companies in East Java

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**Submission date:** 26-Jun-2022 11:20AM (UTC+0700) by Simon Subagio

**Submission ID:** 1862926811

**File name:** Simon\_Subagio\_2021\_bahasa\_inggris.pdf (405K)

**Word count:** 4640

**Character count:** 24595

# **The Influence of Internal Capabilities, External Network and Value Chain Strategy on Competitive Strategy in Improving Company Performance in Food and Beverage MSME Industry Companies in East Java**

**Abstract:** The increasing number of food and beverage industry companies in the region and increasing competition affect the performance of small, medium and large industries. East Java Province with a population of more than 38 million people and a tropical climate is a potential market for the food and beverage industry nationally and globally. Based on data from the East Java GAPMMI based in Surabaya, the number of entrepreneurs who joined was 245 entrepreneurs. Therefore, it is necessary to conduct research that aims to determine the effect of internal capabilities, external network and value chain strategy variables on competitive strategies in improving company performance in food and beverage MSME industrial companies in East Java Province. The sample of this research is 152 companies. The analytical technique used is (Structural Equation Modeling to confirm each construct forming indicator and simultaneously test the influence between constructs. The result is that External Network, Value Chain Strategy has significant effect on competitive strategy. Internal Capabilities, External Network and Value Chain Strategy have a significant effect on company performance. Meanwhile, Internal Capabilities have no significant effect on competitive strategy.

Keywords: internal capabilities, external network, value chain strategy, competitive strategy, company performance

## **INTRODUCTION**

In today's increasingly open global competition, there are many challenges that must be faced. Industry is required to be able and have a competitive strategy and competitive advantage. Competitive strategies and high competitive advantages are absolutely necessary for every industry to stay ahead. Industry competitiveness, especially the food and beverage industry, achieves optimal company performance with effective internal capabilities, external networks and value chain strategy (Nurimansyah, 2011)

Competitive strategy is the search for a favorable competitive position within an industry, the fundamental arena in which competition occurs

Internal Capabilities are the main source for companies to achieve profitability. Company characteristics, product characteristics, management commitment and business strategy are the company's internal capabilities that can improve company performance.

External Network acts as a glue that binds all people or groups in society or organizations that access financial sources, obtain information, determine jobs, start businesses and minimize transaction costs.

Value Chain Strategy is a strategy of activities that generate value from inside and outside the company, the value starting from raw materials to handling products after they are sold to consumers. The company must be able to recognize its position in the value chain that makes up the product or service.

Company performance is part of organizational effectiveness which includes operational and financial results

Based on the description above, the researchers are interested in conducting a study by including several variables as part of the novelty. The novelty is a competitive strategy as intervening variables that

mediate the influence of internal capabilities, external network, and value chain strategy to improve company performance in food and beverage MSME industrial companies in East Java Province.

## **Problem Formulation**

1. Do Internal Capabilities affect the competitive strategy?
2. Do Internal Capabilities affect the company's performance improvement?
3. Does the external network affect the competitive strategy?
4. Does the external network affect the company's performance improvement?
5. Does Value Chain Strategy affect competitive strategy?
6. Does Value Chain Strategy affect the company's performance improvement?

## **LITERATURE REVIEW**

### **Internal Capabilities**

Internal capabilities are human and physical resources that affect the organization. Internal stakeholders, namely the organization or the company itself, consist of a. company characteristics, b. product characteristics, c. management commitment and d. business strategy (Argyriou, & Melewar, 2011).

### **External Network**

External network is the quality of a person's behavior and character that acts as a marker that can predict how successful a person will be in the position he is applying for, consisting of a. market orientation, b. marketing creativity, c. networking quality (Kolakovic and Gilovanovic, 2010:74).

### **Value Chain Strategy**

Value chain strategy is a strategy to understand the value chain that forms a product (Porter, 2007: 218).

This value chain comes from the activities carried out, starting from raw materials to the hands of consumers, including after-sales services, consisting of a. Inbound Logistics, b. Operations, c. Outbound Logistics, d. Sales and Marketing, e. Support and Service

### Competitive strategy

Competitive Strategy is the company's efforts to create added value by the company by combining various resources through new and different ways to win the competition, consisting of a. Internal, namely the company's strategy developed based on the company's internal conditions and assets, b. External,

namely the company's strategy developed from external resources utilized by the company (Porter, 2007:152).

### Company performance

Company performance is the achievement or success of the company in operating the existing resources in the company, consisting of a. Internal processes, namely performance measurement with intelligence, skills, emotional stability, perception of roles and family conditions. b. External process, namely measurement by compliance of labor regulations, customer perspective, trade unions and economic conditions (Kaplan and Norton, 2000:349).

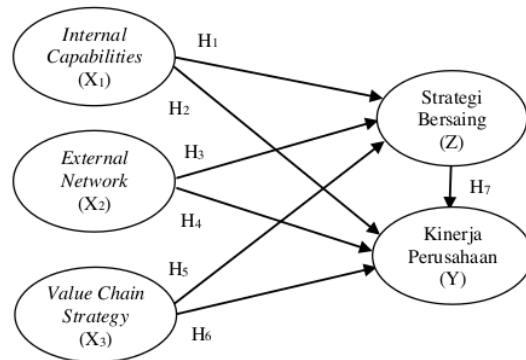


Figure 1. Conceptual Framework

Figure 1 describes the proposed hypothetical causal model. Previous studies revealed that competitive strategy is influenced by internal capabilities (Absah, 2008 and Rayadi, 2012), external network (Suseno, 2010), value chain strategy (Istanto, 2010 and Handoyo, 2001). Company performance is influenced by competitive strategy (Simamora, 2013), internal capabilities (Pattiasina, 2014), external network (Ardiana, et al, 2010 and Purwanto, 2006) and value chain strategy (Purwohandoko, 2009 and Istanto, 2010)

Hypothetically, the formulation of the hypothesis is as follows:

- H1: there is an influence of internal capabilities on the competitive strategy of food and beverage industry companies in East Java.
- H2: There is an influence of internal capabilities on company performance in food and beverage industry companies in East Java.
- H3: There is an external network influence on the competitive strategy of food and beverage industry companies in East Java.
- H4: There is an external network influence on the company's performance in food and beverage industry companies in East Java.
- H5: There is an effect of value chain strategy on competitive strategy in food and beverage industry companies in East Java.

H6: there is an effect of value chain strategy on company performance in food and beverage industry companies in East Java.

H7: there is an effect of competitive strategy on company performance in food and beverage industry companies in East Java.

### METHOD

This research is classified into associative research, which aims to determine the relationship between two or more variables that can function to explain, predict and control an analytic phenomenon (Arikunto, 2014: 126).

The data for the study were collected using a questionnaire method on food and beverage industry companies in East Java. A five-point Likert-type scale was used as response format, with the assigned values being 1 = Strongly disagree, 2 = Disagree, 3 = Moderately agree, 4 = Strongly agree, and 5 = Strongly agree.

The population is 245 entrepreneurs in the food and beverage industry in East Java. By using the Slovin formula, the number of samples obtained is  $n = 245 / (1 + (245 \times 0.052)) = 152$  entrepreneurs.

Based on the data in this study were analyzed quantitatively through the multivariate method, the Structural Equation Model (SEM) technique is a

second-generation multivariate analysis technique that combines factor analysis and path analysis, enabling researchers to simultaneously test and estimate the relationship between multiple latent independent variables and multiple latent variables. dependent variable with many indicators as well as testing models with mediator and moderator effects, models in non-linear form and measurement errors (Latan, 2013:29)

## RESULT

### Structural Equation Modeling (SEM) Test

Testing the distribution model of 152 data from the questionnaire obtained Chi-square = 125,779, Degrees of freedom = 108, Probability level = 0.129. Because the value of probability level = 0.129, above the value of 0.050, it shows that the distribution of 152 data from the questionnaire results is in accordance with the sample data.

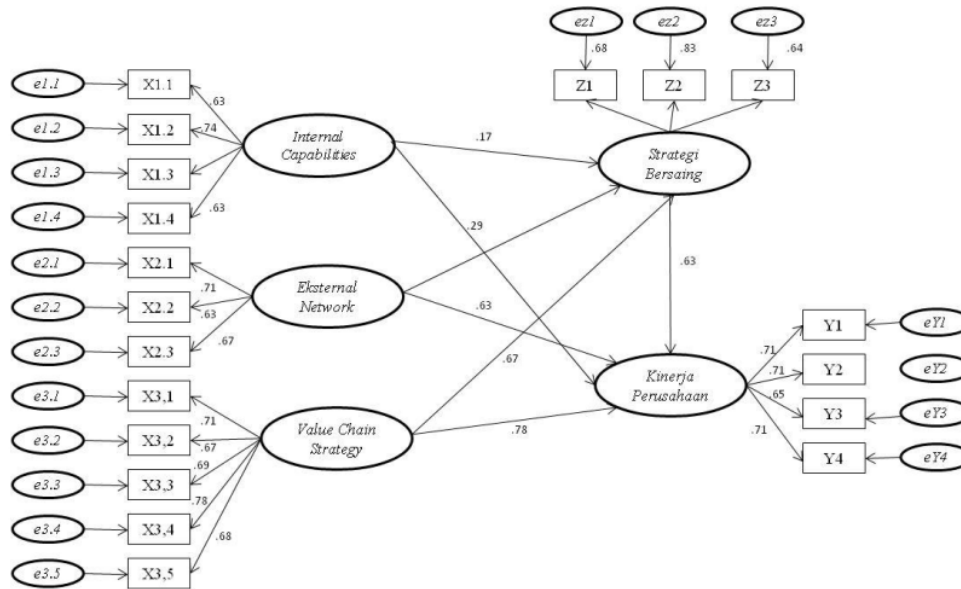


Figure 2. Structural Equation Modeling

The results of the calculation of the goodness of fit value produced by SEM are as follows:

Table 1. Value of Goodness of Fit SEM

Criteria	Model Test Results	Critical Value	Description
Probability	0.129	$\geq 0.05$	Fit
Cmin/DF	1.153	$\leq 2.00$	Fit
RMSEA	0.061	$\leq 0.08$	Fit
GFI	0.926	$\geq 0.90$	Fit
AGFI	0.919	$\geq 0.90$	Fit
TLI	0.968	$\geq 0.95$	Fit
CFI	0.955	$\geq 0.95$	Fit

Table 1 shows that most of the model's suitability criteria (goodness of fit) have provided a fit index, namely Probability <sup>2</sup> square, Cmin/DF, Root Mean Square Error Of Approximation (RMSEA), Goodness-of-fit-index (GFI), Adjusted Goodness Of Fit Index (AGFI), Tucker Lewis Index (TLI), and Comparative Fit Index (CFI).

### Normality test

The results of the normality test of the questionnaire data are as follows:

**Table 2. Normality Test Results**

variable	min	max	skew	c.r	kurtosis	c.r
Y.1	2.0000	5.0000	0.2241	-1.4084	-0.4807	-1.501
Y.2	2.0000	5.0000	0.2847	-1.7893	-0.3961	-1.237
Y.3	2.0000	5.0000	0.2121	-1.3896	-0.2623	-0.819
Y.4	2.0000	5.0000	0.0769	-0.4833	-0.4798	-1.498
Z.1	2.0000	5.0000	0.1584	-0.9955	-0.5636	-1.760
Z.2	2.0000	5.0000	0.0866	-0.5443	-0.3574	-1.116
Z.3	2.0000	5.0000	0.2082	-1.3085	-0.5374	-1.678
X.1.1	2.0000	5.0000	0.2314	-1.4545	-0.3169	-0.990
X.1.2	2.0000	5.0000	0.1952	-1.2268	-0.3048	-0.952
X.1.3	2.0000	5.0000	0.0757	-0.4758	-0.4014	-1.253
X.1.4	2.0000	5.0000	0.2982	-1.8729	-0.2409	-0.752
X.2.1	2.0000	5.0000	0.1723	-1.0829	-0.4537	-1.417
X.2.2	2.0000	5.0000	0.0974	-0.6121	-0.3169	-0.990
X.2.3	2.0000	5.0000	0.2612	-1.6416	-0.5922	-1.849
X.2.4	2.0000	5.0000	0.2451	-1.5404	-0.1165	-0.364
X.3.1	2.0000	5.0000	0.2538	-1.5951	-0.0298	-0.096
X.3.3	2.0000	5.0000	0.3021	-1.6951	-0.4769	-1.461
X.3.4	2.0000	5.0000	0.2352	-1.8451	-0.1263	-0.349
X.3.5	2.0000	5.0000	0.3021	-1.8986	-0.4714	-1.472
Multivariate					5.3050	1.596

Table 2 shows the results of the multivariate normality test which shows the multivariate cr of 1.595 which is in the range -2.58 to +2.58, and the variable value is in the range -2.58 to +2.58, so it can be concluded that multivariate data from the questionnaire results were normally distributed and could be used for further analysis.

**Confirmatory Factor Analysis (CFA)**

CFA serves to identify the validity and reliability of indicators which are constructs of research variables.

Validity is used to determine the respondent's interpretation of each statement item contained in the research instrument, whether the interpretation of each respondent is the same or completely different. If the respondent's interpretation is the same, then the research instrument can be said to be valid, but if it is not the same then the instrument can be said to be invalid, so the statement items need to be replaced. Validity is measured based on the value of the loading factor. If the

loading factor value is greater than or equal to 0.5 ( $\geq 0.5$ ), then the indicator in question is valid and means that the indicator is significant in measuring a construct.

Reliability is done to find out the respondent's interpretation of the statement items contained in the research instrument as indicated by the consistency of the answers given. The reliability of the indicator can be seen from the p value of the variance error, it is said to be reliable if the value is less than 0.05 ( $< 0.05$ ). Meanwhile, to calculate construct reliability, composite reliability is used with a cut off value of at least 0.7 ( $> 0.7$ ). To get the composite reliability value, the formula is used:

$$CR = \frac{(\sum \lambda)^2}{(\sum \lambda)^2 + \sum (1 - \lambda^2)} \quad (\text{Ferdinand, 2016}).$$

The results of confirmatory factor analysis testing on exogenous variables can be seen in the following table:

**Table 3. Confirmatory Factor Analysis of Exogenous Variables**

Variable	Indicator	P value variance error	Loading ( $\lambda$ )	$\lambda^2$	$1 - \lambda^2$	Construct Reliability
Internal Capabilities (X <sub>i</sub> )	Company Characteristics (x1.1)	0,000	0,6328	0,4004	0,5996	0,8183
	Product Characteristics (x1.2)	0,000	0,7137	0,5094	0,4906	
	Company Commitment (x1.3)	0,000	0,7423	0,5310	0,4490	
	Business strategy (x1.4)	0,000	0,8160	0,6812	0,5902	
External Network	Market Orientation (x2.1)	0,000	0,6304	0,3974	0,5996	0,7642
	Marketing Creativity (x2.2)	0,000	0,6740	0,4543	0,4906	

Variable	Indicator	P value variance error	Loading ( $\lambda$ )	$\lambda^2$	$1 - \lambda^2$	Construct Reliability
Value Chain Strategy (X <sub>3</sub> )	External Network (x2.3)	0,000	0,7055	0,4977	0,4490	0,8305
	Inbound Logistic (x3.1)	0,000	0,6840	0,3974	0,5996	
	Operasi (x3.2)	0,000	0,7751	0,4543	0,4906	
	Outbound Logistic (x3.3)	0,000	0,7055	0,4977	0,4490	
	Sales and Marketing (x3.4)	0,000	0,6651	0,4424	0,5902	
	Support and Service (x3.5)	0,000	0,6854	0,4698	0,5902	

Table 3 shows that the exogenous variables have a CFA (confirmatory factor analysis) value, the factor loading value is greater than 0.50, the construct reliability is all greater than 0.70, and the p-value variance error is less than 0.05 (<0.05), so it can be

concluded these variables are valid and reliable in constructing the model, and can be used for further analysis.

The results of confirmatory factor analysis testing on endogenous variables can be seen in the following table:

**Table 4. Confirmatory Factor Analysis of Endogenous Variables**

Variabel	Indikator	Nilai p variance error	Loading ( $\lambda$ )	$\lambda^2$	$1 - \lambda^2$	Construct Reliability
Strategi Bersaing (Z)	Brand Awareness (Z <sub>1</sub> )	0,000	0,6830	0,3974	0,5996	0,7623
	Strategic Partnership (Z <sub>2</sub> )	0,000	0,8260	0,4543	0,4906	
	Product and Service Innovation (Z <sub>3</sub> )	0,000	0,6406	0,4977	0,4490	
Kinerja Perusahaan (Y)	Finance (Y <sub>1</sub> )	0,000	1,000	1,000	0,000	0,7673
	Business process (Y <sub>2</sub> )	0,000	0,709	0,503	0,497	
	Learning Growth (Y <sub>3</sub> )	0,000	1,013	1,026	-0,026	
	Customer Perspective (Y <sub>4</sub> )	0,000	1,578	2,490	-1,490	

Table 4 shows that the endogenous variables have a CFA (confirmatory factor analysis) value, the factor loading value is greater than 0.50, the construct reliability is all greater than 0.70, and the p-value variance error is less than 0.05 (<0.05), so it can be concluded these variables are valid and reliable in constructing the model, and can be used for further

analysis.

#### Direct and Indirect Influence

The results of the SEM test on each variable are as follows:

**Table 5. SEM Coefficient Value of Effect Between Variables**

Causality Relationship			Direct Effect	Indirect Effect (Through Z)	Total Effect
Internal Capabilities (X <sub>1</sub> )	→	Competitive strategy (Z)	0.1659	-	0.1659
Internal Capabilities (X <sub>1</sub> )	→	Company performance (Y)	0.2863	-	0.2863
External Network (X <sub>2</sub> )	→	Competitive strategy (Z)	0.4856	-	0.4856
External Network (X <sub>2</sub> )	→	Company performance (Y)	0.5712	-	0.5712
Value Chain Strategy (X <sub>3</sub> )	→	Competitive strategy (Z)	0.3303	-	0.3303
Value Chain Strategy (X <sub>3</sub> )	→	Company performance (Y)	0.3997	-	0.3997
Competitive strategy (Z)	→	Company performance (Y)	0.6549	-	0.6549
Internal Capabilities (X <sub>1</sub> )	→	Company performance (Y)	0.1659	0.6549	0.1086
External Network (X <sub>2</sub> )	→	Company performance (Y)	0.4856	0.6549	0.3180
Value Chain Strategy (X <sub>3</sub> )	→	Company performance (Y)	0.3303	0.6549	0.2163

Based on Table 5, it can be explained as follows:

1. The coefficient value of the Internal Capabilities variable has an effect on the Competitive Strategy of 0.1659
2. The coefficient value of the Internal Capabilities variable has an effect on the Company's performance of 0.2863
3. The coefficient value of the External Network variable has an effect on the Competitive Strategy of 0.4856
4. The coefficient value of the External Network variable has an effect on the Company's performance of 0.5712
5. The coefficient value of the Value Chain Strategy variable has an effect on the Competitive Strategy of 0.3303
6. The coefficient value of the Value Chain Strategy variable has an effect on Company Performance of 0.3997
7. The coefficient value of the Competitive Strategy variable has an effect on Company Performance of 0.6549
8. The coefficient value of Internal Capabilities has an effect on Company Performance through Competitive Strategy of  $0.1659 \times 0.6549 = 0.10836$
9. The coefficient value of External Network has an effect on Company Performance through Competitive Strategy of  $0.4856 \times 0.6549 = 0.3180$
10. Value Chain Strategy coefficient value has an effect on Company Performance through Competitive Strategy of  $0.3303 \times 0.6549 = 0.2163$

**Hypothesis test**

After knowing the magnitude of the coefficient value of each variable, the next step is to test the hypothesis using the CR value and the probability.

**Table 6.** Regression Weight Causality Test

		Estimate	C.R.	P	Description
<i>Internal Capabilities</i> (X <sub>1</sub> )	→ Competitive strategy (Z)	0.1659	1.6831	0.0937	Not Significant
<i>Internal Capabilities</i> (X <sub>1</sub> )	→ Company performance (Y)	0.2863	2.5411	0.0117	Significant
<i>External Network</i> (X <sub>2</sub> )	→ Competitive strategy (Z)	0.4856	3.9244	0.0001	Significant
<i>External Network</i> (X <sub>2</sub> )	→ Company performance (Y)	0.5712	4.7313	0.0000	Significant
<i>Value Chain Strategy</i> (X <sub>3</sub> )	→ Competitive strategy (Z)	0.3303	2.9844	0.0031	Significant
<i>Value Chain Strategy</i> (X <sub>3</sub> )	→ Company performance (Y)	0.3997	3.3213	0.0010	Significant
Competitive strategy (Z)	→ Company performance (Y)	0.6549	5.7334	0.0000	Significant

Based on table 6, the results of hypothesis testing can be explained as follows:

1. Hypothesis one (H<sub>1</sub>) states that Internal Capabilities have an effect on competitive advantage. The coefficient with a positive sign is 0.1659 with a C.R value of 1.6831 which is smaller than 1.96, meaning that Internal Capabilities have no effect on competitive strategy. So hypothesis one (H<sub>1</sub>) which states that Internal Capabilities have an effect on competitive advantage is not significant.
2. Hypothesis Two (H<sub>2</sub>) states that Internal Capabilities have an effect on Company Performance. The coefficient with a positive sign is 0.2863 with a C.R value of 2.5411 which is smaller than 1.96, meaning that Internal Capabilities have an effect on Company Performance. So the second hypothesis (H<sub>2</sub>) which states that Internal Capabilities have an effect on competitive advantage is significant.
3. Hypothesis three (H<sub>3</sub>) states that External Network has an effect on competitive advantage. The coefficient with a positive sign is 0.4856 with a C.R value of 3.9244 which is smaller than 1.96, meaning that External Network has an effect on competitive strategy. So the third hypothesis (H<sub>3</sub>) which states that the External Network has an effect on competitive advantage is significant.
4. Hypothesis four (H<sub>4</sub>) states that External Network has an effect on Company Performance. The coefficient with a positive sign is 0.5712 with a C.R value of 4.7313 which is smaller than 1.96, meaning that External Network has an effect on Company Performance. So the fourth hypothesis (H<sub>4</sub>) which states that the External Network has an effect on competitive advantage is significant.
5. Hypothesis five (H<sub>5</sub>) states that Value Chain Strategy has an effect on competitive advantage. The coefficient with a positive sign is 0.3303 with a C.R value of 2.9844 which is smaller than 1.96, meaning that Value Chain Strategy has an effect on competitive strategy. So the fifth hypothesis (H<sub>5</sub>) which states that the Value Chain Strategy has an effect on competitive advantage is significant.
6. Hypothesis six (H<sub>6</sub>) states that Value Chain Strategy has an effect on Company Performance. The coefficient with a positive sign is 0.3997 with a C.R value of 3.3213 which is smaller than 1.96, meaning that Value Chain Strategy has an effect on Company Performance. So hypothesis six (H<sub>6</sub>) which states that Value Chain Strategy has an effect on competitive advantage is significant.

- Hypothesis seven (H<sub>7</sub>) states that Competitive Strategy has an effect on Company Performance. The coefficient with a positive sign is 0.6549 with a C.R value of 5.7334 which is smaller than 1.96, meaning that Competitive Strategy has an effect on Company Performance. So hypothesis seven (H<sub>7</sub>) which states that Competitive Strategy has an effect on competitive advantage is significant.

## CONCLUSION

Based on the results of the analysis, the conclusions of this study are as follows:

- Internal Capabilities have no significant effect on the competitive strategy of food and beverage industry companies in East Java. The results of this study are different from the results of research by Ernani Hadiyati (2011) which states that Internal Capabilities have an effect on competitive strategy.
- Internal Capabilities have a significant effect on the Company's performance. The results of this study support the results of research by Mita Kartikasari (2008) which states that Internal Capabilities have an effect on competitive performance.
- External Network has a significant effect on the competitive strategy of food and beverage industry companies in East Java. The results of this study support the results of Adi and Didik Purwanto's (2006) research which states that the External Network has a significant effect on company performance.
- External Network has a significant effect on Company Performance in food and beverage industry companies in East Java. The results of this study support the results of Didik Purwanto's (2006) research.
- Value Chain Strategy has a significant effect on the competitive strategy of food and beverage industry companies in East Java. The results of this study support the results of research Dinda Estika Smarani (2006).
- Value Chain Strategy has a significant effect on company performance in food and beverage industry companies in East Java. The results of this study support the results of research by Yosef Rizal, et al (2018).
- Competitive Strategy affects the Company's Performance. The results of this study support the results of research by Mita Kartikasari (2008), and Yosef Rizal, et al (2013).

## Suggestion

Based on the results of the study, the following suggestions can be given:

- Internal Capabilities that need to be considered are business strategies because they provide the highest contribution to the formation of competitive strategy variables, what needs to be considered to improve business strategies are companies implementing business strategies that are not carried out by other companies.
- External Network that needs to be considered is Market Orientation because it provides the lowest contribution to the formation of company performance variables.
- Value Chain Strategy that needs to be considered is Sales & Marketing because it provides the lowest contribution to the formation of Competitive Strategy variables, what needs to be considered to increase Sales & Marketing is that the Company provides guidance through education and training for marketing personnel specifically.
- Competitive Strategy that needs to be considered is Brand Awareness because it provides the lowest contribution to the formation of the Competitive Strategy variable. To increase Brand Awareness what needs to be done is the company conducts a special survey of its products.
- The company's performance that needs to be considered is the customer's perspective because it provides the lowest contribution to the formation of the company's performance variables. To increase customer satisfaction, it is necessary to fulfill customer needs for a product.
- For further research, it is better to expand the number of food and beverage companies studied, and it is hoped that more respondents will be obtained so that the data obtained is more varied.
- To get better results, it is hoped that further researchers can consider adding other variables.

## Research Limitations

This research still has limitations. The existence of these limitations, the writer hopes that there will be improvements for future research. Among these limitations are:

- The limited research time severely limits researchers to further maximize the search for respondent data, because not all respondents are willing to give a short time to fill out the questionnaire.
- There is a limitation of research using questionnaires, namely sometimes the answers given by the sample do not show the real situation.
- The study involved a limited number of research subjects, namely as many as 152 companies, so the results cannot be generalized to a large number of subject groups.



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