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The Influence of Business Orientation And Company Capabilities On Business Strategy And Its Implications For Business Performance Sustainability in The Fashion Commodity Creative Industry in West Java

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Abstract: The fashion creative industry is one of the creative industry sectors that continues to grow along with the development of fashion trends, especially in West Java. High competition makes fashion creative businesses face various challenges in achieving the sustainability of their business performance. The right business strategy is needed to compete in a competitive market and the emergence of many new competitors. Based on this background, this study aims to examine the influence of business orientation and company capabilities on business strategy and its implications for business performance sustainability in the fashion commodity creative industry in West Java. The research was conducted on the unit of analysis of fashion commodity creative industry players in West Java in the center of the fashion commodity creative industry with a sample of 200 respondents. The sample was taken by simple random sampling. Data were processed and analyzed using Structural Equation Modeling (SEM). The results showed that business strategy contributes to the sustainability of business performance, where competitive strategy has a greater contribution than competitive strategy. Business strategy is dominantly built by business orientation, which is supported by company capabilities. The results of this study provide theoretical implications in extending the importance of business strategy. Managerially, the results of this study provide implications for fashion commodity creative industry players under business strategies, especially competitive strategies, need to be formulated by improving business orientation and increasing company capabilities.

Keyword: business orientation, company capabilities, business strategy, business performance sustainability, fashion commodity

INTRODUCTION

At the end of 2018, Presidential Regulation No. 142/2018 on the National Creative Economy Development Master Plan 2018-2025 (Perpres Rindekraf) was enacted. The Perpres Rindekraf was established as the foundation for the development of the creative economy in Indonesia. The pace of West Java's creative economy development is relatively progressive.

West Java is one of the largest contributors to Gross Domestic Product (GDP) in the field of ekraf, namely 11.81 percent or the third highest after the Special Region of Yogyakarta (DIY) at 16.12 percent, and Bali at 12.57 percent. Various creative economy commodities are developing in West Java such as Game Developer, performing arts, film, music, photography, visual communication design, ceramic craft, rattan craft, handicraft, fashion, batik, bamboo, and many other commodities (bappeda.jabarprov.go.id, 16 Juli 2019).

One of the creative industry clusters that is interesting to study is the fashion (clothing) cluster (Rufaidah, 2017). The fashion industry even makes a significant contribution to the national economy (Purbasari & Rasmini, 2019). The fashion subsector is still the mainstay of Indonesia's creative economy exports with a contribution value of 61.6 percent. The second rank is filled by the craft subsector at 30.95 percent and the third is the culinary subsector at 6.76 percent (Ministry of Tourism and Creative Economy, November 17, 2022). The distribution of the fashion industry in West Java reached 12.44%, which shows that there are many business actors in this field compared to other industrial fields, although it is still below the culinary industry (31.89%) (Firdailla & Haerani, 2021).

In West Java, the fashion industry has experienced significant growth in recent years, and companies in the region are increasingly looking for ways to expand their market and gain a competitive advantage, (Sono et al., 2023). However, in practice, there are several challenges in the growth of the fashion industry such as the low awareness of the competitiveness of local products, and problems in implementing the Product Guarantee Regulation (Izzuddin & Adinugraha, 2022).

The weak business performance of the fashion creative industry in West Java can be caused by weaknesses in the formulation of competitive strategies in terms of price competitiveness compared to foreign products, especially products from China (Sono et al., 2023). On the other hand, strategy is critical to organizational performance and long-term survival (Al-Abdallah et al., 2021). Established business strategies such as differentiation strategies, cost leadership strategies, resource strategies and organizational capabilities (resource-based theory) are sources of differentiation in competitive advantage and performance (Saldanha, 2019). In addition, fashion creative commodity industry players in West Java also still do not prioritize the implementation of cooperative strategies, as one of the business strategies in addition to competitive strategies.

The fashion creative industry is one of the creative industry sectors that continues to grow along with the development of fashion trends, especially in West Java. High competition makes fashion creative businesses face various challenges in achieving the sustainability of their business performance. The right business strategy is needed to compete in a competitive market and the emergence of many new competitors.

On the other hand, companies also need capabilities that can reduce costs, provide services, interpret markets, manage relationships, integrate, and manage technology (Nuraini et al., 2021). In addition, business orientation requires continuous efforts to be able to adjust to changing consumer demands.

Based on the description above, this study aims to examine the influence of business orientation and corporate capabilities on business strategy and its implications for the sustainability of business performance in the fashion commodity creative industry in West Java.

METHOD

This research was conducted based on a quantitative research approach. The research was conducted on the unit of analysis of fashion commodity creative industry players in West Java in the center of the fashion commodity creative industry with a sample of 200 respondents. The sample was taken by simple random sampling. Data were processed and analyzed using Structural Equation Modeling (SEM).

RESULTS AND DISCUSSION

Structural model

The structural equation modelling (SEM) approach was used to test the research hypotheses using LISREL 8.80 (Jöreskog & Sörbom, 1996).

$$\text{Business} = 0.49 \cdot \text{BussOR} + 0.40 \cdot \text{CompCapa}, \text{Errorvar.} = 0.51, R^2 = 0.49$$

(0.048) (0.044)
10.09 9.13

$$\text{CompPerf} = 0.32 \cdot \text{Business} + 0.095 \cdot \text{BussOR} + 0.23 \cdot \text{CompCapa}, \text{Errorvar.} = 0.71, R^2 = 0.29$$

(0.076) (0.060) (0.055) (0.10)
4.22 1.59 4.26 6.97

Measurement Model

The model construction is measured by second order measurement with several items are well- validated. Each construct is formed from a number of questions that are selected based on theoretical studies. Business orientation was measured using six dimensions with 19 indicators. All factor loadings exceed the 0.50 and the t-values of all indicators greater than 1.96.

Company Capability was measured using six dimensions with 21 indicators, factor loadings exceed the 0.50 and the t-values of all indicators greater than 1.96. Business strategy, was measured using two dimensions with 8 indicators, factor loadings exceed the 0.50 and the t-values of all indicators greater than 1.96. The last, company performance sustainability was measured using first order with 4 indicators, and factor loadings exceed the 0.50 and the t-values of all indicators greater than 1.96.

Table 1. Measurements Model

Variabel	Dimensi	Indikator	factor loading	t value	Error Variance (e)	Average Variance Extracted (AVE)	Construct Reliability (CR)
Business orientation	Civic Mindedness	6	0,96	13,08		0,511	0,735
		BO1	0,65	-	0,58		
		BO2	0,59	9,37	0,65		
		BO3	0,65	9,91	0,58		
	Performance multiplicity	BO4	0,67	10,09	0,55	0,598	0,817
		0,81	13,49				
		BO5	0,76	-	0,42		
		BO6	0,77	11,22	0,41		
	Organizational stewardship	BO7	0,79	11,36	0,38	0,564	0,795
		0,85	13,79				
		BO8	0,76	-	0,42		
		BO9	0,79	11,38	0,38		
	Business integrity	BO10	0,70	10,67	0,51	0,551	0,824
		0,92	11,86				
		BO11	0,62	-	0,62		
	Customer responsiveness	BO12	0,66	9,22	0,56	0,621	0,830
		0,77	12,36				
		BO13	0,73	-	0,47		
		BO14	0,83	11,09	0,31		
Employee centricism	BO15	0,80	10,91	0,36	0,543	0,750	
	0,89	13,96					
	BO16	0,73	-	0,47			
	BO17	0,64	10,05	0,59			
	BO18	0,62	9,89	0,62			
Company Capability	Distribution capability	BO19	0,64	10,10	0,59	0,597	0,861
		0,73	9,73				
	Human resources capability	CC1	0,64	-	0,59	0,540	0,795
		CC2	0,78	8,36	0,39		
		0,95	14,16	0,10			
		CC3	0,69	-	0,52		
		CC4	0,67	10,66	0,55		
		CC5	0,73	11,26	0,47		
CC6	0,67	10,73	0,55				
CC7	0,54	9,21	0,71				

Variabel	Dimensi	Indikator	factor loading	t value	Error Variance (e)	Average Variance Extracted (AVE)	Construct Reliability (CR)
Business strategy	Management Information System capability		0,94	12,60		0,547	0,730
		CC8	0,63	-	0,60		
		CC9	0,73	10,35	0,47		
	Marketing capability	CC10	0,70	10,14	0,51		
			0,91	15,42		0,572	0,816
		CC11	0,77	-	0,41		
		CC12	0,72	11,79	0,48		
		CC13	0,60	10,34	0,64		
		CC14	0,61	10,45	0,63		
	Managemetnt capability	CC15	0,72	11,76	0,48		
			0,98	13,94		0,545	0,710
		CC16	0,66	-	0,56		
	Research and development capability	CC17	0,72	11,03	0,48		
		CC18	0,64	10,30	0,59		
			0,87	10,88		0,546	0,721
		CC19	0,58	-	0,66		
		CC20	0,67	8,97	0,55		
	Competitive strategy	CC21	0,77	9,49	0,41		
			0,95	12,17		0,563	0,865
		BS1	0,74	-	0,45		
		BS2	0,76	11,74	0,42		
BS3		0,76	11,72	0,42			
BS4		0,74	11,58	0,45			
BS5		0,75	11,67	0,44			
Cooperative strategy			0,90	13,28		0,571	0,801
		BS6	0,80	-	0,36		
		BS7	0,74	11,52	0,45		
	BS8	0,73	11,35	0,47			
Company performance sustainabil	Growth on revenue	CPS1	0,78	-	0,39	0,581	0,852
	Growth on profit	CPS2	0,66	9,82	0,56		
	Number of employees	CPS3	0,82	10,97	0,33		
	Number of customer	CPS4	0,78	10,77	0,39		

The estimated factor loading to asses Convergent validity and its significance (t-value) were evaluated and factor loadings exceed the 0.50 and the t-values of all indicators greater than 1.96. Discriminant validity with AVE for each construct was always greater than 0.50. Meaning variance along with the others construction (Fornell & Larcker, 1981). Overall, the measures used in the study have adequate reliability and validity. Table 1 shows the standard loading factor, t-value, AVE and the overall model fit index.

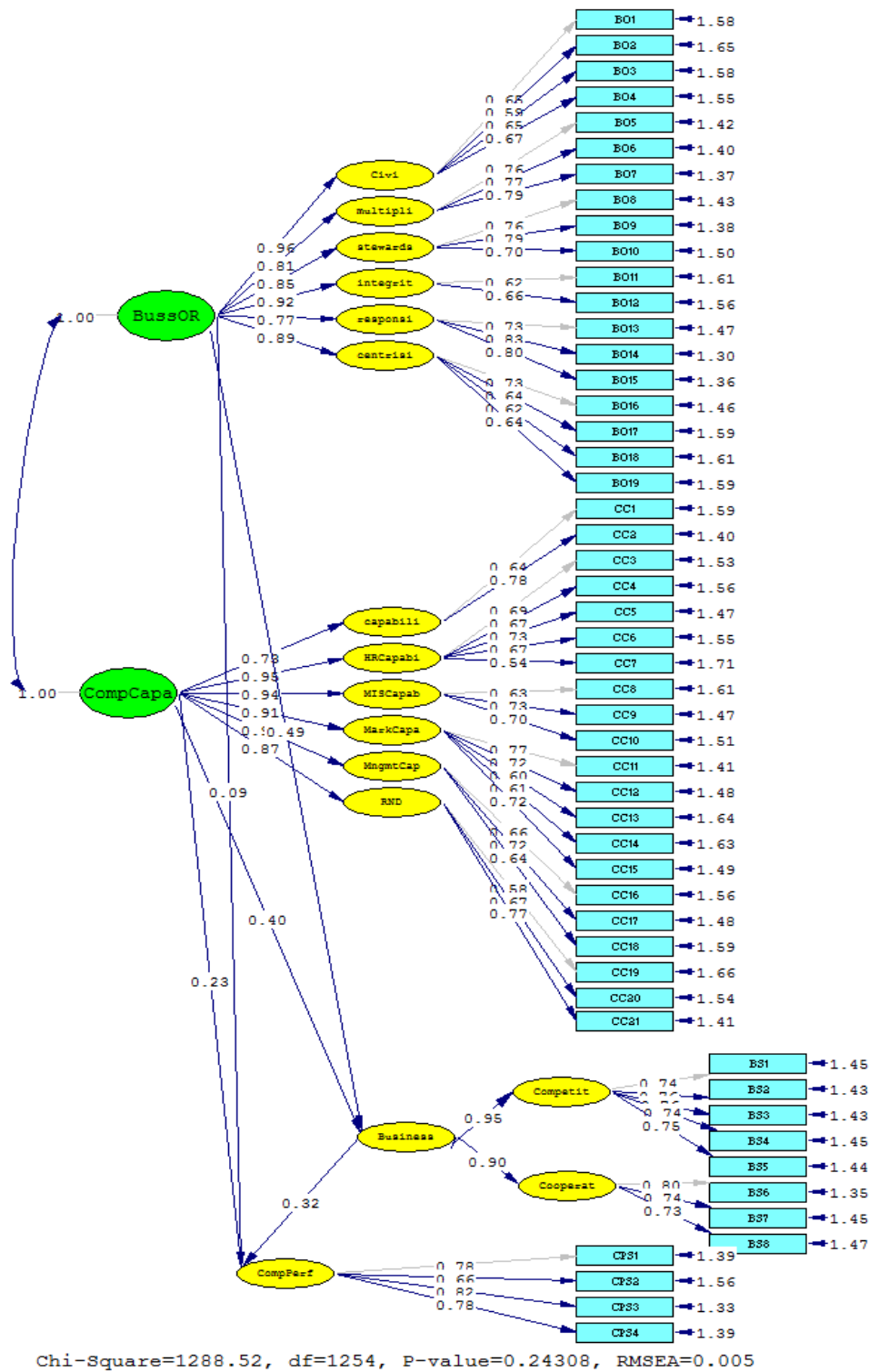


Figure 1. Research result

The structural model yields a χ^2 of 1288.52 (df= 1254, p-value > .05), other fit indicators (RMSEA = .005; GFI = 0.95; NFI = 0.94; NNFI = 0.99; CFI = 0.99; IFI = 0.99) were used to assess the model fit (Diamantopoulos & Siguaw, 2000; Hair et al., 2010). So that all the measurements above meet the requirements for a fit model.

Hypothesis Testing

Hypothesis testing result is shown in the following table:

Table 2 Hypothesis Testing

	Structural Model	Path Coeff.	Std. Error	t-value	R2	Conclusion
1	Business orientation-> Business strategy	0.49	0.048	10.09	0.29	Significant
2	Company Capability-> Business strategy	0.40	0.044	9.13	0.20	Significant
3	Business orientation-> Company performance sustainability	0.095	0.060	1.89	0.01	Not Significant
4	Company Capability-> Company performance sustainability	0.23	0.055	4.26	0.06	Significant
5	Business strategy -> Company performance sustainability	0.32	0.076	4.22	0.10	Significant
6	Business orientation-> Business strategy -> Company performance sustainability	0.157	0.040	3.89*	0.157	Significant
7	Company Capability-> Business strategy -> Company performance sustainability	0.128	0.034	3.82*	0.128	Significant

*sobel test

Based on the table 2 above, the first hypothesis that tests whether business orientation has a significant effect on business strategy is accepted. The test results show that business orientation has positive and significant direct effect on business strategy with t value > 1.96 and R2 =29%. Business actors in the fashion commodity creative industry who have a business orientation that focuses on Civic Mindedness, Performance Multiplicity, Organizational Stewardship, Business Integrity, Customer Responsiveness, Employee Centrism, can develop the right business strategy in order to win the competition in the industry. Among several dimensions of business orientation, the dimension that contributes the highest is civic mindedness.

Civic mindedness is a manifestation of universal values relating to the environment in which the business is located. It reflects a business manager's belief that his or her business exists as part of the overall community in which it operates, and as such should strive to be a responsible, valued, and contributing corporate citizen in that community (Runyan & Covin, 2019). In the creative industry sector of fashion commodities, which are mostly micro-enterprises, the business manager's conviction and ability to be accountable is the lifeblood of business strategy formulation. Business strategy is largely dependent on the business owner or entrepreneur, so the progress of the business strategy depends on the beliefs and efforts that the entrepreneur implements in running his business.

The second hypothesis tests whether company capability affects business strategy. The test results show that the hypothesis is accepted where Company Capability has a positive and significant direct effect on Business strategy with t value> 1.96 and R2 = 20%. Fashion creative industry business actors who have Distribution capability, Human resources capability, Management information system, marketing capability, Management capability, and Research and development capability, are able to formulate the right business strategy. These various capabilities direct the organization to choose which strategies need to be prioritized. Among these dimensions, management capability is the aspect that makes the biggest contribution in supporting the business strategy of the fashion commodity industry in West Java. This means that the industry requires organized business management, a system that manages coordination between departments, and the ability to build collaboration between departments within the company. This is because these aspects make the highest contribution to the business strategy of the fashion commodity creative industry in West Java.

The third hypothesis tested whether business orientation has a significant effect on company performance sustainability. The test results reveal that the hypothesis is rejected where business orientation has no significant direct effect on company performance sustainability with t value < 1.96 and $R^2 = 1\%$. This means that company performance sustainability in the fashion commodity industry in West Java does not directly depend on its business orientation. There are other factors besides business orientation that can have an impact on company performance sustainability.

The fourth hypothesis examines the effect of Company Capability on Company performance sustainability. The test results show that the hypothesis is accepted where Company Capability has positive and significant direct effect on Company performance sustainability with t value > 1.96 and $R^2 = 6\%$. Fashion creative industry business actors who have Distribution capability, Human resources capability, Management information system, marketing capability, Management capability, and Research and development capability, get Company performance sustainability. These capabilities direct the organization to manage its resources in order to achieve the targets of growth on revenue, growth on profit, increase in the number of employees, and increase in the number of customers, which causes the business to continue to be sustainable. Management capability, which is manifested in organized business management, a system that manages coordination between parts, and the ability to build collaboration between parts of the company, is the most contributing factor in achieving company performance sustainability in the creative industry of fashion commodities in West Java.

The fifth hypothesis tested the effect of business strategy on company performance sustainability. The test results show that the hypothesis is accepted where business strategy has positive and significant direct effect on company performance sustainability with t value > 1.96 and $R^2 = 10\%$. Business strategies that include competitive strategies and cooperative strategies bring businesses to be able to compete and cooperate with various partners in an effort to achieve sustainable company performance. Competitive strategy has a greater influence than cooperative strategy in contributing to Company performance sustainability. This is because the fashion industry in West Java is relatively competitive with many competitors, so that business actors must really be able to set competitive prices, highlight differentiation, and respond quickly to customer needs so that they can outperform their competitors. In addition, businesses also need to target market segments that have not been served by competitors and serve certain market segments that have not been targeted by competitors, so that they can expand their business, and anticipate market saturation of certain products. The ability to carry out these various strategies contributes to the sustainability of their business.

The sixth hypothesis tests whether business orientation has a significant effect on business performance sustainability through business strategy. The test results show that the hypothesis is accepted. This means that business orientation has positive and significant effect on Company performance sustainability through business strategy with sobel test and t value > 1.96 and $R^2 = 15.7\%$. A good business orientation is able to lead to the formation of the right business strategy, which ultimately contributes to the achievement of business performance sustainability.

The seventh hypothesis tests whether company capability has a significant effect on business performance sustainability through business strategy. The test results show that the hypothesis is accepted, which means that company capability has positive and significant effect on company performance sustainability through business strategy with sobel test and t value > 1.96 and $R^2 = 12.8\%$. A well-developed company capability encourages businesses to build the right business strategy, which in turn contributes to the achievement of business performance sustainability.

Looking at the hypothesis testing results above, it is revealed that directly, business strategy has the highest influence (10%) on the achievement of company performance sustainability. However, its influence will be greater when supported by the right business orientation (15.7%) and company capability (12.8%). This shows the importance of formulating the right business strategy for fashion commodity creative industry sector businesses in West Java to achieve company performance sustainability. The development of the business strategy especially needs to be supported by the existence of business orientation and the development of company capability, so that they are able to outperform their competitors in the industry.

CONCLUSION

The results of this study reveal that: business orientation and company capability, have positive and significant direct effect on business strategy; business orientation has no significant direct effect on company performance sustainability; company capability has positive and significant direct effect on company performance sustainability; business strategy has positive and significant direct effect on company performance sustainability; business orientation and company capability have positive and significant effect on company performance sustainability through business strategy. From the overall results of hypothesis testing, it is revealed that business strategy has the highest influence on the achievement of company performance sustainability. However, its influence will be greater when supported by the right business orientation and company capability. This shows the importance of formulating the right business strategy for fashion commodity creative industry sector businesses in West Java to achieve company performance sustainability. The development of the business strategy especially needs to be supported by business orientation and company capability, which makes it superior to its competitors.

The results of this study provide theoretical implications in expanding the importance of business strategy for improving company performance. The results of this study provide managerial implications to the creative industry players of the fashion commodity under business strategies, especially competitive strategies, need to be formulated by improving business orientation and increasing company capabilities.

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