THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

The Role of Business Strategy in Mediating the Influence of Management Capabilities on Business Performance

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Abstract:
The ever-changing business environment, competition of similar industries and the presence of new entrant industries and exacerbated by the pandemic condition COVID 19 is very demanding for companies in improving management capabilities and the application of good business strategies to survive and achieve competitive advantages of the company. This research was conducted to determine the influence of management capabilities by focusing on the implementation of strategies on IMK business performance. This research was conducted in micro small business (IMK) food industry in Gorontalo who is also the owner and manager of small and medium embroidery industry at PT Jawa Timur.
The method used in this study is a survey method with a research population is a businessman / owner of IMK with a sample number of 377 people the method of sampling research is Non-Probability with purposive sampling techniques. The research uses quantitative approach with PLS (Partial Least Square) analysis tool.
The results showed that 1). Management capabilities have a significant impact on business strategy and directly affect business performance; 2). Business strategy has proven to have a significant positive effect in mediating the influence of management capabilities on business performance

Keywords: Management capabilities, business strategy and business performance

1. Introduction

Nitisusastro (2009), there are four factors that cause most failures experienced by SMEs in Indonesia namely (1). Weak management skills. Businesses often leave entrepreneurship with a supply of basic resources. The unpreparedness is not only in terms of capital funds and or other equipment, but also unprepared in the mastery of competence in the field of business and small management skills. (2). Failure rate and its causes. The small industry failure rate of 44% is due to a lack of competence in the business world. What is meant by the lack of competence here includes a lack of mastery about the field of business carried out and the ability to manage business activities both physically. The second cause is due to weak management capabilities that occupy a percentage of 17%. Understanding the weak management skills here is the mastery of knowledge and experience in terms of managing human resources and other resources. The third source of failure is caused by an inequality of experience. (3). Resource limitations. Limited resources for small and medium-sized Indusri are very common. These limitations are not only limited to funds, physical equipment but also in terms of market-related information as well as consumer satisfaction. With these three factors will have an impact on the decrease in productivity and performance for the small industry itself.

But on the other hand, it is worth noting in trying to establish a business certainly expects the success of the strategy in the business. In order to achieve a success, there needs to be a good business strategy to be implemented. Batista, (2016) suggested that SMEs can generate a large profit, so the identification of a competitive business strategy should be done. In addition, the application of business strategies needs to be adjusted to the characteristics they have because if wrong in the selection and application will get potential losses (Nihat, 2015: 664).

Uchegbulam (2015: 329) suggested that SMEs are able to survive in competition, so they should implement the most competitive strategy that is generic porter strategy. Generic strategies are the most widely applied strategies as a theoretical basis in identifying strategic groups in the industry. Porter, (1980: 32) asserts that a business strategy is an appropriate strategy applied in SMEs in uncertain or dynamic competitive environment conditions to outperform competitors in the industry.

In general, there are still many problems faced such as from the aspect of legality (lack of technical implementation instructions for operational activities and quality control of product work, licensing related to P-IRT, BPPOM and halal labeling and other licensing). Aspects of the market (often inconsistent with the terms of orders / orders that result in claims or rejected products, packaging and label products that are less attractive, lack of market access /

business information which refers only to the intuition and ambition of the manager, weak in promotion). Aspects of human resources (lack of interest in labor to work in the IKM sector, less skilled labor). Aspects of production (scarcity of raw materials, increased prices of raw materials). Managerial aspects (Disproportionate division of work, indifference of managers to managerial principles, planning and control programs do not exist). Financial aspects (too many costs out of control, working capital difficulties, and debt risk), as well as aspects of the business environment that often change (the inclusion of new entrants, competition among companies in the industry, as well as global changes with the pandemic covid 19) which certainly impacts the performance of SMEs in Gorontalo Province.

Based on the above background, the purpose of this study can be described as follows:
- To partially test and analyze the influence of management capabilities, business strategies on business performance conducted by IKM food in Gorontalo Province.
- To test and analyze the influence of management capabilities on business performance through business strategy?

2. Library Review

In particular, some researchers state that, in order for managers to perform managerial tasks optimally, they must have specialized knowledge of companies that are part of the past gained through learning by doing (Barney, 1991; Reed & DeFillippi, 1990).   However, managerial abilities are inspired in team settings rather than one person, where a broad unity of complementary skills such as management teams as technical and human skills, is necessary to achieve excellence in a particular competitive market (Barney, 1991, Mahoney, 1995).

Various literature describes management capabilities. In this study is more devoted to management capabilities with indicators developed from latif research (2002: 379), Suci (2008: 48) namely:
- Verbal communication
- Managing time and stress
- Managing individual decisions
- Recognizing, establishing and solving problems (*recognizing, defining, and solving problems)*
- Motivating and influencing others
- Delegating
- Building a work team, (Team building)
- Manage conflicts (managing conflicts)

Porter (1980) A business strategy is a combination of the end (objectives) championed by the company with the tools (policies) in which the company strives to get there. In measuring business strategy variables can be done with Porter theory (1980) with indicators that can be used: 1. *Differentiation*; 2. *Low Cost* 3. *Focus Strategy*

Jauch and Glueck (1988) explain performance is referring to the level of achievement or achievement of the company in a certain period of time. Based on previous theories, this study tries to elaborate several indicators developed by (Lee and Tsang, 2001) and Cho and Lee (2018) and Iyibildiren and Karasioglu (2018:5) in measuring business performance using financial performance indicators (sales growth, profit growth, and asset growth) and non-financial performance (employee growth rate and potential marketing/customer growth and customer perspective).

3. Conceptual Framework and Research Hypothesis

For the purposes of research, conceptual frameworks and research hypotheses are created in guiding research studies. In accordance with the description on the background of the problem, the basis of the theory and relevant research, the conceptual framework of research is prepared as follows.
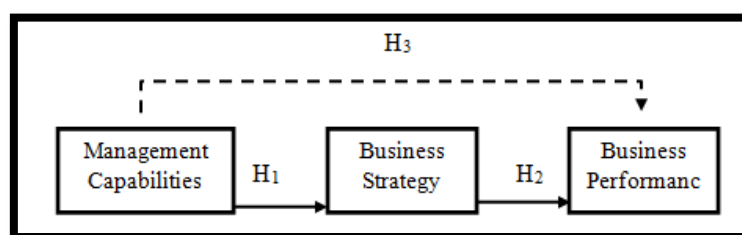

Figure 1
Source: Researcher-processed Study

Based on the conceptual framework above, hypothesized formulated as follows:
- H1: It is suspected that management capabilities have a positive effect on business performance.
- H2: It is suspected that business strategy has a positive effect on business performance.
- H3: It is suspected that management capability positively affects performance through business strategy

4. Research Methods

The population in this study is the entire small micro industry (IMK) processed food owned and managed by its own owners who are still actively operating and registered in the Koperindag office of Gorontalo Province, as a research area, namely in Gorontalo City, Gorontalo Regency, Bone Bolango Regency, Boalemo Regency, Pohuwato Regency and North Gorontalo Regency 6,542 business units as in table 1

No.	Regency/City	Number of Business Units
1.	Gorontalo City	1.852
2.	Regency of Gorontalo	1.194
3.	Regency of Bone Bolango	1.380
4	Regency of Gorontalo Utara	384
5	Regency of Boalemo	318
6	Regency of Pohuwato	1.414
	Total	6.542

Table 1: Number of Food IMK Gorontalo Province
Source: Koperindag Gorontalo Province: 2020

The number of samples taken in the study was based on Slovin's opinion in Umar (1998) using the formula:

$$n = \frac{N}{1 + N.(e)^2}$$

Description :

n   = Number of samples

N   = Population

e   = Percentage of inaccuracy allowance (precision) due to tolerant sampling errors (5%).

Based on the above formula, the sample size obtained is :

$$\frac{6.542}{1 + (6.542).(0.05)^2}$$

= 376.95 = 377 Respond

While the determination of the proportion of samples is done based on proportionate stratified random sampling technique (Sugiyono, 2013) which is random sampling with a proposional amount for each strata. Strata used is based on the district / city level with a sample size quota of 377 respondents. Data collection in this study using questionnaires and interviews to businesses / FOOD IMK in Gorontalo. The Analysis method used in this study was Partial Least Square (PLS)

5. Research Results

5.1. Direct &indirect Hypothesis Testing

The following are presented the test results of the Direct Influence hypothesis and indirect influence as presented in the following table:

No	Exogenous	Endogen	Hypothesis	P-Value	Decision
1	Ability Management	Business Performance	Positive influence and significant	0.006	H1 Received
2	Business Strategy	Business Performance	Positive influence and significant	0.000	H2 Received

Table 2: Direct Influence Hypothesis Test Results

Based on the table of testing hypotheses direct influence above, it can be described the results of the analysis as follows:

5.1.1. Effect of Management Capabilities on Business Performance

T-statistic value influence management capability on business performance obtained results of 2,773 with a probability value (P-value) of 0.006. The P-value is less than the probability value of 0.05 (0.006 < 0.05). These results prove that management capabilities have a significant impact on business performance. Thus, empirically rejecting the hypothesis (H0) and accepting the hypothesis (H1), that the better management capabilities applied by food IMK actors in Gorontalo Province will improve the business performance of IMK.

5.1.2. Effect of Business Strategy on Business Performance

T-statistic value influence of business strategy on business performance obtained a result of 5,626 with a probability value (P-value) of 0.000. The P-value is less than the probability value of 0.05 (0.000 < 0.05). These results prove that business strategies have a significant impact on business performance. Thus, empirically rejecting the hypothesis (H0) and accepting the hypothesis (H2), that the better the implementation of business strategies carried out by food IMK actors in Gorontalo Province will improve the business performance of IMK.

No	Exogenous	Mediation	Endogen	Coefficient Line	t-statistics $t_{kritis} = 1,960$	P-Value	Decision
1	Ability Management	Business Strategy	Business Performance	0.053	2.565	0.011	H3 Received

Table. 2 Direct Influence Hypothesis Test Results

Based on the test table of indirect influence hypothesis above, it can be explained that the analysis results show that the coefficient of indirect influence path management capability to business performance through business strategy obtained a value of 0.053. The t-statistic value influences the indirect influence of the management capability variable of 2,565 with a probability value (P-value) of 0.011. The P-value is smaller than the probability value of 0.05 (0.011 < 0.05), it proves that management capability has a significant positive effect on business performance through the mediation of business strategies in the Food Micro Industry (IMK) in Gorontalo Province. Thus, H3 is accepted which means that the better the management capability of food IMK actors will improve business performance through the implementation of a good business strategy.

6. Discussion of Research Results

6.1. Influence of Management Capability on Business Performance in Small Micro Industry (IMK) Food in Gorontalo Province

Based on the test results and empirical facts show that management capabilities have a significant positive effect on business performance, thus the test results prove the first hypothesis that states if the better management capability then the business performance will be more accepted. These results show that food IMK actors who have knowledge and good management skills will have and improve their business performance well. Based on the results of the analysis obtained that the amount of coefficient (R-square) obtained from the model of influence of variable management capabilities to business strategy variables of 0.143 or 14.3%

The results of this study were obtained that the measurement of variable management capabilities is more dominant reflected by the ability to manage time and pressure reflected through the attitude of conducting production according to planning and providing consumer orders and using the company's resources effectively and efficiently. However, if observed in its implementation that in realizing management capabilities of course need to be supported by other management capability indicators. Where the measurement results of all indicators provide good category assessment results with an average score percentage score greater than 80.00%. This is supported by descriptive results of variable assessment of management capabilities responded by respondents for each district / city all have an assessment in the good category. Thus, it can be understood that the role of management capabilities owned by every food IMK actor is an important action in running the organization in achieving good business performance.

6.2. Effect of Business Strategy on Business Performance in Small Micro Industry (IMK) Food in Gorontalo Province

The results of the analysis of hypothesis testing obtained that the business strategy has a positive and significant effect on the business performance of gorontalo food IKM. The value of the influence of coefficients (R-square) obtained from the variable model of business strategy to business performance variables is 37.5%. This can be interpreted that the better the implementation of business strategies carried out by food IMK actors in Gorontalo Province, the business performance is expected to increase. This finding also reflects that the application of business strategy reflected through the implementation of overall cost leadership strategy, differentiation strategy and focus strategy can directly improve competitiveness and business performance in Gorontalo food IKM, especially initiating and facing the business environment and market conditions that are always turbulence.

The application of business strategy intended in this research is the application of strategy through overall cost leadership, application of differentiation strategy and focus strategy. The implementation of overall cost leadership strategy is carried out through the sale of products at lower prices than competitors, procurement of raw materials at low prices, suppressing the cost of production and reducing the cost of transportation. The implementation of differentiation strategies is carried out through the provision of high-quality products, providing different products with competitors, developing new products. The implementation of focus strategy is done through providing products to meet specific customers, selling / marketing products at a specific location and establishing a specific product customer segment. Overall, the percentage of achievement scores for business strategy variables is 78.17% which is in the "Good Enough" category. This condition is realized by most respondent actors caused and influenced by changes in the business environment, especially in the condition of pandemic covid-19 which until now has not shown a better improvement.

The role of entrepreneurial orientation towards the business performance of IMK gorontalo food provides an overview of the need for IMK actors to understand the behavior and actions of entrepreneurial orientation, because this is directly related to the performance of its business. The readiness of Gorontalo food IMK to improve its business performance is expected to grow and be able to act as a safeguard and buffer the regional economy and will ultimately have an impact on national economic development

6.3. Influence of Management Capability on Business Performance through Business Strategy in Small Micro Industry (IMK) Food in Gorontalo Province

The results of the analysis showed that the coefficient of the path influenced management's ability to business performance through business strategy obtained positive and significant value. These results show that through the direct influence of management capabilities on significant positive business strategies, management's ability to positive and significant business performance and management capabilities through the role of mediation of business strategies on performance also showed positive and significant. This shows that the role of business strategy is able to explain management's ability to business performance. Thus, it can be interpreted that the business strategy is a variable of mediation or intervening.

The results of this study in addition to providing empirical evidence also provide new findings that management capabilities are able to contribute well to the business performance of IMK Pangan, through the implementation of a good business strategy. Thus, the application of management skills reflected through the ability to manage conflicts, build work teams, the ability to know, establish and solve problems, delegate, organize decisions, motivate and influence others, manage time and pressure and verbal communication. The role of business strategy is reflected through overall cost leadership strategy, differentiation strategy and focus strategy is able to explain the improvement in food IKM business performance reflected by profit sales growth, sales growth, assets growth, customer perspective, market growth and employee growth.

Empirical proof is reinforced by the characteristics of respondents (IMK actors) which are mostly seen from the last level of education (SMU)/ equivalent of 52%, then supported by the main work carried out focusing on IMK / entrepreneur itself of 78.8% is the initial capital in running the business. This indicates that through an adequate level of education is also supported by various management capacity building trainings that have been followed by every IMK business is the basis for them in understanding and carrying out management knowledge in their business. Related to the work they are involved with focusing on their IMK efforts will lead businesses in learning every development of management science and climate change competition that is not conducive so that it can survive in business

7. Research Contributions

Some theoretical and practical contributions that can be formulated include:

- That all variables involved in this study have a positive and significant direct and indirect influence on business performance.
- In proving the hypothesis there are three paths that have a direct influence, namely: management capabilities directly affect business performance and business strategy, as well as business strategy on business performance
- In achieving maximum business performance is not enough only with the application of management capabilities, but it can also be ensured through the implementation of business strategies can improve business performance
- In the development of research modeling using variables, indicators and items questions / statements as follows: management capabilities with 8 indicators and 42 question items; business strategy with 3 indicators and 16 statement items: business performance with 6 indicators with 18 question items
- Through research is expected to provide understanding and knowledge for gorontalo food IKM and the government in improving competitive advantage and business performance, through management capabilities and application of business strategies.

8. Conclusion

- The implementation of good management capabilities is able to improve the implementation of business strategies and improve business performance. Well-applied management capabilities have an important role in supporting the implementation of management capabilities, so as to contribute to the improvement / implementation of business strategies and improve the business performance of micro and small food industries in Gorontalo Province.
- The implementation of a good business strategy is able to improve business performance. The implementation of a good strategy has an important role in supporting the realization of business strategy. Thus, this can contribute to the improvement of the business performance of small micro food industries in Gorontalo
- The existence of small micro industry (IMK) food in Gorontalo Province is related to the influence of management capabilities on business performance mediated by the implementation of business strategy

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