

## Local Culture and Rules as Competitive Strategic Predictor and the Impact on Real Estate Industry Performance in Indonesia

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### Abstract

Resources and operational environment of a company are known to have important role in its competitive strategic formulation. These three variables also found influencing business performance. However, little is known about the influence of an understanding toward local culture and rules where a company operated on competitive strategic formulation and the impact on business performance. This research is aimed to find out about the influence of an understanding and implementation of Tri Hita Karana as one of intangible strategic resources and the influence of local rules either in form of regional regulation or customary rules on competitive strategic formulation of real estate company operated in Indonesia, which is in Bali Province. In order to harmonize company with its environment through three dimensions based on Hindu philosophy (*parahyangan* as the manifestation of God dimension, *pawongan* as the manifestation of humanity dimension and *palemahan* as the manifestation of natural environment dimension), it is proven that understanding and implementation of Tri Hita Kirana have the highest influence from seven strategic resources formulation of a company. In addition, local rules also proven to significantly influence environmental dynamic faced by real estate companies operated in Bali. The research verified that resources owned by and environmental dynamics of a company have significant influence on competitive strategic that further influence business performance measured using Balance Score Card method.

### Keywords

Strategic resources, environmental dynamics, RBV, local culture and rules

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## Introduction

From an industrial structure point of view, Porter (1980) has suggested a framework to analyze industrial performance and the formulation of business strategy. Porter defined market attractiveness as an industrial profitability measure. An industry is said to have no attractiveness if the combination of five powers bring decline to company profitability.

Along with globalization, the competitive advantage of a company also determined by its ability to adapt to its external environmental dynamic. External environment can be seen as a very dynamic game field having potential to create either opportunities or threats for a company (Swamidass and Newel, 1987).

The influence of environmental complexity on business strategy design has gained attention from researchers. Keats and Hitt (1988) defined environmental complexity as heterogeneity level and concentration of environmental elements on competitive strategy formulation of a company. Environmental complexity is seen on market structure of an industry. Hoskisson and Hitt (1990) states that in a perfect competition market, characterized by high competition levels among companies, competitive strategy of product or service diversification has moderate influence on the relationship between environment and company business performance. On the contrary, in a less competitive market structure, the environmental variable moderates the relationship between strategy and performance.

Ward et al. (1995) also conducted a study on the relationship between environment and company's operational strategy. The study was conducted on 319 manufacturing companies in Singapore. One important result of the study shows

that companies that are able to respond properly to their environmental conditions with their operational strategy will show better performance compare to companies that respond improperly.

The five forces model theory stated by Porter (1980) about competitive advantage of a company is built with assumptions that: (1) companies grouped in the same type of industry have identical strategic resources, and (2) strategic resources owned by a company are very mobile, which means that they can be rented relatively easy in production factor market. Then, Barney (1991) developed a theory known as Resources-based View Model or RBV model.

Referring to the significant influence of environment on a company's strategy and performance, it is important for property companies in the Bali Province to pay attention to the dynamic and complexity of environment they are facing in their operational. This is especially if it is related to the existence of regional regulation and customary rules which might be different than rules in other regions in Indonesia. Based on the results of studies of previous research, there are influence between strategic resources, environmental dynamic, competitive strategy and business performance.

On the strategic resources concept, however, only few researchers have tried to study the relationship of the understanding of local community culture as one of intangible resources and company's strategy design and business performance. Since culture is one of the dominant factors characterizing Balinese activities, there is an understanding of local culture of Tri Hita Karana (THK) and it should be made as one of a company's strategy resources. THK culture is one of the Hindu philosophy regulating the

synchronization and harmonization of three Hindu dimension, God (*parahyangan*), humanity (*pawongan*), and environment (*palemahan*).

## Literature Review

*The Five Forces Model*, built by Potter (1980) and developed using *Structure – Conduct – Performance (SCP Paradigm)*, states that industrial structure will guide business performance. The first force, according to Potter, is market with high attractiveness will invite new companies entrance. Profitability of old companies (incumbent) will decrease only if they are able to hamper the entrance of new companies. The second force is customer's bargaining power that also influences company profitability. When external resources used by a company are hard to replace, the bargaining power of the supplier as the third force also influences the company's bargaining power. The forth force is the increase of substitute products or services availability, which will increase the tendency of customer to move to substitute products or services. Later, this forth force will influence competitiveness, which is the fifth force determining the profitability of a company.

Research conducted by Edelman et al. (2002) on small companies in the US showed that separately, resources and strategy were unable to increase business performance. In order to increase performance, the designed strategy must be adjusted to resources owned. In general, strategy related to the enhancement of quality and customer service combined with the availability of human resources and organizational resources will be able to enhance business performance, empirically. Internal conformity between resources and strategy, according to Edelman et al (2002), is called the

congruence between resources and competitive strategic of a company. Ainuddin et al (2007) added that a unique and irreplaceable attribute of resources owned by a company are vital resources to win the competition.

In addition to resources and competitive strategy, environment also influences business performance. Jauch and Gluek (1989:96) state that environment as a collection of factors outside the company and operational environment faced by a company that can either enhance or weaken business performance. From a competitive strategy design point of view, Sapp and Smith (1994:43) argue that competitive strategy should be based on accurate observation on external environment and internal environment analysis of a company.

Indonesian constitutional system gives space for regional governments to make local rules based on its regional condition. In Bali, the provincial government makes a regional regulation (PERDA) No. 16, 2009 on the height of building. Moreover, the customary village in Bali, which is a social institution of community in the region, also has rules about land utility and physical development. Customary village (*desa adat*) is a unit of community's customary law in the Bali Province having heredity tradition and intercourse manners of Hindu community in a bonding of *kahyangan tiga* or *kahyangan desa* having certain territories and its own asset and it has a right to manage its own organization (Windia, 2007). Therefore, local rules among villages can be different based on the situation and condition of each territory.

Research result conducted by Porter (1991), Hashim et al. (2001), and Nganga (2011) verified that government regulation has significant influence on

business performance on the operational dimension of a company. Thus, it can be assumed that regional regulation of the Bali government and local rules of each customary village has the potential to influence the performance of companies operated in Bali.

Some research in the Bali Province involved the cultural concept of Tri Hita Karana (THK) as one of research variables, such as Ashrama (2007), Windia (2007) and Riana (2010). THK culture is a local culture of Bali that stresses harmonization and synchronization of the three dimensions in Hinduism, which are *parahyangan* (God dimension), *pawongan* (humanity dimension), and *palemahan* (environmental dimension). Their research proved that THK culture characterizing organizational culture of companies operated in Bali have positive influences on business performance.

One effort to build the competitive advantage of a company is through resource-based business management because it is able to create special competence for a company (Masakowski, 1993) and able to give strategic choices to create competitive advantage (Barney, 1991; Grant, 1997). The development of a company's competitive advantage usually is conducted by adopting RBV theory (Rivard et al, 2005). Strategic resources are able to create sustainable competitive advantage if they have valuable, scarce, inimitable, and irreplaceable attributes producing performance, hence the company are able to surpass competitors (Dierickx and Coll, 1989; Barney, 1991; Amit and Schoemaker, 1993; Peteraf, 1993). Therefore, identification, development and preservation of resources as core competence are important for a company in order to create sustainable competitive advantage so it will create

superior performance (Barney, 1995).

Meanwhile, a study on business external environment has conceptualized environmental dynamic as business environment that are hard to predict (Ward et al, 1995). Environmental dynamic is characterized with a fast and continue environmental changing on market demand, competitor, technology and regulation sides, which sometimes lead to inaccurate or unavailable information (Bourgois and Eitsenthard, 1988). Regarding this, a company needs to be motivated to have entrepreneurial behavior (Keats et al, 1988) characterized by high innovation levels and risk taking behavior (Covin and Slevin, 1989). A direct link between external environment and business performance is important to be studied because external environment is one of key factors for the sustainability and success of a company (Lumpkin and Dess, 1996).

## Methodology

The sample for this research are the members of DPD REI of the Bali region registered as active members. REI members are categorized as an active member of a period if they are administratively active and have paid all member contributions on the period. In 2012, DPD REI of the Bali region recorded active members of 66 companies. Because of the small number of population of REI members, all active members were selected as research objects. Top managers from each research sample group were chosen as information sources as managers have better experience on the operational and the strategy of the company compared with other employees. The demographic condition of research respondents can be seen in the following table.

**Table 1. Demographic Characteristic of Respondents**

No	Characteristic	Classification	Percentage
1	Sex	Male	96,4
		Female	3,6
2	Religion	Hindu	76,8
		Islam	14,3
		Protestant and Catholic	8,9
3	Education Level	Senior High School	7,1
		Bachelor Degree	60,7
		Master Degree	32,1

Source: Primary data (2012)

In this research four variables were observed: strategic resources ( $X_1$ ), environmental dynamic ( $X_2$ ), competitive strategy ( $Y$ ), and business performance ( $Z$ ).  $X_1$  and  $X_2$  are exogenous variables and  $Z$  is endogenous variable.  $Y$  variable has a double role as an endogenous variable if it functioned with  $X_1$  and  $X_2$  and as an exogenous variable if it functioned with  $Z$ . Since all four variables are latent variables that can be measured only with a manifest variable, the operational of those variables are explained below:

- Strategic resources ( $X_1$ ) were measured through six dimensions: the availability of physical resources ( $X_{11}$ ), the attainment of reputation resource ( $X_{12}$ ), the management of organizational resources ( $X_{13}$ ), the management of financial resources ( $X_{14}$ ), the management of human resources ( $X_{15}$ ), and the mastery of technological resources ( $X_{16}$ ). These dimensions are referred from Dollinger (1999) and Grant (1999). Dimension of company understanding on local culture of Tri Hita Karana is a new dimension introduced as  $X_1$  constituent based on Windia (2007) and Riana (2010);
- Environmental dynamic ( $X_2$ ) is operated through three dimensions: environmental uncertainty ( $X_{21}$ ),

competition intensity ( $X_{22}$ ), and local rules ( $X_{23}$ ). The first two of the dimensions are based on Porter (1980) and the third dimension was referred from Windia (2007)

- Competitive strategy ( $Y$ ) is operated through three dimensions of generic competitive strategy of Porter (1980): cost leadership strategy ( $Y_1$ ), focus strategy ( $Y_2$ ), and differential strategy ( $Y_3$ );
- Business performance ( $Z$ ) was operated using *Balance Score Card* from Kaplan and Norton (1996) observed through four perspectives: financial ( $Z_1$ ), customer satisfaction ( $Z_2$ ), internal business process ( $Z_3$ ), and growth and learning ( $Z_4$ ).

A questionnaire was arranged to get the information needed. Each item was measured using a Likert scale with five choices with 1 shows the most negative perception or opinion while 5 shows the most positive perception or opinion. Of 66 questionnaires sent to all active members of REI, 56 questionnaires were completed and ready to analyze. Thus, the success rate of questionnaire distribution was 84.85 percent.

Due to limited data availability, analysis was conducted using partial least square (PLS) introduced by Herman Wold



(Tenenhaus, 2008). Computation process was conducted using SmartPLS 2.0 M3 software (Ringle et al, 2005).

## Findings and Discussion

From 19 sub-concepts arranging four latent variables researched, 18 (eighteen) sub-concepts have coefficient value of Alpha Cronbach of 0.7 and only environmental uncertainty sub-concept has lower Alpha Cronbach value of 0.689. It was observed on the result of the questionnaire pretest of 30 units. When reliability and validity test were conducted for all suitable questionnaires ( $n = 56$ ), all sub-concepts have an Alpha Cronbach value above the cut-off value of 0.7 (Nunnally, 1975). It can be concluded that all sub-concepts have good internal consistency and can be used for further analysis. In the structural equation model, the significance of path coefficients in the model is calculated using the bootstrap process arranged in individual sign change condition, cases = 500 and samples = 200.

Research results showed that from seven dimensions of strategic resources constituent, human resources dimension is one of the dimensions with insignificant influence on strategic resources. It indicates that company's employees are still unreliable to be one of the strategic resources constituent. This indication is proven with the fact that 82.1 percent of companies have permanent employees of less than 20, and 94.6 percent of the companies have daily labor of less than 10 people. Most of the human resources owned by the company are contractual and being employed during project work. Therefore, it is reasonable that human resources are not yet reliable as the constituent of strategic resources for REI member companies.

Among the top three of the sub-concepts that statistically and significantly

influence strategic resources of REI member companies are understanding of the local culture of THK with the highest path coefficient (weight) of 0.4274 followed with organizational and financial resources with path coefficients of 0.2305 and 0.1928, respectively. This finding is empirical proof about the importance of local culture understanding and makes it as one of constituent of strategic resources of a company. THK culture understanding by real estate businesses in Bali has significantly proven to be the top level in the formulation of strategic resources of a company. In addition, research results also show that *pawongan* (harmonization between company and human) is a dimension having the largest loading factor value (0.8826) followed with *parahyangan* (0.8826) and *palemahan* (0.7001). Considering *pawongan* dimension that consists not only of harmonization between a company with its employees but also communities around its office or project, it can be concluded that the *pawongan* dimension is a broader dimension of human resources concept known in western management practices that are focused more on employees empowerment.

In environmental dynamic variable, competition intensity has no significant influence on the formation of environmental dynamic faced by real estate businesses in Bali. This finding is against western management theory stating that competition intensity influences environmental dynamic faced by a company. The path coefficient for this dimension is only -0.078 and means that no proof on the influence of competition intensity on environmental dynamic of real estate companies operated in Bali. High costs faced by a company to initiate housing projects requires them to collaborate with other companies. It is verified in the study on strategic

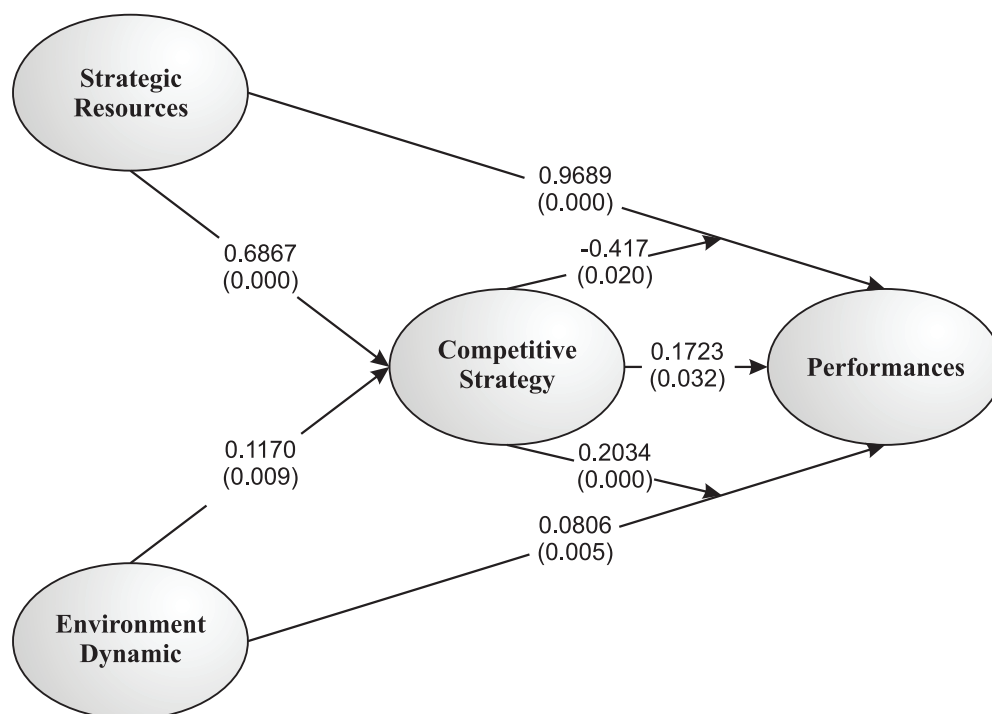
resources latent, which showed that the third dominant dimension that builds this latent is financial resources. Therefore, instead of competing with each other, REI members companies in Bali are synergized and collaborated in responding to the cost to working on housing projects.

Meanwhile, the two other dimensions forming environmental dynamic show path coefficients with significance lower than 5 percent. Environmental uncertainty dimension adopted from Porter (1980) shows a very significant influence on environmental dimension followed with regional regulation dimension and local rules with path coefficients of 0.8079 and 0.3775, respectively. Along with competition intensity, these third dimensions are able to explain the variety of environmental dynamic latent of 81.92 percent.

Competitive strategy is an endogenous variable – viewed from the relationship

with strategic resources and environmental dynamics – and exogenous variable – seen from its influence on business performance latent. By considering this, the moderating influence of competitive strategy is also examined. The three dimensions of generic competitive strategy from Porter show significance level lower than 5 percent. This research result confirms that there are three options of competitive strategy for REI members in Bali with strategy chosen respectively they are differentiation strategy, focus on certain market segment and cost leadership strategy.

Results from an analysis of the inner model of structural equation was aimed to understand the magnitude and significance of path coefficients relating two major latent. Through this value, the nature and behavior of the relationship between two latent in the inner model is understandable. The following figure shows the inner model of structural equation built.



**Figure 1. Inner Model of Structural Equation**

Note: values in parenthesis show significance at  $\alpha = 5\%$

Figure 1 shows seven path coefficients that connect to two latent have significance level ( $p$ ) lower than 0.05. Further examination shows the existence of a path coefficient with negative sign (on the relationship between the moderating influence of competitive strategy on strategic resources and business performance), while six other coefficient show positive signs. The positive sign indicates that movement direction of two latent connected by those path coefficient is the same; on the contrary negative sign indicates the movement is in opposite direction.

Looking at the path coefficient in Figure 1 connecting strategic resources and competitive strategy, there is significant relationship between strategic resources owned by a company with its competitive strategy in which the enhancement of strategic resources mastery will positively influence (enhance) the competitive strategy of a company.

The path coefficient connecting environmental dynamic (as a predictor) and competitive strategic (as the influenced variable) of 0.1770 is significant in 5 percent of test level. This fact verifies the hypothesis stating that environmental dynamic has influence on competitive strategy adjustment of a company. An increasing environmental dynamic will be a driving factor for a stronger competitive strategy that needs to be implemented by a company.

Examination on path coefficient between strategic resources and business performance shows path coefficient of 0.9689 and is significant at 5 percent of test level. This result confirms theories stating that strategic resources have influence on business performance. It is also evident that statistically, strategic resources have positive and significant influence on company performance. Increasing

strategic resources will be a driving factor for an increasing performance. In addition, path coefficient between environmental dynamic and business performance shows positive and significant influence. Increasing environmental dynamic will be a driver factor for increasing performance.

The path coefficient between competitive strategy and business performance is 0.1753 ( $p = 0.012$ ), means that competitive strategy has significant influence on business performance. There is a positive relationship between competitive strategy and business performance, in which increasing quality of designed strategy will resulting in a better business performance. Stronger competitive strategy will be a driver factor for increasing business performance.

Looking at the significant influence of competitive strategy on performance, the moderating influence of strategic resources and environmental dynamic are also examined. Research results show that interaction between competitive strategy and strategic resources has negative influence on company performance. In reference to Edelman's (2002) research, the influence of competitive strategy cannot be congruent to strategic resources influence on business performance. Whereas, the moderating influence of competitive strategy on the relationship of environmental dynamic and business performance has coefficient value of 0.2034 with significance lower than 0.01. It is different to the previous moderating behavior, in which with moderation of competitive strategy on environmental dynamic, business performance will increase from 0.0806 (direct influence from environmental dynamic to business performance) to 0.2034 (the influence of environmental dynamic on business performance is moderated by competitive strategy). This result shows evidence



that interaction between competitive strategy implemented by a company and an increasing environmental dynamic has influence on business performance. Stronger competitive strategy and increasing environmental dynamic are driving factors for increasing business performance.

### Conclusion and Future Research

Several facts and finding in this research can be concluded such as strategic resources have significant influence in its role as predictor of competitive strategy formulation. Strategic resources, directly, have dominant influence in determining company performance, in which strengthening strategic resources mastery will increase business performance of active members of REI. Competitive strategy also has significant influence on business performance. However, as stated by Edelman (2002), the congruence between resources and competitive strategy of a company is needed so that performance can be improved and sustained.

In terms of seven dimensions of strategic resources constituent researched, THK culture dimension is a dimension with the highest influence. The domination of THK culture in the formulation of strategic resources shows the importance of understanding and implementation of local values in company's activities. *Pawongan* concept that dominates the other two concepts in THK culture shows that the harmonization of company with humans either in its internal or external environment is an important thing to be developed. In this research, *pawongan* concept is proven more comprehensive compared with human resources concepts in western management domains, which tend to emphasize its approach to human in the internal environment of the company.

On the other hand, environmental dynamics compiled by environmental uncertainty, competitive intensity and regional regulation and local rules of the customary village show their role as a significant predictor on competitive strategy and company performance. It is also concluded that unique regional regulation and local rules of the customary village gives the second dominant contribution in forming environmental dynamic of real estate companies operated in the Bali Province. Meanwhile, competitive intensity dimension adopted from western management theory does not show a significant role. The significant role of regional regulation and local rules of customary village requires companies to pay attention on this dimension when designing a competitive strategy.

Competitive strategy built by real estate companies in the Bali Province show positive and significant influence on business performance. However, when competitive strategy is positioned as the moderator of strategic resources influence on company performance, the impact is seen as negative. It is assumed to be caused by incompatible dimensions of strategic resources constituents dominated by THK culture as a representation of Balinese local values with dimension of competitive strategy constituent (cost leadership, differentiation, and focus) came from western management theories. On the contrary, through moderating influence of competitive strategy, the influence of environmental dynamic on business performance is actually strengthened. It is proof of the importance of paying attention to the role of dynamic environment in designing company strategy.

Considering the limitations in this research, some suggestions can be argued that sorting THK culture as a dimension in

forming strategic resources and examine it as one of the dimensions consolidated into organizational culture. In some research, organizational culture is known to have influence on competitive strategy and company performance.

Studying and examining the influence of competitive strategy on the relationship between strategy resources and business performance is more comprehensive. The following research need to see the impact of strategic resources as intervening variable in the relationship between competitive strategy and business performance.

Elaborating the dimensions of competitive strategy constituents that are able to be implemented by companies operated in Bali and Indonesia by paying attention on prevailing local culture and rules.

Companies are suggested to not be too worried about regional regulations and local *awig-awig*. If appropriately addressed, regional regulations and *awig-awig* as the second dimension forming environmental dynamic of real estate companies in Bali are actually able to increase business performance. Managers of a company are suggested to comprehensively and thoroughly examine

the development and dynamics in the community on a regular basis.

### Notes on Contributors

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