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**Submission date:** 17-Jan-2021 12:45AM (UTC+1100)

**Submission ID:** 1420594296

**File name:** 2.\_IJICC\_JOURNAL.docx (208.2K)

**Word count:** 4397

**Character count:** 35076



# Ensuring Competitive and Alliance Formation Intensity for Continuous Improvement in Manufacturing Sector of Indonesia: A Better Financial Performance Perspective

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This study is designed to identify the role of alliance formation intensity as well as the competitive intensity in continuous improvement of the manufacturing sector of Indonesia. The studies primary aim is to analyse the impact of competition and AFI in enhancing the financial performance of the companies. The first section of the study consists of an introduction in which the overview of all variables is explained. Furthermore, the literature review section analyses the results of previous studies regarding alliance formation intensity and alliance competitive environment. The studies mainly show that the process of formation intensity, as well as competitive intensity, is very essential. The data has been collected through a design survey questionnaire with a sample size of 320 and 296 considered valid. The data mainly has been collected through the manufacturing sector of Indonesia. The survey questionnaire technique has been used because of a lack of time. Moreover, the data was analysed through SPSS and AMOS. SEM technique has been used to analyse the acceptance and rejection of the hypothesis. The results of the analysis indicate that continuous improvement has a significant impact on the financial performance of the manufacturing sector. At the same time, the alliance formation intensity also has a positive and significant relationship with financial performance. This shows that the hypothesis of the study is accepted overall.



**Key words:** *Competitive Intensity, Alliance Formation Intensity, Continuous Improvement, Financial Performance.*

## Introduction

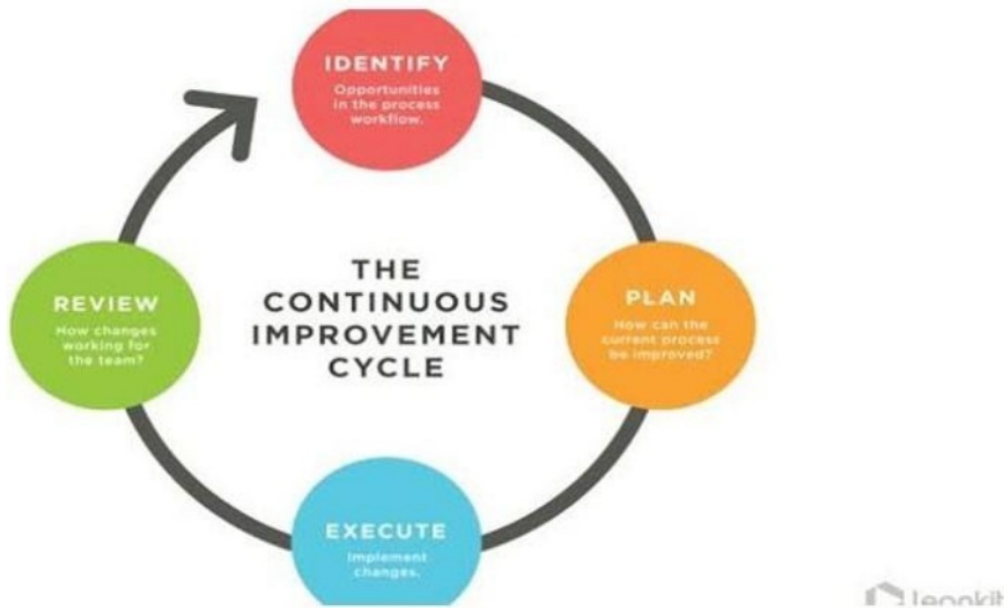
The competitive advantage of pressure is exerted on the organisation by the global competition forces (Cai & Li, 2018). Organisations should construct a new organisational strategy and innovation to oppose this challenge. Competitive intensity and the business strategy has a great impact on the financial leverage and the performance of an organisation (Carnes, Xu, Sirmon, & Karadag, 2019). In the last few years, it is found that competitive intensity positively generates the relationship between an organisation's resources and association becomes stronger as well as competitive. Competitive intensity is a factor that plays an important role in the competition between the companies (Spyropoulou, Katsikeas, Skarmeas, & Morgan, 2018). For all business organisations, competitive intensity is an extent to which the companies within specific manufacturing exerts pressure on one another (Dupire & M'Zali, 2018). Some levels of competitive intensity are healthy because it acts as a motivating force for organisations. Some of the factors that manipulate the competitive intensity include: a concentration in the industry; costs; rate of market growth and differentiation. The continuous growth rate in an organisation increases the competitive intensity (Kasim, Ekinci, Altinay, & Hussain, 2018).

Strategic alliances between several firms represent a variety of cooperative arrangements that help to achieve organisations goals (Kwok, Sharma, Gaur, & Ueno, 2019). The strategic alliance formation is a voluntary agreement that is called as a partnership among several enterprises that includes the exchange of goods and the development of technologies and services. The fundamental purpose of strategic alliance formation is better and fast access to technological capabilities (Huda et al., 2019). The benefits of strategic alliance formation are the ability to construct new markets, minimise the financial and political risk in the organisations. The formation of a strategic alliance can create an effective business model that helps in reducing the financial and other possible risks (O'Dwyer & Gilmore, 2018).

In large scale organisations, the continuous improvement process is designed to empower the employees to solve the critical problems in order to improve the efficiency of the work. Continuous improvements are very important for better customer service and competitive products (Brondoni, 2018). Continuous improvement also helps to boost employee engagement and then reduces turnover rates. The most successful organisations are never pleased with the status quo, they always have their eye on the next innovative steps (Akram et. al., 2011; Tidd & Bessant, 2018). They know the importance of the continuous improvement process in all the fields of business. Therefore they carried out a successful continuous improvement plan. Financial performance is an essential part of the successful

growth of an organisation. Financial performance measures all the aspects of how well an organisation can use its assets from its primary level of business and construct revenues (Rao, Chhabria, Gunasekaran, & Mandal, 2018). There are several ways to measure the financial performance of a business which includes cash flows and operating income. Financial performance indicates the organisation's rules and regulations (Omondi-Ochieng, 2018). The results of financial performance reflect the firm's return on assets and value-added. Financial performance measurements show the important relationships in the financial statements and then relate them to important financial objectives (Anees-ur-Rehman, Wong, Sultan, & Merrilees, 2018). Below Figure 1 presents the graph of continues improvement. There are four major aspects: identify; plan; execute and review. Therefore, this study is working on continues improvement in manufacture sector of Indonesia through Competitive and Alliance Formation Intensity.

**Figure 1.** Continues improvement cycle



The previous data regarding alliance formation intensity in Indonesia shows that the ratio of alliance formation has been reduced. In order to analyse the effect of alliance formation intensity in the manufacturing sector of Indonesia, the following research has conducted. This research is unique and significant to analyse the impact of alliance formation intensity as well as competitive intensity. There is no other research explaining the relationship between alliance formation intensity and financial performance of the firms. Moreover, no other research has explained the relationship between the importance of competitive intensity and financial output of the firms. At the same time, no other study has explored the role of continuous improvement as a mediating variable between competitive intensity and FP.



Neslihan & Bulent in their research paper suggest that there must be a study that investigates the relationship between alliance formation intensity and competitive intensity on the financial performance of the companies. The key objectives of the paper are given below.

- The first objective of the study is to analyse the association between competitive intensity on financial performance in the manufacturing sector of Indonesia.
- The second objective of the paper is to identify the impact of alliance formation intensity on the FP of the manufacturing sector of Indonesia.
- The third objective is to find out the mediating role of continuous improvement in the relationship between alliance formation intensity and competitive intensity on the FP of the manufacturing sector of Indonesia.

This study is highly significant and has a wider scope in illustrating the relationship between competitive intensity and FP. The study has a wider scope in the manufacturing sector of Indonesia. The paper consists of different chapters. The first chapter of the thesis consists of the introduction of all concepts used in research. The second chapter is the Literature Review and comprises all previous studies related to variables. The third chapter explains the theoretical model/framework. Chapter four consists of research methodology and data collection techniques. Chapter five is the analysis and results description. Finally, the last chapter is conclusions, recommendations, and future research.

## **Literature Review**

### ***Theory of Quality Management***

The vital question of every organisation is how they can survive under the competitive environment and complex level of business. It is true that in order to survive in a competitive environment, the firms have to make continuous improvements as well as make a competitive intensity (Nicholas, 2018). The competitive intensity strategies do not help to gain a competitive position but helps to enhance the financial position of the company. The theory of quality management is first of all introduced in 1980 under the management and total quality perspective (Li, Zhao, Zhang, Chen, & Cao, 2018). The theory of quality management says that an organisation focuses on different major components such as quality assurance and quality. Therefore, the organisation used the quality management process in order to enhance the quality of the products as well as achieve a more consistent quality of the products (Tuczek, Castka, & Wakolbinger, 2018). The theory of quality management demonstrates product consistency and also means to achieve it.



### ***Relationship between Competitive Intensity and Financial Performance***

Competitive intensity in business is the extent to which the organisation exerts pressure on the other companies within a specific industry level. The relationship between competitive intensity and financial performance is sometimes healthy because it acts as a bridge between several organisations (Feng, Wang, Lawton, & Luo, 2019). Competition at the industry level or in another setting, procure teams and the individuals to give their best. Competitive intensity covers the following concepts in order to improve the financial performance threat of new entrants, the bargaining power of suppliers and other forces (Danso, Adomako, Amankwah-Amoah, Owusu-Agyei, & Konadu, 2019). According to the study, competition between the firms has two factors, namely, the dimension and the intensity. Competitive intensity evaluates the firm's profitability potential, which determines the level of financial performance and its growth (K. U. Khan, Xuehe, Atlas, & Khan, 2019). The second factor is dimension which is a completely different aspect. The dimension of competition mainly deals with specified features and factors. Firms can participate in different sectors including quality, product features, pricing, and customer support service (Likoum, Shamout, Harazneh, & Abubakar, 2018).

There are several elements that influence the competitive intensity of different organisations such as: cost; production; product quality; as well as revenue or output. Cost is a factor that increases the rivalry by including low switching costs. High fixed costs will motivate the organisations to lower their prices which directly affect the FP of the firm. The matter of cost directly affects the performance of a firm because it defines the product offerings that create competitive intensity. In different firms such as large scale or small scale organisations, the degree of differentiation also manipulates the competition (Kim, Kim, & Qian, 2018). This rivalry has a direct impact on the financial performance of an organisation. The competitive intensity in an organisation affects the competitive environment and then influences the ability to existing organisations to achieve their profitability and growth (Efrat, Hughes, Nemkova, Souchon, & Sy-Changco, 2018). For example, the high competitive intensity means that the competitors are confrontationally targeting each other's sectors and aggressively pricing goods and this shows the potential costs to all the competitors within the sector.

High intensity of competitive rivalry can make the organisation more and more competitive and thus this will decrease the profitability scale for the existing organisations. Financial performance is badly affected by the high level of competitive intensity (Galariotis, Germain, & Zopounidis, 2018). If an organisation has a large number of competitors, then the rivalry will be more acute, whereas if the competitors are of the equal market share or equal size then the competitive intensity will become greater. This shows that competitive intensity has a strong relationship with the FP of the firms. Moreover, the relationship also supported by the



theory of quality management. The theory of quality management helps to make the right decision when you want to enhance the quality of the product/service. Therefore the first hypothesis of the study is:

**H1:** There is a significant relationship between competitive intensity and FP of the firms.

### ***Alliance Formation Intensity and Financial Performance***

The formation of alliance is a process of voluntary arrangement among the independent organisations to exchange or divide resources and then engage in the co-development of goods, services, and technologies. Alliance formation has different forms, including collaborative research and development, joint ventures, and joint marketing (Macaulay, Richard, Peng, & Hasenhuttl, 2018). One of the most important reasons for the formation of alliance intensity is to gain knowledge and access. The impact of alliance formation on the firm FP is huge, as it helps in dividing the risks and enhances competitiveness. Alliances can construct economies of scale that will empower the participating organisations to marshal a large set of resources. (Chaudhuri, Janney, & Calantone, 2019). The biggest advantage of alliance formation is to access the resources. Two organisations that are working together will share the labour, creative thinking, materials, and capital to achieve goals that might be outside the extent of a solo business. The financial performance of firms increased by the formation of an alliance (Macaulay et al., 2018). The formation of strategic alliances enables many organisations to gain access to greater markets, minimize risks, reduce cost and enhance the financial performance of an organisation. The alliance formation intensity is one of an important approach for establishing the standards in an industry (Latan, Jabbour, & de Sousa Jabbour, 2018; Malesky & Taussig, 2017; Tahir, 2017). It also maximises the chances that the standards an organisation invests in will be accepted throughout the sector. Strategic alliance formation is an effective way of entering the new foreign markets and this will help in increasing the financial performance of an organisation. The alliance formation strategy ensures that the goods and services get to the market faster and are more likely to be acquired. The alliance formation intensity helps organisations to overcome competition and that will lead to better financial performance (Xia, Wang, Lin, Yang, & Li, 2018). Moreover, the theory of quality management also defines and analyses that the alliance formation significantly affects the financial position of the companies in a positive way. Therefore the second hypothesis of the study is:

**H2:** There is a strong relationship between between alliance formation and the FP of the manufacturing sector.



### ***Continuous Improvement and Relationship of CI and FP***

The role of continuous improvement affects the financial position of the companies. A study discussed that continuous improvement is the process of improving all elements of the organisation including product, services, tools, and even processes. According to the authors of the study, continuous improvement is a slow process; however, it affects the overall position of the company (Rajapathirana & Hui, 2018). When an organisation focuses on internal opportunities, the financial performance of the organisation is significantly enhanced. Continuous improvement gradually affects strategic planning and process. Furthermore, continuous improvement affects the idea generation and activities within the organisation (Anser, Zhang, & Kanwal, 2018). As a result, the gradual improvement in the strategic process and qualities of the product helps to gain a competitive position. In the end, the competitive intensity or competitive position affects the financial position of the company. Moreover, continuous improvement helps to explore the new ways and strategies within the organisation (B. A. Khan & Naeem, 2018). The process of continuous improvement also develops opportunities, skills and engages all employees in sharing knowledge as well as capabilities. This process affects the competitive intensity of an organisation and competitive intensity further overall affects the financial position of an organisation. Thus, this study proposed the following hypothesis:

**H3:** Continuous improvement has a momentous mediating role in determining the relationship between CI & FP of the firm.

### ***Continuous Improvement and Relationship of AFI and Financial Performance***

In order to gain a competitive edge, organisations should focus on continuous effort and enhance shareholder value. It is obvious that continuous effort affects the financial position of a company in a positive way. There is a highly essential role in continuous improvement as a mediating role in AFI and the financial performance of companies (Chaudhuri et al., 2019). For instance, when a business starts it has few resources, skills, and capabilities. Similarly, when an organisation focuses on continuous improvement the organisation moves towards development as well as financial output. Therefore, when a company focuses on continuous improvement the organisation moves towards alliance formation intensity and the financial output of an organisation increases. Moreover, continuous improvement also helps to increase resources. The more an organisation has resources, the more it focuses on a joint venture or alliance formation and the more it enhances the financial output of a company (Frank et al., 2018). This shows that continuous improvement affects the alliance formation of a company. While the increase in alliance formation further affect the financial position of the company and vice versa. Continuous improvement acts as a mediator and helps to

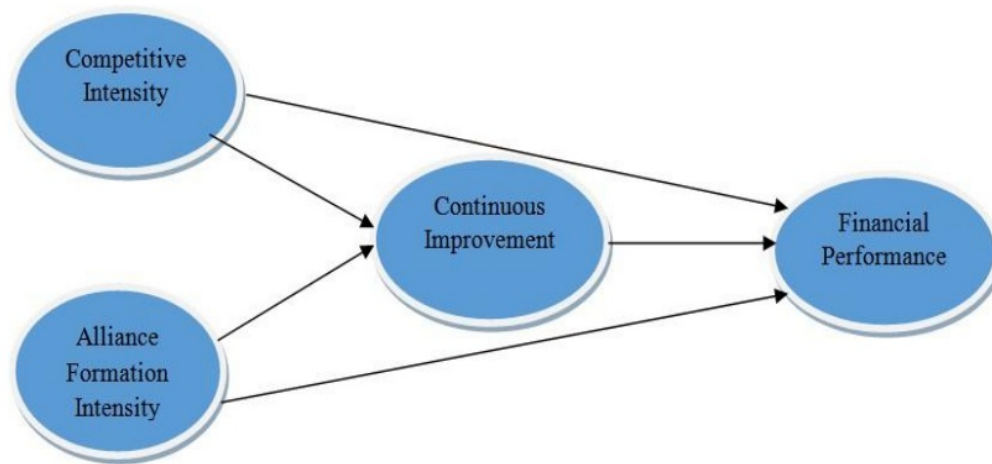




enhance the relationship between AFI and financial position. Therefore, the third hypothesis of the study is:

**H4:** Continuous improvement has a significant mediating role in the relationship between alliance formation intensity and the financial position of the company.

### Theoretical Framework



### Research Methodology

#### *Population and Sampling*

This research study has been conducted to observe the role of competitive intensity and alliance formation intensity in continuous improvement of the Indonesian manufacturing sector to ensure better financial performance. Indonesia has been selected as the population of the study because Indonesia has the biggest economy in Southeast Asia and it has been emerging as largest economy in world but due to GDP per capita well below the global average, there is a greater need to enhance financial performance of Indonesia business. The manufacturing sector of Indonesia is the most important contributor of the Indonesian economy because the major exports of Indonesia consists of oil, natural gas and agriculture products, which are the major manufacturing industries in Indonesia. Due to these reasons, the researcher desired to study the impact of competitive alliance formation intensity on continuous improvement of the manufacturing sector. The researcher collected the data from managers and employees of three major industries such as agriculture, oil manufacturing and gas manufacturing and used simple random sampling technique for selecting the specific respondents from these three industries in order to maintain balanced data. Sample size for



this proposed study is 320. 320 questionnaires have been distributed among the respondents, out of which only 312 responses have been received. After deleting incomplete and invalid responses, only 296 valid responses have been attained through the data collection process.

### ***Data Collection Procedures***

In the study, the researcher used survey questionnaires for data collection as it has been considered the most appropriate approach for data collection because it enables the researcher to collect the primary and objective responses in a short time period. As the researcher required quantitative data the questionnaire was structured in two types of closed ended questions such as variable scale questions and demographic questions. As the population for this study is Indonesia the questionnaire language must be the native language of Indonesia. Moreover, the researcher had to pre-test the survey questionnaire, to receive feedback regarding their understanding of the survey questions. A self-administering technique was used for data collection by visiting the respondents because some respondents needed guidance in completing the questionnaire.

### ***Measures***

Each variable of the research study has been measured through different measurement items, all these items have been adapted from the research work of different authors, as they used them in their studies and the researcher considered them more reliable and valid. To measure the competitive intensity variable the researcher accompanied 4 survey items from research work of (Jansen, Van Den Bosch, & Volberda, 2006). For alliance formation intensity 3 measurement items have been taken from the study of (Koza & Lewin, 1998). The researcher measured the continuous improvement (mediating variable) through 12 survey items, which have been adapted from (Kannan & Tan, 2005) and for financial performance measurement, the researcher took into account the 6 survey items from the research work of (Venkatraman & Ramanujam, 1986) & (Li & Zhang, 2007). In this study the 5-point Likert scale has been considered for measuring all these measurement items. The scale responses range from 1 for 'strongly disagree' to 5 for 'strongly agree'.

### ***Data Analysis***

In this research study, data analysis has been conducted with the two software programs - SPSS and AMOS. The researcher used the SPSS to run the correlation test, regression test, descriptive statistics test and for the Cronbach's alpha reliability and composite reliability test (which test items reliability and internal consistency of data respectively). Further, the researcher accompanied AMOS to run the diagnosis of CFA confirmatory factor analysis and for SEM structure equation modelling. SEM has been used for hypothesis testing or checking



the structural model paths through path analysis and CFA has been used for assessing the convergent validity, discriminant validity and model fitness.

### *Data Analysis and Interpretation*

In this study 296 questionnaires were distributed. The demographic details of respondents were: 123 males and 173 females; a higher number educated females; 23 of the respondents were graduates and 142 postgraduates; 121 of the respondents had done their masters and 10 had some other degrees. Age wise: 41 of the respondents were between 21 to 30 years old; 184 were 31 to 40 years old; 52 were 41 to 50 years old and 19 were 50+ in age.

**Table 1:** Descriptive Statistics

	N	Minimum	Maximum	Mean	SD	Skewness	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	SE
ConImp	296	1.00	5.00	3.4468	1.13935	-.569	.142
CamInt	296	1.00	5.00	3.5718	1.08715	-.874	.142
AlFoInt	296	1.00	5.00	3.3941	1.19983	-.543	.142
FinPerf	296	1.00	5.00	3.5084	1.15837	-.523	.142
Valid N (listwise)	296						

Table 1 shows the descriptive statistics of the study. The descriptive statistics explains the variables in the study and show that the descriptive coefficients give a complete summary of the data. This set of data represents the entire sample of the population. The data shows that there is no outlier because the maximum values are in the threshold range of the 5-point Likert scale and the value of skewness is between -1 to 1, which is the threshold range of normality. Therefore the data is normal and valid and suitable for further testing.



**Table 2:** Rotated Component Matrix

	Component			
	1	2	3	4
CA1			.744	
CA2			.783	
CA3			.850	
CA4			.832	
AF1				.825
AF2				.852
AF3				.830
CI1	.844			
CI2	.859			
CI3	.868			
CI4	.896			
CI5	.889			
CI6	.883			
CI7	.863			
CI8	.837			
CI9	.852			
CI10	.855			
CI11	.818			
CI12	.850			
FP1		.867		
FP2		.895		
FP3		.882		
FP4		.876		
FP5		.881		
FP6		.873		

Table 2 of rotated components matrix shows that almost all of the indicators have a factor loading of more than 0.7. This means that all indicators are eligible to be exposed to further hypothesis testing techniques because all the factors are in suitable threshold level and suitable and valid sequence and range. Therefore this data is good for further testing techniques. There is no cross loading in the data shown in RCM so the data is reliable.



**Table 3:** Convergent and Discriminant Validity

	<b>CR</b>	<b>AVE</b>	<b>MSV</b>	<b>MaxR(H)</b>	<b>AF</b>	<b>CA</b>	<b>CI</b>	<b>FP</b>
<b>AF</b>	0.903	0.755	0.274	0.904	<b>0.869</b>			
<b>CA</b>	0.920	0.741	0.319	0.956	0.519	<b>0.861</b>		
<b>CI</b>	0.936	0.772	0.278	0.985	0.456	0.527	<b>0.878</b>	
<b>FP</b>	0.917	0.831	0.319	0.990	0.523	0.565	0.390	<b>0.912</b>

The validity master sheet was used in order to confirm the convergent and discriminant validity for the research model variable. The discriminant validity provided the discrimination between variables while the convergent validity was measured with the help of composite reliability and average variance extracted. The results of the validities are shown in the Table 3. The results and convergence of each variable is more than 70%. The average variances extracted was more than 50%, while the discriminate validity showed that loading of each variable discriminates from each other. Every variable has maximum loading with itself as compared with others. So, these validities prove the authenticity of the collected data.

**Table 4:** Confirmatory Factor Analysis

Indicators	Threshold range	Current values
CMIN/DF	Less or equal 3	2.650
GFI	Equal or greater .80	.850
CFI	Equal or greater .90	.951
IFI	Equal or greater .90	.951
RMSEA	Less or equal .08	.075

Table 4 is of CFA, which is the Confirmatory Factor Analysis used to confirm the fitness of a hypothetical model before structural equation modelling. Current results show: CMIN is less than 3; GFI is more than 0.80; CFI is more than 0.90; IFI is more than 0.90; and RMSEA is less than 0.08. All of the results show that the data is in a valid range and is good for further testing. Following is the screen shot of CFA in Figure 1.

Figure 1: CFA

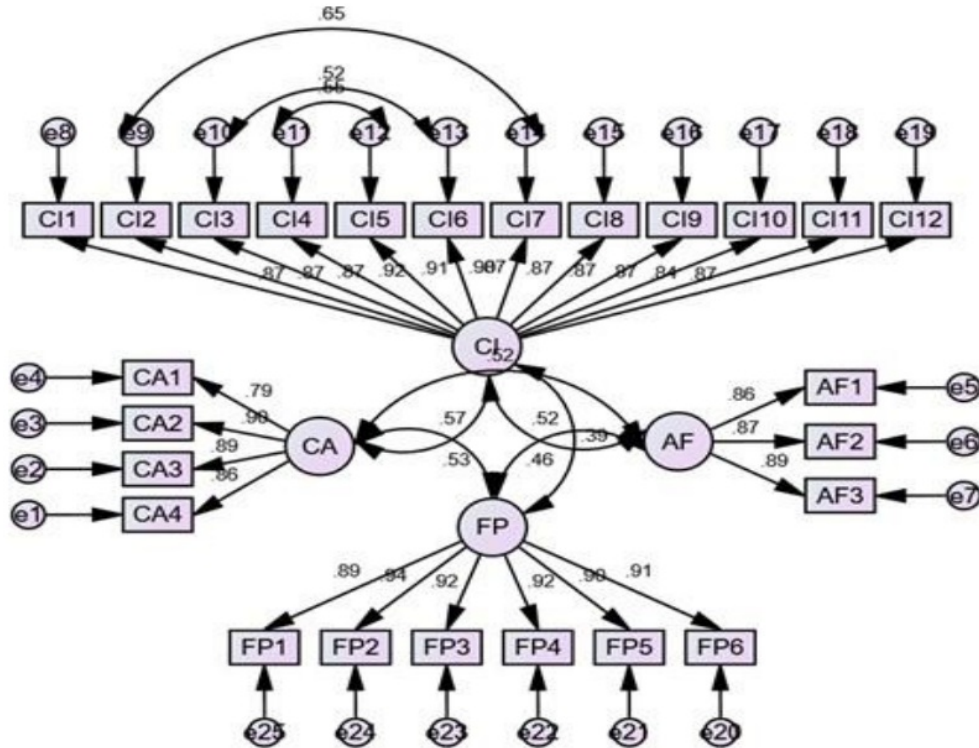
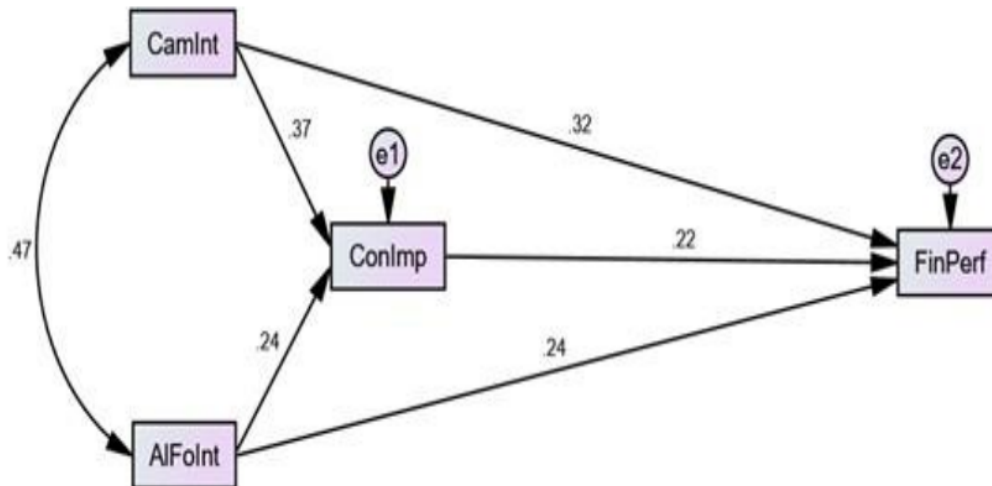


Table 5: SEM

Total effect	AlFoInt	CamInt	ConImp
ConImp	.238***	.367***	.000
FinPerf	.294***	.404***	.222***
Direct effect	AlFoInt	CamInt	ConImp
ConImp	.238***	.367***	.000
FinPerf	.241***	.322***	.222***
Indirect effect	AlFoInt	CamInt	ConImp
ConImp	.000	.000	.000
FinPerf	.053**	.082**	.000

Table 5 of SEM shows the relationships of different variables with each other and how they impact each other. The impact of AFI on CI and FP is significant and positive. The impact of CI is significant and positive on CI and FP. The impact of COI is significant and positive on FP. Below is SEM in Figure 2.

Figure 2. SEM



## Discussion and Conclusion

### Discussion

This study has been conducted to put some light on the impact of Competitive Intensity (CI) and Alliance Formation Intensity (AFI) on Financial Performance (FP) with the mediating role of Continuous Improvement (CI). The first hypothesis proposed was ‘the mediating role of Competitive Intensity on Financial Performance is positive and significant’ this hypothesis was accepted. According to the writer (Amalia, 2014), the potency of competition always focuses on the boost of financial performance the higher the potency is the more it will boost the financial performance. The second hypothesis introduced was ‘the impact of Alliance Formation Intensity on Financial Performance is positive and significant’ this hypothesis was accepted. According to the writer (Kis-Katos & Sparrow, 2015), the more a company tries to collaborate with other brands, the more the competition increases and the financial performance increases. The third hypothesis proposed was ‘the mediating role of Continuous Improvement between competitive intensity and Financial Performance is positive and significant’ this hypothesis was accepted. According to the study of (Luttrell, Resosudarmo, Muharrom, Brockhaus, & Seymour, 2014), the improvement is regular when the company’s alliance and they work on mutual benefit which is directly related with the boost of financial performance. The fourth hypothesis introduced was ‘the mediating role of Continuous Improvement between Alliance Formation Intensity and Financial Performance is positive and significant’ this hypothesis was accepted. According to (Sidharta & Affandi, 2016), the



collaboration which is done for mutual benefit always intrigues towards competitiveness and innovation which leads to the increase or decrease in the financial performance.

### ***Conclusion***

The aim of this research was to provide the relationship analysis of CI and AFI on FP with the mediating role of AFI. The data was collected from 296 people of the Indonesian Manufacturing Sector through a questionnaire. This study sums up that when companies work together for mutual benefits they tend to get competitiveness and innovation. The collaboration is all about a mix and match of products ideas and resources to make diversified products for diversified customers which automatically leads to Financial Performance. The study concludes that the intensity of competitiveness and alliance can lead to great results and the results can be both positive and negative. This study has shown the relationship of the variable CI and AFI and given a brief review on how this would change the entire game of an organisation by focusing on cutthroat business ideas and collaborations that will provide all the possible resources.

### ***Implications of the Study***

This study has emphasised the importance of AFI. This was not discussed before or was not emphasised much since it was not previously considered important. Now it has so much content and value, not only for research but also for formulation of strategies and implementation. This study has made sure that big companies make sure that they try collaboration with other companies and that is they try to outsource the content and product it would be a great help for FP and CI. AFI has been seen in Jazz and Warid lately in Pakistan.

### ***Limitations and Future Recommendations***

This study was conducted through questionnaire which does not assure the confirmation of the data and it is recommended to future researchers to conduct proper interviews. The sample was taken from random people and it was not confirming whether they are graduates or not. Therefore the questionnaire should include questions about education and the next writer suggests it would be better to collect data from the professionals not layman.





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