Research article

The Influence of External Environment on Operation Strategy and Corporate Performance in Indonesian Garment Industry

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Abstract This study examined the phenomenon of production and competition of the garment Industry in Indonesia. Indonesian garment products have not been competitive in the international market. The quality of the resulting garment products have not been able to comply with the international quality standards. In addition, Indonesia has not been included in the Trans-Pacific Partnership community that provides reduction of import duties for its member. This research extends the work performed by other researchers by performing the study in a diferent environment not studied before and by expanding the environment dimension. The study used the management approach and integrating the strategic management, operation management, human resource management and marketing management. The purpose of this study is to describe and analyse 1) The external environment, operation strategy and corporate performance of Indonesian garment industry; 2) The influence of external environment towards operation strategy; and 3) The influence of operation strategy towards the corporate performance. The types of this research are descriptive and verificative while the methods used both descriptive and explanatory surveys. Using the random sampling technique from collection data, the sample size were 71 companies with 395 respondences which consist 71 operation managers, 71 agents and 253 employees. The using interview as a technique from collection data with three questionaire models. The data collected at February until July 2013, using the descriptive analysis and path analysis. The results show 1) The external environment (supplier, technology, and consumer), operation strategy and company performance generally good enough; 2) The external environment have significant influence simultaneously and partially towards operation strategy, the consumer influence on the operating strategy is greater than the influence of technology and suppliers; 3) The operation strategy have a significant influence towards corporate performance and the operating strategy has a huge influence on company performance and there is any other influence.

Keywords external environment, operation strategy, corporate performance

INTRODUCTION

Recently, Indonesian garment industry (IGI) face a fiercer challenge due to increasing number of imported products and great demand by consumers, in addition to the several weaknesses of the national garment products. For example, in the case of the design product, Indonesia does not have enough expertise, so it must pay higher salary for foreign designers. Indonesian garment products actually have the potential to grow because people cannot be separated from garment products, and Indonesia is a big market.

Indonesian textile and garment market share in the international market (Asosiasi Pertekstilan Indonesia, 2012) is only about 1.82% and there has never been a significant increase. Indonesian textile and garment products are not competitive in United States (US) and Europe market, and one of the reasons is because Indonesia has not been included in the Trans-Pacific Partnership (TPP) community, which provides a reduction of import duties for its member. In comparison, after

Vietnam joined the TPP they get 5% - 12% of import duty reduction for the products that are exported to America, while Indonesia according to the Chairman of the Indonesian Textile Association (April 2014), burdened with 12% - 31% duty, even though has become textile and garment producer earlier than Vietnam.

The fact of the national garment industry nowadays is that it faces a fierce competition with imported products that dominate the national market. The main competition is in the garment design; imported products have better design that is preferred by consumers than local products. This condition is cause by the limited ability of local manufacturers to design the products as well as the used machinery which is still a constraint. Ultimately this situation leads to the national garment industry acts as a 'tailor' for foreign manufacturers.

As one of the economic center in Southeast Asia, Indonesia has a dynamic economic growth. According to World Bank’s data, Indonesia's Gross Domestic Product (GDP) growth in 2013 reached 5.8% and Gross National Income Indonesia grew from US $ 2,200 in 2000 to US $ 3,563 in 2013. The problem then arises on the challenges of free trade, especially in Southeast Asia. Indonesia as a member of Association of Southeast Asian Nations (ASEAN) will face the implementation of the ASEAN Economic Community (AEC), but the government has not held a discussion on this subject to gain opinions from the public, entrepreneur and academics. There is concern that when the AEC is enacted, Indonesian producer will have great difficulties to compete with the foreign products and services, because of the legal and economic policies do not exist or are not ready to face the sophistication of free trade mechanism.

To measure the industry’s performance, one of the benchmarks used by the Indonesian government is the achievement of value added, so that the effort to increase the added value along the chain of events is one of the strategies to increase the competitive advantage. Meanwhile, according to Johnson and Scholes (1993), strategy is the direction and scope of the organization to achieve excellence through the configuration of the existing resources to adjust to environmental changes.

Lowe (1995) stated that in order to implement the strategy of technology, companies can conduct an analysis of the position held technology. The analysis is about market capability and the possessed technological capability that is reflected in the production function.

OBJECTIVES

This study aims to reveal and analyse the external environment (suppliers, technology and consumer), operating strategy, and the performance of the garment industry in Indonesia. This study is a continuation of the prior research that has been done in 2007. In addition, it also aims to reveal the problems faced by the garment industry, particularly related to the performance.

In order the company can compete favourably with industry domestically and abroad, the industry needs a good competitive strategy, such as determining the operating strategy that will be implemented in the company. Porter (1980) stated that if a company can achieve and maintain overall cost advantage, then it will perform above average, as long as it can maintain the price around the industry average.

METHODOLOGY

The method used in this study is descriptive and verificative, which aims to get an idea about the external environment and operations strategy, as well as to observe their effects on the performance of the garment industry. The population target is the garment industry in Indonesia especially those that are listed as a members of the Indonesian Textile Association. A sample withdrawal technique with simple random sampling is used, with a sampling frame made first. Using the random sampling technique from collection data, the sample size were 71 companies with 395 respondences which consist 71 operation managers, 71 distributor/agents and 253 employees. The using interview as a technique from collection data with three questionaire models. The data collected at February until July 2012, using the descriptive analysis and path analysis. There are three variables that become the object of research; external environment that includes suppliers, technology and consumer; operations strategy; and performance of the company. Data analysis has been conducted using path analysis, which is used to analyze the causal correlation between the variables studied. Path diagram is used to describe causal correlation between variables under study, which graphically depict the structure of a causal correlation between the independent variables, the intervening variables and the dependent variable. Data processing is conducted using Lisrel 8.7 with an ordinal scale.

RESULTS AND DISCUSSION

The garment industry is a clothing company that produces apparel, namely shirts, t-shirts, blouses, sport shirts, polo shirts, under wear, trousers, jackets and rock & blouses. Various types of products produced by the garment industry can be classified into men's apparel, ladies apparel and children's apparel. Textile and garment industry in Indonesia began to grow since 1920 (Asosiasi Pertekstilan Indonesia, 2012) but Indonesia does not have a factory in the country yet. The development of this industry was started from the development of Indonesian traditional batik clothes.

The external environments referred in this study are the factors that are beyond the company which can affect the development of Indonesian garment industry. In this study, the external environment is consists of suppliers, technology and consumer. Based on the eight indicators of suppliers, it can be concluded that these suppliers belong to intermediate level. It means that suppliers of raw materials have yet to reach the performance level expected by the garment industry in general.

The majority of Indonesian garment industry is facing the competitors that have a relatively good marketing strategy and performance, especially in achieving sales growth, profitability, and customer satisfaction (Atty, 2012). Companies that deal with such situations need to systematically collect information of the main competitors or industry averages and analyze it. The results are then used as a basis for developing appropriate strategies, so that it can be used to overcome and minimize the threat of competitors or even can be utilized to seek for a new opportunity in the market.

Approximately, there are about 11 types of machines with a variety of functions that are generally used in the garment industry. Technology that is used heavily affects the garment production quality (e.g. when machines used are relatively old and not using the latest technology, the result will not be satisfactory). The results obtained indicate that the influence of consumers on the operating strategy is greater than the influence of technology and suppliers for operating strategy. The results of data analysis that has been conducted to test the hypothesis are based on the diagram and mathematical model approach. Influence of the external environment on the operating strategy and its impact on the performance of the garment industry in Indonesia is shown in Fig. 1. The test is conducted by calculating the path coefficient of each variable studied.

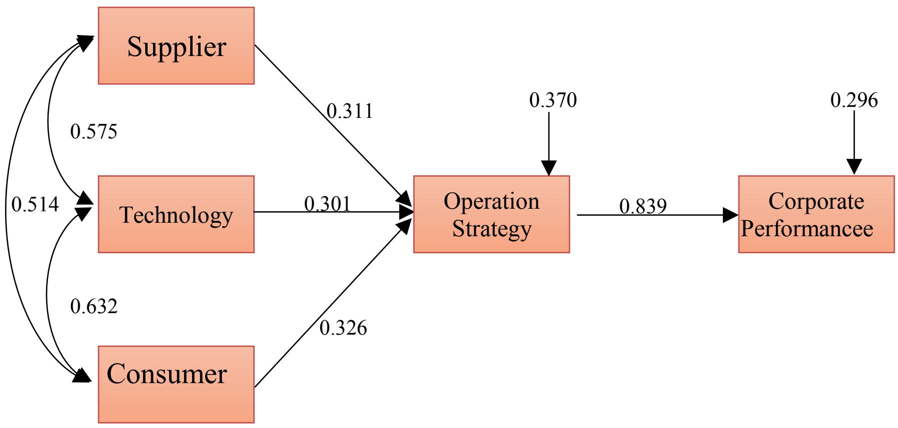

Fig. 1 Path diagram

Fig. 1 shows that each external variable (suppliers, technology and consumers) has a positive correlation. It can be said that all the three sub-variables of the external environment are supporting each other as they are interconnected.

The results of the path analysis calculation were obtained using following equations:

$$Y = 0.311\ X_1 + 0.301\ X_2 + 0.326\ X_3 + €_1 \quad (1)$$

$$Z = 0.839\ Y + €_2 \quad (2)$$

Where Y=Operation strategy, X_1=Supplier, X_2=Technology, X_3 =Consumer, Z=Company performance and €=Epsilon/out of research scope.

The amount of influence from the external environment, i.e., suppliers, technology and consumer to the operating strategy is then calculated. The results are as shown in Table 1.

Table 1 The effect of external environment of operations strategy and influence on company performance

Variable	Direct Impact	Indirect Impact			Total Indirect Impact	Total Impact
		Supplier	Technology	Consumer		
Supplier	9.7%	[redacted]	5.4%	5.2%	10.6%	20.3%
Technology	9.1%	5.4%	[redacted]	6.2%	11.6%	20.6%
Consumer	10.6%	5.2%	6.2%	[redacted]	11.4%	22.0%
Total	29.4%	10.6%	11.6%	11.4%	33.6%	63.0%
Strategy	70.4%	[redacted]	[redacted]	[redacted]	[redacted]	70.4%

Source: Author's evaluation based on field research

Table 1 shows that the greatest influence on the operating strategy in the garment industry have consumers (22%), followed by the influence of technology (20.6%) and the influence of suppliers (20.3%). This happens because consumer is the direct user of the product.

The result of this study indicates that consumers have strong impact on the operating strategy of the garment industry in Indonesia due to their strong bargaining position. As a consequence, if the products of Indonesian garment industry cannot meet costumers' requirements, they can easily switch to another similar imported product by other world companies. The operating strategy should be proposed to accommodate the tastes, purchasing power and requirement of customers. If Indonesian garment industry could fulfil the requirements, the probability to be abandoned by the consumer is lower.

In addition, this study also shows that Indonesian garment industry should concern more on customer demand rather than on technology or supplier in terms of composing their operation strategy. The result of this study shows that technology and supplier are also important factor that should be considered in preparing the operating strategy, because the effect of these factors are not small, even though not as big as the influence of consumer. Consumers of Indonesian garment industry have good taste, but their requirement has not been fulfilled by domestic manufacturers yet. Indonesian consumers will be interested and feel more prestigious if they can use imported garment products. If consumer is willing to purchase and use clothes from the domestic garment industry, it will significantly reduce the consumption level of the imported clothes. Kreitner and Kinichi (2001) stated that trust is the belief of a party concerning the purpose and behaviour of the other party.

The technology used in the garment industry in Indonesia nowadays (especially the machinery technology) is still an old technology, therefore it has big influence on the production process result. It means that existing technology is still not capable enough to produce garments to meet customer expectations and compete with imported products. Technology plays an important role in encouraging industrial structure changes and the creation of new industries. Nevertheless, the influence of technology to the operation strategy is not too significant due to the fact that the existing operation strategy has already consider the technological capabilities of the current industries. Advance in technology encourages domestic garment industry to improve their products continuously which would lead to consumers higher demand on the product and value of the product itself.

Respondents response on operation strategy indicates that Indonesian garment industry tend to implement flexibility and quality operation strategy. Quality strategy is a condition in which the production process of a product meet the specifications or consumer expectations (Atty, 2012). Demand for Indonesian garment products is getting higher, where the quality is not limited to the usage of its products, but also evolving towards consumers needs explicitly. In other word, consumer will state that product has a good quality if it can meet their needs explicitly. The results also show that the garment industry needs to be more concern about products quality by implementing continuous improvement in that matter. Eventually, the results of this study indicate that the garment industry in Indonesia should not have been confronted with the difficulties to produce a good quality product, since the employees have already understood the importance of product quality and continuous quality improvement. The quality of a product will be depends on the production process. In order to produce a good quality garment product, better machinery technology is a must, in addition to well qualified and creative employees.

Flexibility strategies used in the garment industry in Indonesia are intended to meet the customer demand in both volume and the variety of products. Production process of IGI use an operating strategy with a flexible approach, which means that production is adjustable to the consumers desires. In this rapidly changing business environment, flexibility strategies play more important role due to technology advancement and flexible manufacturing system (FMS). These strategies are used to respond to the rapid changes of a product or process which often expressed as a combination of volume. According to Wheelwright (1984), flexibility strategy is a plan that supposed to change from one product to another or almost suddenly from one part to another. Krajewski and Ritzman (2005) stated that some companies give top priority to flexibility as a mean of beating competitors.

In addition, this study also found that consumers easily switch from one brand to another brand, thus in these conditions the consumer has strong bargaining power. This is supported by the opinion of most direct empirical research by Ward et al. (1995) and Swamidass and Newell (1987) have provided supportfor a connection among operations strategy, environment and performance. Similarly, business strategy researchers have provided evidence that business unit performance is related to competitive strategy choicefor particular environment.

This is another indication that consumers have high expectations on every garment products and services. Sucherly (2003) stated that the demands shifts of customer are relatively dynamic, whereas the level of flexibility and adaptability of the company to respond was relatively low. Therefore, the level of consumers expectations or demands needs to be further analysed.

The findings from this study also pointed out that flexibility and quality strategy requires more intensive efforts to successfully face the global competition. Management of the garment industry dynamically change according to the demands of the environment, both internal and external. Performance measurement in this study only focuses on financial performance by looking at the level of production achievement, efficiency, targeted sales and profit. The financial performance should be seen from the indicators of funds allocation in each activity, structure and value of the assets, the ease of obtaining credit, support of financial resources and its efficient usage. The results also stated that not all of the garment industry in Indonesia can allocate funds effectively so it would impact the efficiency of these funds. Moreover, the result suggests that industry that has a good asset value and structure will get the ease of obtaining credit and financial support. The level of efficiency achievement is relatively lower than the production target, lead to high prices of garment product.

The implication of this study is that every garment industry in Indonesia should review the applied policies in order to achieve the company's performance, target efficiency and in line with the production targets achievement. The relatively high price of these garments would certainly impact on purchasing power, buying interest and consideration of the quality and design of products to be bought by consumers, then lead consumer do reconsideration to make purchase decisions.

According to Badri et al. (1999), dimension of uncertainty affects the environment and the operating strategy of the company's performance. In addition, the results of Daniel and Reitsperger (1991) found out that if a company uses an iterative strategy, it will provide more feedback to improve company performance.

The implication of this research is that the product development should refer to the real conditions and consumer demand, particularly design and product quality has to be able to lower the price, in order to reduce lagging behind the competitors. This garment industry eventually has huge potential in developing products, as long as they can develop more innovative and varied products, there is improvement in fashion strategy to increase consumer demand and retain both domestic and foreign customer to keep on using the diversified product from the garment industry in Indonesia. At last, it is important to cultivate on how to make the garment products become the 'host' in exist own country.

CONCLUSION

The external environment affects the performed operating strategy. Furthermore, the operating strategies also influence the performance of the garment industry in Indonesia. The most influential factors of external environment on the operating strategy are supplier and consumer, whereas technology has the lowest effect. The implemented operating strategy in the garment industry in Indonesia recently is the flexibility and quality strategy, aimed to create product flexibly in accordance with the development of consumer taste and purchasing power. Moreover, it is also intended to create competitive cloth products in an excellent quality as a result of this garment industry. The performance of the garment industry is still limited to the capability to produce targeted clothing product but has not reach the target of efficiency yet, hence it will make the price of per unit product become more expensive and not meet the standard quality requirements.

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