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THE EFFECT OF OWNERSHIP OF EXCLUSIVE INTERNATIONAL NETWORK AND PHYSICAL ASSET TO INNOVATIVE LOGISTICS CAPABILITY AND ITS IMPACT ON COMPETITIVENESS

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Abstract

This research intended to find out the description and the effect of ownership of the exclusive international network and physical assets on competitiveness through innovative logistics capability. It used strategic management theory especially dynamic capability school. It was a descriptive, quantitative, causal, or cross-sectional survey research; sample size consisted of 280 logistics service companies in Jakarta (Jabodetabek) by using probability sampling technique; data collection used questionnaires and processed by SEM-Lisrel program. The urgency of this research was to answer the importance of innovative logistics capability in enhancing the competitiveness of logistics services companies. This research tried to construct a model that can be used by the companies in enhancing their competitiveness through enhancing innovative logistics capability and certain resources. The findings of this research comprised the ownership of international exclusive network had a positive and significant effect on innovative logistics capability while the international exclusive network had no significant effect on innovative logistics capability; but simultaneously their effect on innovative logistics capability was positive and significant; innovative logistics capability had a positive and significant effect on the companies' competitiveness. Therefore, ownership of physical asset and international exclusive networks must be integrated so that they transform into innovative logistics capability in order to enhance the companies' competitiveness.

INTRODUCTION

Based on the logistics performance index issued by World Bank in 2016, Indonesia is the 63rd ranking of 160 surveyed countries. Meanwhile,

Indonesia's logistics cost is amount of 23,5% of Gross Domestic Product (GDP) in 2014 (World Bank, 2016). The condition is worse than Singapore, Malaysia, Thailand, and Vietnam. Therefore, improvement of national logistics competitiveness constitute important and urgent matter for Indonesia Government. One of Government programs in improving the competitiveness is National Logistics System Program (Sislognas) that prioritize on six aspects, namely key commodities, regulations, infrastructure, human resources, information and communication technology, and logistics service providers. Therefore, logistics service provider (LSP) had important role in improving the competitiveness.

Logistics services provider is a service company that performs all or part of other company's logistics functions (transportation, distribution, warehousing, etc.). Logistics service market of Indonesia is estimated amount of 4,396 trillion in 2020 (Frost & Sullivan, 2016). The big potential market has not been harnessed by local players, otherwise they are either closed or inactive. This is mainly due to the development of their non-innovative logistics service, while the competition is getting tighter and customer demands is more complex. Therefore, the logistics service companies need enhance their logistics innovative capabilities in order to enhance their competitiveness.

Theoretically, the innovative capabilities can be improved by tangible and intangible resources (Zheng & Zhao, 2013). Nevertheless, the contribution of each resource to the enhancement of innovative capabilities depends on the type of resources, industry, and company's life cycle (Carnes, Chirico, Hitt, Huh, & Pisano, 2016; De Massis, Audretsch, Uhlaner, & Kammerlander, 2018). According to Hitt, Ireland and Hoskisson (2015), resources will have impact on strategic competitiveness if it was modified to be logistics innovative capabilities. However, capabilities does not always has positive and significant effect on competitiveness (Wardaya, Idrus, Hadiwidjoyo, & Surachman, 2013). In connection with that, this research intend to examine the effect of exclusive international network (intangible resources) and physical assets (tangible resource) ownership to logistics innovative capabilities and its impact on competitiveness. International network has important role in the logistics service industry to develop their international business (export-import) but the logistics service companies have to choose the fit strategy in developing it. One of the strategies is based on its exclusivity, namely the companies can develop the international network either exclusive or non-exclusive. Whereas referring to the ownership of physical asset, the companies is faced the choices whether or not they have own the physical asset. The choices have been rising different orientation in kind of the companies, namely asset-based or non asset-based logistics service company where each orientation has certain its advantage and disadvantages. The issue once become controversy in the Association (ILFA) in 2013 because the government once arranged new draft of regulation to replace the old regulation (KM-10-1988) that the companies must have own the minimal quantity of certain physical assets (trucks, forklift, warehouse). The Association (ILFA) refused the new draft of regulation so that the government change it. Finally, the government applied the new regulation in the industry namely PM-74-2015. In the newest regulation, the government was not regulate anymore the minimal quantity

requirement of certain physical assets but there was a significant change in amount of authorized capital of the company, namely from Rp 200 million to be Rp 25 billion. Therefore, the regulation still remain has the same spirit with the previous draft although in the another facet. It meant that the regulation become uncondusive regulation and a problem for the companies.

Comprehensively, the objectives of the research include describe the conditions of exclusive international network and physical asset ownership, innovative logistics capability and firm competitiveness; examine the effect of exclusive international network ownership on innovative logistics capability; examine the effect of physical asset ownership on innovative logistics capability; examine the effect of exclusive international network and physical asset ownership simultaneously on innovative logistics capability; examine the effect of innovative logistics capability on firm competitiveness; examine the effect on exclusive international network ownership on firm competitiveness pass through innovative logistics capability; and examine physical asset ownership on firm competitiveness pass through innovative logistics capability.

LITERATURE REVIEW

Strategic management is the art and science in making decisions by companies to achieve their strategic competitiveness (David & David, 2017; Hitt et al, 2015). In this research used dynamic capability school that states the company's resources and capabilities is a better basis for strategy formulation (Hitt et al., 2015; Shuen, Feiler & Teece, 2014; Teece, 2014). This school embraces an inside-out rather than an outside-in approach, namely an approach that views company performance primarily as a function of the company's ability to utilize its resources.

Resource-based view (RBV) is a theory that company's performance is a function of various types of resources controlled by the company (Galavan, 2015; Shuen et al., 2014). The resources consist of tangible and intangible assets controlled by a company that can be used to develop and implement its strategies. Two basic assumptions of RBV are resource heterogeneity and resource immobility (Rothaermel, 2017, Barney & Hesterly, 2015). The heterogeneity means that the package of resources and capabilities owned by each company is different or unique. While the immobility means that resources and capabilities tend to stick and not easily move from one company to another. Based on the Resource-Based View (RBV), the company can develop its strategic competitiveness if it is supported by adequate resources both tangible (physical assets, financial, etc.) and intangible (network, information and communication technology, etc.).

Dynamic capability is a company's ability or capacity to integrate, build and reconfigure internal and external competencies to address rapidly changing environments through sensing, seizing and transforming processes (Inan & Bititci, 2015; Shuen et al., 2014; Teece & Al-Aali, 2013). Innovative capability is one of capabilities that has important role in developing company's dynamic capabilities (Breznik & Hisrich, 2014; Zhou, Zhou, Feng, & Jiang, 2017). It is the company's ability to develop new products and / or markets, through the alignment of a strategic innovation orientation with innovative processes and behaviors.

Network is one of intangible company's resources (Galavan, 2015). It is a collection of long-term relationships both formal and informal (direct or indirect) built by two or more parties (Ratajczak-Mrozek, 2012). In this research, the exclusive international network is defined as exclusive overseas agents that owned by logistics service companies for supporting their international business. While logistics physical assets is defined every physical asset (truck, warehouse, forklift, etc.) that have potential or actual value for the company. Physical assets are key drivers for supply chain performance in terms of responsiveness and efficiency (Chopra & Meindl, 2013). Whereas the innovative logistical capabilities is defined as the ability of logistics service companies in developing innovative products and/or market logistics services. The dimensions of innovative logistics capabilities include the capability of exploring business opportunities, the capability of developing new products or services, and learning capabilities. Competitiveness is the company's ability to use innovative and productive resources or production factors to increase output, maintain and gain market share, offer goods and services, respond and win competition, and create customer value. The competitiveness is defined as the ability of logistics service companies in using resources innovatively to respond competition and create value for customers. The dimensions of competitiveness include financial strength, customer value, and skills.

According to previous research, innovative capabilities had positive and significant effect on company's competitiveness (Wardaya et al., 2013). Ownership of network had positive and significant effect on innovative capabilities (Zheng & Zhao, 2013). Ownership of physical assets had positive and significant effect on innovative capabilities (Othman, Arshad, Aris, & Arif, 2015). In the previous studies discussed innovative capabilities, network, and physical assets in general. In this study, however, it deals specifically with innovative logistical capabilities, international exclusive networks, and physical assets. In addition, in this study also examined the innovative logistical capabilities as a mediator variable of exclusive international network and physical assets on company's competitiveness.

Thus, the enhancement of logistics innovative capability is a very important aspect in increasing the companies' competitiveness. In order to improve the companies' innovative capabilities should be supported by resources (Zheng & Zhao, 2013). Physical assets (tangible assets) and networks (intangible assets) are commonly needed resources by various companies in an effort to improve its innovative capabilities (Zheng & Zhao, 2013). But whether or not the exclusive network international and physical assets constitute the strategic resources needed to improve their innovative capabilities and competitiveness.

MATERIALS AND METHODS

Based on its problem formulation and hypotheses, the research is a quantitative research; based on its objectives, the research constitute a descriptive and causal or verification research; based on data collection method, the research is a survey cross-sectional (Cooper & Schindler, 2014; Sekaran & Bougie, 2016). The research used organization as unit of analysis and the companies' leader as observation unit. The research used questionnaire (Likert scale) and probability sampling (simple random

sampling) in collecting data. The sample size consisted of 280 respondents namely transport management or logistics service companies registered as members of Association (ILFA) in Jakarta Region.

The data were processed by SEM-LISREL program. The program used 2ndCFA measurement model, the validity and reliability test is processed twice, that is, the first-order and second-order measurement models. The first level is the CFA model showing the relationship between the latent variables and the observed variables as indicators of the latent variables concerned. The second level is the CFA model showing the relationship between latent variables at the first level as indicators of a second level latent variable. These first-level latent variables are often referred to as the dimensions of latent second-level variables.

The research consisted of two exogenous variables namely ownership of exclusive international network (A or ξ_1) and physical assets (B or ξ_2); and two endogenous variables, namely innovative logistics capability (C or η_1), and firm competitiveness (D or η_2). The innovative logistics capability (C) was also as mediator variable of exclusive international network (A) and physical assets (B) on firm competitiveness (D). Variable-A (ξ_1) had two dimensions and eight indicators, Variable-B (ξ_2) had three dimensions and nine indicators, Variable-C (η_1) had three dimensions and fourteen indicators, and variable-D (η_2) had three dimensions and nine indicators. The research had one descriptive objective and six verification or hypotheses test objective, namely:

- H₁: Ownership of exclusive international network (A) has an effect on innovative logistics capability (C).
- H₂: Ownership of physical assets (B) has an effect on innovative logistics capability (C).
- H₃: Ownership of exclusive international network (A) and physical assets (B) simultaneously has an effect on innovative logistics capability (C).
- H₄: Innovative logistics capability (C) has an effect on firm competitiveness (D)
- H₅: Ownership of exclusive international network (A) has an effect on firm competitiveness (D) pass through innovative logistics capability (C).
- H₆: Ownership of physical assets (B) has an effect on firm competitiveness (D) pass through innovative logistics capability (C).

Before testing the hypotheses, the data was prepared by conducting statistical classic tests encompasses normality, multicollinearity, heteroscedasticity, and validity-reliability tests. The fitness of model was tested by using nine goodness of fit indexes (GOFIs) comprises Adjusted Goodness-of-Fit Index (AGFI), Standardized Root Mean Square Residual (Std. RMSR), Root Mean Square Error of Approximation (RMSEA), Non-Normed Fit Index (NNFI), Normed Fit Index (NFI), Comparative Fit Index (CFI), Incremental Fit Index (IFI), Relative Fit index (RFI), and Goodness-of-Fit Index (GFI). The GOFIs standards used in the research namely Adjusted Goodness-of-Fit Index ($AGFI \geq 0.90$), Standardized Root Mean Square Residual (Std. RMSR ≤ 0.08), Root Mean Square Error of Approximation (RMSEA ≤ 0.08), Non-Normed Fit Index (NNFI ≥ 0.90), Normed Fit Index (NFI ≥ 0.90), Comparative Fit Index (CFI ≥ 0.90), Incremental Fit Index (IFI ≥ 0.90), Relative Fit Index (RFI ≥ 0.90), and Goodness-of-Fit Index (GFI ≥ 0.90).

RESULTS AND DISCUSSIONS

Based on validity-reliability test, the results showed that all loading factors both first-order and second-order had good validity, unless indicator-PA3 (value of physical assets) was not valid because its loading factor (SLF) lower than 0.50. In the connection with that, the indicator was not included anymore in further data processing. It was concluded that the validity and reliability of all observed variables to the latent variable are good. Referring to normality, the value of skewness is 1992.677 and Z-score is 82,675. Since Z-score is higher than 1.96, it showed that the data was not has multivariate normal distribution, so that the estimation of maximum likelihood (ML) can not be used as estimator. Therefore, this research used Satorra-Bentler or robust maximum likelihood as estimation method (Amirkhanova, Davletkalieva, Muldasheva, Kibataeva, Satygliyeva, & Arynhanova). Whereas regarding multicollinearity, the test results showed that Variance Inflation Factors (VIF) less than 10, so it can be concluded that there was no multicollinearity in the data, it meant that there was no heteroscedasticity on its regression model.

Descriptively, logistics service companies in DKI Jakarta region (Jabodetabek) comprise 73% of local companies (PMDN); 81% of medium and small scale; 72% had international agents less than 20 countries; 77% had certified experts less than five persons (customs or PPJK, freight forwarding, logistics, supply chain management, dangerous goods, HSE or K3, and information technology); 95% had trucks less than 50 units and 58% of its age less than six years; 58% had forklifts less than six units and 40% of its age less than six years; 53% had warehouse area less than 3,000 M²; 82% had working capital less than Rp 10 billion; 90% had liquidity rate less than 2 (two) times; 94% had gross profit margin lower than 20%; 98% had net profit margin lower than 12%; 67% had sales growth rate of 11% - 20%; 84% had customer retention rate lower than 80%; 94% had customer acquisition rate lower than 20%.

The companies had limited or low exclusive international network. It meant that export-import logistics service activities in Indonesia are still dominated by foreign logistics service companies whereas local companies mostly oriented on domestics business. Generally, the condition was caused by Indonesian companies still using incoterms-FOB (free on board) for their export activities, otherwise using incoterms-CIF (cost-insurance-freight) for their import activities. In fact, the ownership of international networks was a prerequisite for logistics services companies in developing their international business but having their own international network (through foreign direct investment) was not easy matter because it required a lot of capital and strict policy in the host countries. Therefore, a lot of logistics services companies develop their international network through cooperation with other parties in certain countries either exclusive or non-exclusive agents. The companies also had inadequate physical assets (truck, forklift and warehouse). This condition meant that their physical assets both in quantity and quality were still below government standards. This condition also showed that logistics service companies in DKI Jakarta (Jabodetabek) mostly were non-assets based. In addition, generally these companies were small and medium-sized logistics services companies.

The companies had sufficient innovative logistics services capabilities. This condition meant that the companies should improve the capabilities namely include capability in exploring new business opportunities, capability in developing new logistics products or services, and capability in learning. In general, non assets-based and small-scale logistics services companies rely on their experience, knowledge, and creativity in offering their logistics services to customers. So that experienced employees owned by these companies had a positive contribution to improvement of innovative logistics capabilities. The companies also had sufficient competitiveness. This meant that their competitiveness should be improved in terms of financial strength, customer value, and skills. The condition comprehend with descriptive data of their working capital, liquidity rate and experts number. This condition also become obstacle for the companies in participating the bidding process particularly in the long-term logistics service contract.

The result of the first hypothesis test showed that ownership of exclusive international network had positive and significant effect on innovative logistics capability. The results comprehended with Perin, Sampaio, Jimenez-Jimenez, and Cegarra-Navarro (2016), Mazzola, Perrone and Kamuriwo (2015), and Jian and Wang (2013) stated that network had positive and significant effect on innovative capability. Logistics services companies usually develop international networks either exclusively or non-exclusively particularly in developing less than container load (LCL) services. In practice, the two types of networks had advantages and disadvantages. The advantages of the exclusive international network are continuity and size of volume support both exports and imports, trust, and prefinancing. While the disadvantages consist of franchise or royalty fee that must be paid in joining the network, contribution of export volume to the network and agents meeting expenses. The most important dimension of exclusive international network was the network quality, namely encompasses the contribution of export and import volume, members loyalty, responsiveness and payment commitment. In addition, the number of members and scope of countries are important dimensions in developing international networks.

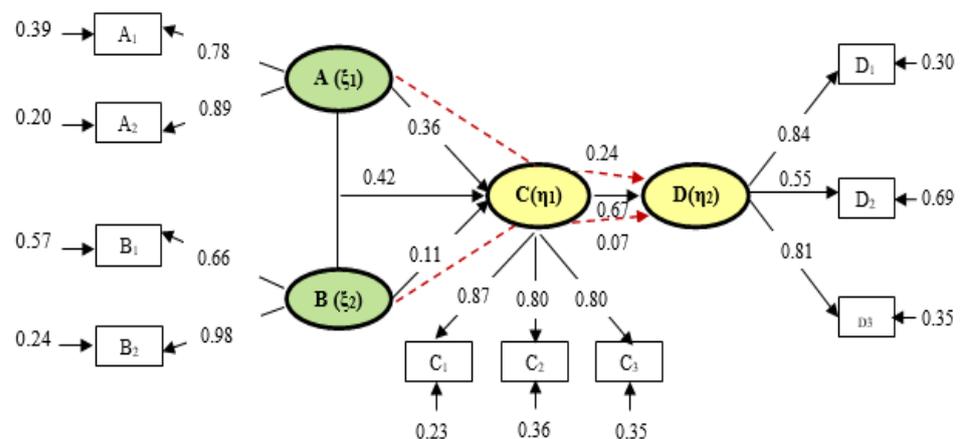


Figure 1. Standardize Structural Model

The result of the second hypothesis test showed that ownership of physical assets had no significant effect on the innovative logistic capability. The result comprehended with Othman et al. (2015) that stated the same result.

The companies need resources to develop innovative logistics capabilities (Desai, 2013; McGrath, 2013) but it had different significance depend on the type of industry, firm life cycle, and the type of resources (Carnes et al., 2016; Sudrajat, Budiastuti, Setiadi, & Supeli, 2017). The most important dimension of ownership of physical assets was its quality or feasibility instead of quantity. Feasibility of warehouse constitute the most important indicator for logistics service company. The results of this study were also in line with the change of economic model namely from the owning economy to the sharing or collaborative economy where the orientation of buy-own-control assets transforms into access of assets (Kasali, 2017; Turino, 2016).

The result of the third hypothesis test showed that international network and physical assets simultaneously had positive and significant effect on innovative logistics capabilities. It meant that resources owned by the company will become a reliable capability and significant effect on firm competitiveness if the resources were packaged into a unique resources. The result comprehended with Hitt et al. (2015) stated that each resources partially had no significant effect on firm competitiveness.

The result of the fourth hypothesis test showed that the innovative logistics capabilities had a positive and significant effect on firm competitiveness. The results comprehended with the previous studies (Srivastava, Sultan & Chasti, 2017; Liu & Jiang, 2016) stated that the innovation capability had positive and significant effect on firm competitiveness. It meant that the companies in improving their financial strength especially liquidity and working capital then they have to enhance the capability in exploring new business opportunities. In line with descriptive data that the companies in the industry mostly constitute small and medium scale where they are facing in financial problem so that innovative strategies are needed in developing their business in order to achieve an adequate market share. Therefore, it can improve their growth through the new customers acquisition so in turn increase their financial condition especially concerning liquidity and working capital.

The result of the fifth hypothesis test showed that the ownership of exclusive international network had a positive and significant effect on the firm competitiveness pass through innovative logistics capabilities. The results also stated that the innovative logistics capabilities mediated the effect of the ownership of exclusive international network on the firm competitiveness, in other words that innovative logistics capability was a mediator variable for the effect of the relationships between the both variables. ownership of an exclusive international network on the competitiveness of logistic services firms. The results of the study comprehended with previous research stated that networks had a positive and significant effect on the firm competitiveness (Tresca, 2013; Veres, Feher & Balogh, 2014).

The result of the sixth hypothesis test showed that the ownership of physical asset had a positive and significant effect on firm competitiveness pass through innovative logistics capability. The results showed that the physical asset could be a source of firm competitiveness but it had to be changed, integrated, or reconfigured into innovative logistics capabilities. It meant that the ownership of physical asset had to be capability in exploring

new business opportunities, developing new products or services, and learning process in order to enhance their competitiveness.

Theoretical implications of the research results namely innovative logistics capability mediated the effect of exclusive international network and physical asset ownership on firm competitiveness, there were not all resources had positive and significant effect on innovative logistics capability, the package of resources had more significant effect on innovative logistics capability than each separately and financial aspects have been becoming the most important indicator for the firm competitiveness. Whereas the practical implications of the research encompasses the companies have to develop their international network both exclusive and non-exclusive; develop strategic outsourcing in providing physical asset to support operational activities; enhance abilities in exploring new business opportunities, developing new logistics services, and learning.

CONCLUSIONS

Descriptively, the logistics service companies in DKI Jakarta (Jabodetabek) had limited or low exclusive international network, inadequate physical assets (truck, forklift and warehouse), sufficient innovative logistics capability, and sufficient competitiveness. The ownership of exclusive international network had positive and significant effect on innovative logistics capability. The ownership of physical asset had insignificant effect on innovative logistics capability. The ownership of exclusive international network and physical asset simultaneously had positive and significant effect on innovative logistics capability. The innovative logistics capability had positive and significant effect on firm competitiveness. The ownership of exclusive international network had positive and significant effect on firm competitiveness pass through innovative logistics capability. The ownership of physical asset had positive and significant effect on firm competitiveness pass through innovative logistics capability.

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