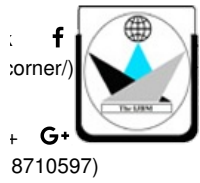


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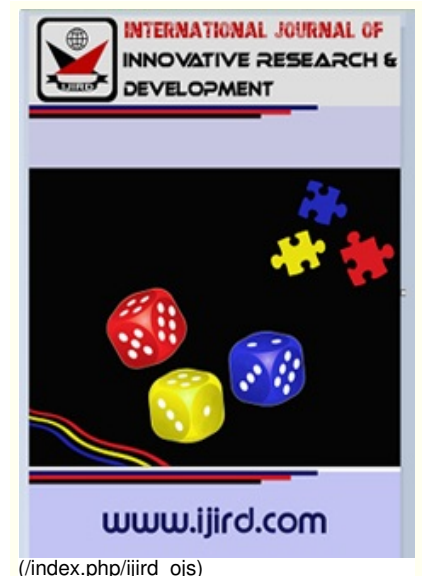
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## Analysis of Strategic Competency and Organization Performance: Evidence from Private Universities in Indonesia

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### Abstract

*The competitive environment in education require private universities to be able to create competitive advantage to survive. In this circumstance, strategic competence development becomes important to improve organizational performance. Strategic competence represents the influence of organizational and individual characteristics that might impact organization's ability to recognize signals to identify organizational weaknesses that need to be changed. This study conducted to examine factors affecting organization's strategic competence, including organization service orientation, organizational learning, and external environment. Research also conducted to examine the influence of strategic competence on organizational performance at private universities in Indonesia. The research was involved 56 respondents from private universities in Indonesia. The results showed that among the three factors considered to influence strategic competence, namely service orientation, organizational learning, and external environment, only external environment has significant influence on strategic competence. The results also show that strategic competence has significant influence on organizational performance. The results of this study are expected to give contribution to the development of strategic management literature and practical contribution for decision makers as consideration to formulate appropriate strategies related to the development of strategic competence and the improvement of organizational performance.*

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# THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

## Analysis of Strategic Competency and Organization Performance: Evidence from Private Universities in Indonesia

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### **Abstract:**

*The competitive environment in education require private universities to be able to create competitive advantage to survive. In this circumstance, strategic competence development becomes important to improve organizational performance. Strategic competence represents the influence of organizational and individual characteristics that might impact organization's ability to recognize signals to identify organizational weaknesses that need to be changed. This study conducted to examine factors affecting organization's strategic competence, including organization service orientation, organizational learning, and external environment. Research also conducted to examine the influence of strategic competence on organizational performance at private universities in Indonesia. The research was involved 56 respondents from private universities in Indonesia. The results showed that among the three factors considered to influence strategic competence, namely service orientation, organizational learning, and external environment, only external environment has significant influence on strategic competence. The results also show that strategic competence has significant influence on organizational performance. The results of this study are expected to give contribution to the development of strategic management literature and practical contribution for decision makers as consideration to formulate appropriate strategies related to the development of strategic competence and the improvement of organizational performance.*

**Keywords:** *Strategic competence, organizational performance, competitive advantage*

### **1. Introduction**

The rapid growing competition for higher education demands education to start thinking and formulating the right competitive strategy in providing superior service to students and prospective students who are both current and potential customers. Both students and potential students have important role in maintaining organizational survival and improving its competitiveness. Interesting courses with a pledge of adequate facilities and services for students is becoming a prevalent phenomenon in today's higher education competition. On the other hand, both students and prospective students as customers have been able to think more rationally in determining the choice of courses and colleges that they selected. This can be explained that along with the development of information and communication technology, all information related to education activities, physical facilities, college reputation, and prospects offered after students complete the education level can be accessed openly. This condition requires universities to improve education quality and services as well as to provide the right choice for students and prospective students to continue higher education in selected universities.

In current education competitive environment, the reputation of a large university with length of operation is no longer considered as a source of competitive advantage, therefore it is necessary to extract resources of college competitive advantage from another perspective, one of which is by developing strategic competence to improve organizational performance so that the organization is able to compete in a very dynamic environmental condition. Strategic competence is defined as the ability to acquire, store, repeat, interpret and act on relevant information in order to survive in the long run, making it profitable for the organization (Sparrow & Hodgkinson, 2006). According to Grant (1996), competence represents the influence of organizational and individual characteristics that have an impact on the organization's ability to recognize signals that identify organizational weaknesses that need to be changed. To improve its efficiency, organizations need to have strategic competence and consistent in responding to the organization's environment. The development of organizational strategic competence is needed to improve organizational performance. Basically, organizational performance is a concept that difficult to understand explicitly because the concept of performance is usually understood implicitly. Organizational performance is a measurable outcome that is influenced by the abilities and desires of the organization. Koontz and Donnel (1993) argue that organizational performance is an

organizational ability to achieve goals, such as high returns, product quality, increased market share, better financial performance, and survival over a period of time using appropriate strategies for action. Organizational performance is an indicator to measure achievement of goals and outcomes.

This study conducted to examine factors influence organizational strategic competence, such as the service orientation, organizational learning, and external environment. The variables are modified from the research conducted by Hidayat (2008) and Setiawati, Christiananta, and Ellitan (2017). Setiawati et al. (2017) argued that the concept of organizational culture is described as organization's ability to provide excellent service to consumers and as manifestation of organization's service orientation. The organization's service orientation seeks to see the quality of service as not only based on experience, but also based on consumer's perspective towards service (Mukherjee & Malhotra, 2006).

Wheelen and Hunger (2002) argue organizations that have the will to experiment and to learn from experiences will be more successful than non-learning organizations. Garvin (2000) as cited in Hidayat (2008) defines organizational learning as an organizational skill to create, acquire, interpret, transfer, and share knowledge that aims to modify behavior in describing new knowledge and insights. In the context of strategic management, organizational environment is defined on the basis of the organization's immediate or nearest environment and directly or indirectly affects the organization (Hitt, Ireland, & Hoskisson, 2001). According to Wheelen and Hunger (2000), organizational environment differentiated in the internal environment and the external environment. The internal environment is the structure, culture, and resources, while the external environment is the environment outside the organization as resource provider (Clark, Varadarajan, & Pride, 1994). The external environment also deals with uncertainty conditions that are difficult to forecast changes.

Research on the analysis of strategic competence and organizational performance is important because competition occurs in various industries, both manufacturing and services. In this condition, the organization needs to have the right strategy so that it can survive in the competition. Similarly, the world of education, particularly higher education also faces the challenge of increasingly competitive competition, so that higher education needs to focus on the development of competitive human resources and have the necessary capabilities in the world of work so as to achieve organizational competitive advantage. The organization's ability to achieve competitive advantage requires strategic competence that will ultimately affect organizational performance. This study was conducted to answer the following issues: 1). Does organization's service orientation have positive effect on strategic competence? 2). Does organizational learning have positive effect on strategic competence? 3). Does external environment have positive effect on strategic competence? 4). Does strategic competence have positive effect on organizational performance?

## 2. Literature Review

### 2.1. Overview of Higher Education in Indonesia

Improvement and management of organizational knowledge and learning is essential in today's global competitive environment. Competition is full of intensive competition, and rapid innovation. The emergence of a new era of knowledge in the early decades of the 1990s, characterized by the importance of new source of competitive advantage known as "new millennium resources." These new millennium resources covering all the assets, capabilities, organizational processes, attributes, information, and knowledge needed to improve organizational efficiency and effectiveness. In this era, resource values are highly dependent on information or knowledge possessed. Knowledge becomes a very important weapon to achieve sustainable competitive advantage. This era of knowledge is indicated by the increasing popularity of knowledge-based competition (Anatan, 2007).

In this knowledge-based era, the role of higher education as a producer of knowledge is very important. In its development, higher education has undergone a role transition from initially focusing on Tri Dharma Perguruan Tinggi which covers the field of teaching, research, and community service, become important role also as engine of economic growth (Gorranson, 2011 in Anatan, 2017). Under Law No. 12, 2012 Chapter 1 (2) it is clear that higher education is the level of post-secondary education which includes diploma, bachelor, master, doctorate, profession and specialist education conducted in cultural colleges in Indonesia (Setiawati et al., 2017).

Soehendro (1996) as cited in Setiawati et al. (2017) argued that the basic foundations of universities in Indonesia consist of four functions. These functions include: 1) Universities as tool for producing labor, which has specific qualifications and productive functions in society. 2) Universities as a tool to educate and train concepts and researchers, 3) Universities as tool to implement the learning process in an efficient, effective, and productive way, 4) Universities as tool to achieve better quality of life for the community. Therefore, universities need to focus on the implementation of strategic approaches and strategic processes.

### 2.2. Hypotheses Development

This study conducted to examine the factors influencing strategic competence, include service orientation, organizational learning, and external environment. This study also investigates the influence of strategic competence on organizational performance. Setiawati et al. (2017) argues that the discussion about service quality from the perspective of consumers is still very limited. The majority of research on service quality takes into account the service experience factors received by consumers (Mukherjee & Malhotra, 2006). The orientation of organizational service tries to see service quality not only based on experience but also from customer's perspective on service which is manifested in the form of employee's behavior and attitude which has direct influence on the service quality process given. According to Lyles et al., (1998) quoted in Setiawati et al. (2017) the organizational service orientation consists of four service areas including

leadership service practices, meeting service practices, service system practices, and human resource management practices.

Previous empirical studies suggested that customers will be satisfied if employees have a good relationship with consumers and have an authority to meet consumer needs (Lyles et al., 1998 cited in Setiawati et al., 2017). Employees need to be empowered in decision-making. All services provided by the organization to its customers come from systems within the organization. The organization's ability to produce external service quality is directly related to internal service quality issues. These issues are studied in terms of employee attitudes, personality, beliefs, and behaviors. Recruitment, training, and reward service orientation have direct and positive influence on strategic competence. Wahner and James (1994) explain that accurate service quality strategy is an important factor affecting competitive advantage if it planned and implemented well, therefore this research hypothesized as follows:

- H1: Service orientation positively influences strategic competence.

Garvin (2000) as cited in Hidayat (2008) defines organizational learning as an organizational skill to create, acquire, interpret, transfer, and share knowledge aimed at modifying behavior to describe new knowledge and insights. According to Prahalad and Hamel (1990), to be a successful organization in a dynamic and competitive environment, an organization should be able to learn, at least at the same level as environmental changes and competitors to maintain its own strategic competence. The learning process must have a positive impact on performance so that the organization can learn more quickly to recognize the environmental changes that occur and can achieve competitive advantage, so it can be concluded that organizational learning has a positive effect on the strategic competence of the organization (Wang & Lo, 2003). Based on the previous study findings, this study developed the following hypothesis:

- H2. Organizational learning has a positive effect on strategic competence.

Hidayat (2008) argued that the influence of organization external environment can be explained through theories such as population ecology theory and contingency theory. Population ecology theory explains that organizational survival and success is determined by the characteristics in which the organization is located, affecting strategic competence and organizational performance (Wiklund, 1999 cited in Hidayat, 2008). Contingency theory explains how strategic planning can meet environment demand, if alignment between strategy and environment is not achieved, it will negatively impact on the organization's competitive advantage. Existing empirical evidence suggests that organizations that successfully align strategy with the environment have better performance and competitive advantage compared to other organizations (Elenkov, 1997 cited in 2008), therefore this study hypothesized as follows:

- H3. The external environment has a positive effect on strategic competence.

### 3. Research Method

#### 3.1. Sample and Data Collection

The population in this study is all private universities in Indonesia, while the sample research used in this study is private university with A and B accreditation. Data collected from the head of programs at private universities in Indonesia through purposive sampling method. This research uses secondary and primary data collected done at one time by using many respondents. In obtaining primary data, survey research was conducted by distributing research questionnaires to the head of programs at private universities in Indonesia through mail survey.

#### 3.2. Variable and Measurement

Organizational service orientation sees service quality as not only based on experience, but also from the consumer's perspective on service (Mukherjee & Malhotra, 2006). Five items of service orientation measurement consist of reliability, assurance, tangibles, empathy, and responsiveness. Organizational learning related to organization's expertise in creating, acquiring, interpreting, transferring, and sharing knowledge that aims to modify the behavior of its members to develop new knowledge and insight (Garvin, 2000). Six item of organizational learning measurements include thinking systems, mentality, personal skills, teamwork, shared vision, dialogue are adapted from Marquardt(1996). External environment is the environment that is outside the organization and needs to be analyzed to determine opportunities and threats faced by the organization. Five items of external environment measurements consist of government regulations, market dynamism, business competition, business costs, and political conditions (Masood et al., 2000 cited in Hidayat, 2008). Strategic competence related to the ability of companies to exploit different resources by using various organizational processes to achieve the desired results (Oliver, 1997). It consists of four items of measurement, competence quality, competency scarcity, level of difficulty to mimic, level of expertise of lecturer (Barney, 1991; Oliver, 1997). Organizational performance is a process or assessment system regarding the implementation of the work ability of an organization based on certain standards (Dill, 1996 quoted in Hidayat, 2008). Five items of organizational performance measurements include teaching quality, number of studies, research publications, graduate work readiness, and number of students (Dill, 1996 as quoted in Hidayat, 2008).

### 4. Findings

#### 4.1. Data Collection

Data collection from respondent targets was conducted from the beginning of February 2018 until mid of July 2018 through mail survey. Data collected from the head of program or the dean of the faculty from private universities in Indonesia. Questionnaires were sent to 200 prospective respondents with a 28% return rate or 56 questionnaires. The 56

respondents have structural positions as deans (1 person), vice deans (2 persons), heads of study programs (42 persons), and secretaries of study program (11 persons) from various universities in Indonesia.

#### 4.2. Validity and Reliability Testing

The result of the validity and reliability test of the instruments are presented in Table 1. Based on the results of validity testing shows there are two items of the questionnaire that must be issued with the value of homogeneity items ranged from 0.446-0.935. Reliability test results show Cronbach Alpha value ranges from 0.593-0.938.

| Variables                  | Number of Items | Items Excluded | Cronbach Alpha | Items Homogeneity |
|----------------------------|-----------------|----------------|----------------|-------------------|
| Service Orientation        | 5               | 0              | 0.938          | 0.843-0.935       |
| Organizational Learning    | 6               | 0              | 0.920          | 0.798-0.880       |
| External Environment       | 5               | 2              | 0.593          | 0.446-0.693       |
| Strategic Competence       | 4               | 0              | 0.666          | 0.655-0.770       |
| Organizational Performance | 5               | 0              | 0.776          | 0.500-0.890       |

Table 1: Validity and Reliability Testing

Source: Data Processed

#### 4.3. Descriptive Statistics

The average of respondents' answers to each of the variables in this study is shown in Table 2. The average of respondents' answers regarding the variables in the study which include service orientation, organizational learning, organizational environment, strategic competence, and organizational performance is relatively high ranging from 5.0000-5.8107.

|                            | Mean   | Std. Deviation |
|----------------------------|--------|----------------|
| Service Orientation        | 5.8107 | .79947         |
| Organizational Learning    | 5.7262 | .79100         |
| External Environment       | 5.1679 | .65480         |
| Strategic Competence       | 5.2946 | .75695         |
| Organizational Performance | 5.0000 | .91929         |

Tabel 2: Descriptive Statistics

Source: Data Processed

#### 4.4. Correlations between Variables

The result of correlation between variables in this study that includes service orientation, organizational learning, organizational environment, strategic competence, and organizational performance are shown in Table 3.

|    |                     | SO     | OL     | EE     | SC     | OP     |
|----|---------------------|--------|--------|--------|--------|--------|
| SO | Pearson Correlation | 1      | .768** | .440** | .439** | .553** |
|    | Sig. (2-tailed)     |        | .000   | .001   | .001   | .000   |
|    | N                   | 56     | 56     | 56     | 56     | 56     |
| OL | Pearson Correlation | .768** | 1      | .509** | .524** | .635** |
|    | Sig. (2-tailed)     | .000   |        | .000   | .000   | .000   |
|    | N                   | 56     | 56     | 56     | 56     | 56     |
| EE | Pearson Correlation | .440** | .509** | 1      | .469** | .501** |
|    | Sig. (2-tailed)     | .001   | .000   |        | .000   | .000   |
|    | N                   | 56     | 56     | 56     | 56     | 56     |
| SC | Pearson Correlation | .439** | .524** | .469** | 1      | .540** |
|    | Sig. (2-tailed)     | .001   | .000   | .000   |        | .000   |
|    | N                   | 56     | 56     | 56     | 56     | 56     |
| OP | Pearson Correlation | .553** | .635** | .501** | .540** | 1      |
|    | Sig. (2-tailed)     | .000   | .000   | .000   | .000   |        |
|    | N                   | 56     | 56     | 56     | 56     | 56     |

Tabel 3: Correlations between Variables Correlations

Source: Data Processed

\*\* Correlation Is Significant at the 0.01 Level (2-Tailed)

#### 4.5. Hypotheses Testing

Table 4. Shows the results of hypothesis testing and all deviations from classical assumptions such as normality, homoscedasticity, multi-collinearity and autocorrelation have been tested. From the partial model test results, it can be

concluded that the service orientation and organizational learning does not have significant influence on strategic competence (significance value .383 and .104), so that the first and second hypothesis is not supported, while the third hypothesis is supported show that the external environment has a significant influence on strategic competence (significance value 0.005).

| Model    | Stand.β | Stand. Error | t     | Sig  | F      | Sig  | R <sup>2</sup> |
|----------|---------|--------------|-------|------|--------|------|----------------|
| Constant | 1.377   | .714         | 1.928 | .059 | 10.726 | .000 | .347           |
| OP       | .151    | .162         | .879  | .383 |        |      |                |
| PO       | .295    | .171         | 1.653 | .104 |        |      |                |
| LE       | .344    | .100         | 2.459 | .005 |        |      |                |

Table 4. Results of the First, Second, and Third Hypotheses  
Source: Data Processed

Table 5. shows the results of the fourth hypothesis testing that examines the effect of strategic competence on organizational performance. The result of hypothesis testing shows that strategic competence has significant influence on organizational performance with significance value 0.000, so that the fourth hypothesis is supported.

| Model    | Stand.β | Stand. Error | t     | Sig  |
|----------|---------|--------------|-------|------|
| Constant | 1.531   | .744         | 2.057 | .045 |
| KS       | .540    | .139         | 4.709 | .000 |

Table 5: Result of the Fourth Hypothesis  
Source: Data Processed

The concept of service orientation is the development of a classical approach to quality management such as the concept of total quality management (TQM) which generally focuses only on the internal quality of organization. While the service orientation emphasizes not only on the excellent service to the people who are in the organization, but also the excellent service to the consumers. Previous studies have shown that service orientation has a significant positive effect on organizational strategic competence (Homburg et al., 2002; Walker (2007; Lytle & Timmerman, 2006 as cited in Setiawati et al., 2017).

Organizational learning refers to an internal dynamic process of an organization that aims to create organizational knowledge and integrate organizational capabilities. In the context of learning, this activity focuses on organizational efforts to create knowledge, to improve knowledge acquisition process and to disseminate knowledge that involves individuals, groups, participants and other networks. Previous empirical studies proved that organizational learning has a significant influence on strategic competence (Wang & Lo, 2003; Škerlavaj&Dimovski, 2006).

This study shows different results from previous studies that neither service orientation nor organizational learning has significant effect on strategic competence. The results of the study that do not support the two hypotheses can be explained that there are a lot of private universities in Indonesia are still struggling to survive by depending on one of their stakeholders who play an important role in maintaining the university's survival, one of them is students. This has resulted in private universities having to work hard to attract prospective students to join their institutions. These conditions resulted in efforts to develop capabilities and competencies of internal resources in the form of organizational learning and service orientation (especially internal services) is still neglected. The results show that only the external environment has a significant influence on strategic competence given the external environment of both competitors, government regulation, and the dynamics of the external environment has an important role in the development of strategic competence of the organization. The results also show that strategic competence has a significant positive effect on organizational performance.

## 5. Conclusion

Based on the findings, several things that can be underlined include: 1) The results showed that both service orientation and organizational learning did not have significant influence on strategic competence, so the two hypotheses are not supported. This condition can be explained by the reality in Indonesia that it cannot be denied that not a few private universities in Indonesia still have to struggle to survive in the increasingly tight educational world competition by putting forward the efforts to attract prospective students to join the institution, so that the effort the development of internal resources capability and competence in the form of organizational learning and service orientation is still neglected. 2) The results also show that only the external environment has significant influence on strategic competence. It can be explained that the external environment from competitors, government regulation, and the dynamics of the external environment has important role in the development of strategic competence of the organization. 3) The results also show that strategic competence has a significant positive influence on organizational performance.

Researchers acknowledge there are still a number of limitations in this study which resulted in the insufficient research results obtained. First, the number of respondents involved is still considered too small. The model and the results of the research are not yet generaliz able due to the large number of private university population in Indonesia. Secondly, researcher only use the perception of study program and or faculty leader in answering the questions of the questionnaire, therefore it cannot be detected whether other fields that directly related to the development of strategic competence and organizational performance have the same perception to the issue studied in this research.

This research is expected to provide benefits as a consideration for the organization, especially the courses in developing strategic competence to improve organizational performance. This research is expected to contribute to academics especially in developing strategic management literature and encourage further research which is far more perfect and provide greater benefit. The development of a comprehensive research model needs to be done to explain various important aspects that have influence in the development of strategic competencies such as leadership style and other aspects that have not been studied in this research.

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