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RESEARCH ARTICLE

DIFFERENTIATION LEVEL, ORGANIZATIONAL REPUTATION, AND FINANCIAL PERFORMANCE WITH MARKET-BASED CAPABILITIES AS A MEDIATION VARIABEL ON FOOD INDUSTRY IN SURABAYA.

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Abstract

Tight competition causes companies to have the ability to compete. Companies that fail will experience failure. The dynamics of competition make organizations that survive are organizations that have an element of differentiation namely innovation, uniqueness and renewal. The company is tested for its character through positive community views or in other words its reputation is tested. Winners of the competition dynamics get prizes in the form of defense and increased financial performance. However, it turns out that this is also not always true. The above phenomenon shows that companies are very vulnerable to being affected by market changes.

This study uses primary data by surveying samples from a population using a questionnaire and analyzing respondents as the object of research. The population in this study is the medium and large scale food industries in accordance with the characteristics set in the Surabaya region, namely 207 business units. The analysis technique used to analyze data is Partial Least Square (PLS).

The results of data analysis show that the level of differentiation has a significant effect on market-based capabilities, market-based capabilities have a significant effect on financial performance, differentiation level has no significant effect on financial performance, organizational reputation has a significant effect on market-based capabilities,and organizational reputation has a significant effect on financial performance.

Introduction:-

The Indonesian economy is stable, according to the quarterly report of the Indonesian economy as of June 2017 released by the world bank. The head of the world bank representative in Indonesia Rodrigo Chaves (2017), stated in Soehanna Energy Building, Jakarta, June 15, 2017, that GDP growth increased 5.2% in 2017 and predicted around 5.3% in 2018 (Kompas Economy, November 2017) . The business outlook in Surabaya is also still bright with an increase in the middle class population. This can be seen from the decreasing number of poor people in Surabaya. With all its potential, facilities and geographical advantages Surabaya has great economic potential. This makes Surabaya one of the main trade gateways in Eastern Indonesia.

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Surabaya's economic growth continues to increase, in 2015 economic growth was 5.97 percent. In 2016 economic growth reached 6 percent. The food and beverage industry sector has a contribution of 15 percent for the Surabaya economy (http://jatim.tribunnews.com/2017/02/09/bps-tak-berani-pastian-pertumbuh-ekonomi-surabaya-ini-alasannya).

The East Java Tribune on January 23, 2018 contains the statement of Tjahyono Haryono, chairman of the Indonesian cafe and restaurant business association (Apkrindo) regarding the food beverage industry, which continues to grow above 2 digits and is estimated to be around 25 percent, although some businesses in the food sector are out of business. with more amount. On the other hand, KEMENPERIN (downloaded from the official website on February 18, 2018) states that the food and beverage industry in Indonesia holds considerable potential, even its growth is almost twice that of national economic growth. The average growth of the food and beverage industry grew by 9.5 percent, while the national economy was only 5 percent. Growth in the food industry is driven by rising people's incomes and the growth of the middle class population. This is in accordance with the graph of the food and beverage industry that grows above the gross domestic product (GDP) issued by the database on January 30, 2018 as below:

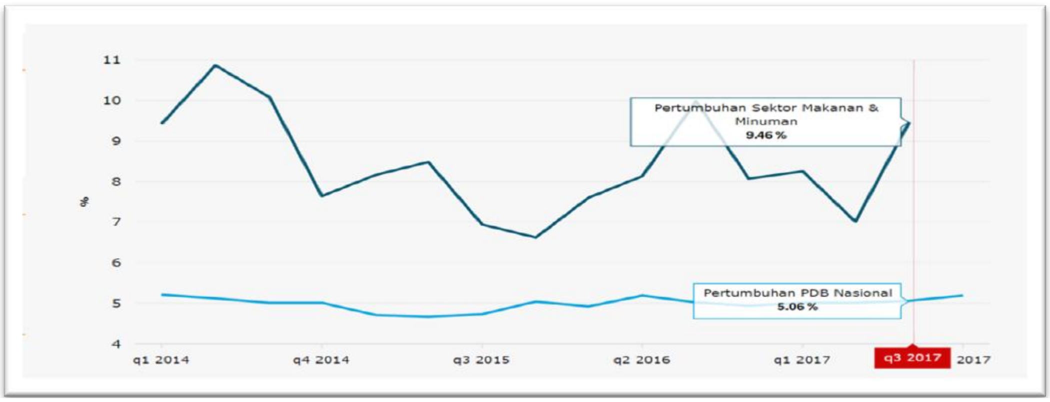


Figure 1:-Growth of the Food and Beverage Industry to National GDP (TW I 2014 - TW III 2017)Sumber: Databoks (Januari 2018)

Ramaswami et al. (2009) use the view of RBV from companies to examine the effect of market-based capabilities (MBC) on financial performance. The results of his research show that MBC has a positive influence on financial performance. The RBV approach in this research is in the form of market-based capabilities (MBC), organizational reputation and differentiation strategies.

Porter (1980) suggests the importance of unique strategies to win the competition. Strategy can be defined as a unique way, to achieve an organizational goal, through setting the strategy and the process of its implications. Porter's unique strategy is known as a differentiation strategy that is a strategy that creates uniqueness through creativity so as to increase the ability to obtain and maintain markets. This is supported by Chenhall and Langfield-Smith (1998) research who suggested that differentiation strategies are closely related to the level of differentiation of creativity in goods / services products that are able to encourage industrial expansion and the creation of uniqueness. The stronger the differentiation strategy used, the higher the level of differentiation. This is also supported by Kaliappen and Haim (2014); Auzair (2011) who introduced differentiation and measurement instruments using a measure of differentiation through the introduction of new products and their speed, different uniqueness compared to competitors, more varied support facilities, increased service speed, quality improvement, custom, and after-sales service. According to Davcik and Sharma (2015) industrial organization theory shows product differentiation has an important role in performance, further they argue that companies can get higher prices with product differentiation. Therefore this study prefers product differentiation in measuring the level of differentiation. Further research conducted by Parnell (2011) in Argentina, Peru, and the United States concluded that the level of differentiation can improve performance. Empirical investigations conducted by Newton et al. (2015) states that the level of differentiation can affect above average return. This can happen because the level of differentiation is effectively used in order to create customer loyalty for goods/services. These benefits encourage organizations to create uniqueness and increase brand loyalty for goods and services (Ronald et al., 1990).

Differentiation is a way to capture customer perceptions. This determines whether the customer sees your product. This is the first step in gaining a reputation (Vahabzadeh et al., 2017). Organizational reputation is uniqueness that is intangible and cannot be imitated by competitors (Gamez, 2015). Fombrun (2000) suggests the determinants of organizational reputation as success in financial performance, the quality of products / services produced, the ability to serve the emotions of customers, the creation of a work environment for internal and social parties. According to Fombrun (2005), organizations need a reputation in creating harmony between customer expectations, capabilities and organizational vision. Dowling (2014) concluded the organization's reputation as an image (image and brand) of stakeholders towards the organization. If the reputation of the organization is bad, it is difficult to develop due to the negative stigma attached to it. Conversely the reputation of a good organization provides convenience in obtaining facilities that support operations and achieving goals. The development of a good reputation has an impact on the success of financial performance, appreciation and stakeholder trust (Barney, 1991). The empirical study conducted by Romenti (2010) in Italy proves that companies that almost went bankrupt in 1990 can succeed to get out of their slump to continue to improve organizational learning and develop new business solutions by involving stakeholders so that companies can recover from losing investor confidence .

Organizational reputation and high levels of differentiation do not necessarily improve financial performance for companies. This was found by Inglis et al. (2006) in his research, that organizational reputation does not affect financial performance. Financial performance is also determined by market acceptance of the product or service produced. If the market does not provide a response in the form of needs and desires to use these products / services, then it is useless to have a unique and quality product and even a good reputation.

Although in general the level of differentiation and reputation of an organization influences financial performance such as the Kaliappen et al. (2014); Obasi (2006); Newton et al. (2015); Chernatony (1999); Baden-Fuller and Hwee (2001), but not all studies support this. The empirical study conducted by Inglis et al. (2006) in Australiaindicates that there is no significant relationship between reputation and financial performance. Lu (2014) has conducted a review between 2002-2011 in which several decades of debate have been related regarding the existence or absence of a relationship between organizational reputation and financial performance. The study found that the relationship between organizational reputation and financial performance is not static, changing over time. Another study conducted by Allen et al. (2007) in Japan also stated that differentiation is not a better strategy than the cost leadership strategy. Kafetzopolous and Psomas (2015) in their study found that the ability to innovate did not have a direct impact on financial performance.

The gap analysis above shows that the level of differentiation and reputation of the organization does not automatically affect financial performance. The research gap shows that there is inconsistency between the use of levels of differentiation and organizational reputation that affect financial performance. This indicates that the organization's reputation and level of differentiation may require mediation to influence financial performance. This study intends to examine Market-Based Capabilities (MBC) as a mediator. Ramaswami (2009) defines MBC as the ability to combine tangible and intangible assets into organizational competencies in order to develop value and competitive advantage. Market-based capabilities help business organizations to be more capable of winning competition (Gray et al., 2007). According to Srivastava (2008) there are three indicators in MBC, namely new product development (New Product Development), customer management (Customer Management) and Supply-Chain.

The customer value-based differentiation strategy encourages market research efforts, the selection of target markets and product development processes which are indicators of MBC (Potocan, 2013). Wongsansukcharoen et al. (2013) in his research said that the banking industry uses a differentiation strategy and CRM indicator from MBC to gain a competitive advantage.

Reputation not only serves as a guarantee of quality but also is a driving force for the knowledge market in determining market prices (Yamamoto and Ohta, 2001). Cole (2012) said that reputation is a means to regulate communication and broader operational reach and is a strategic activity to optimize market value.

The core elements of business processes are customers, products, services to customers, finance and top management (Moorman, 1999). Ramaswami (2006) states that MBC's performance influences financial performance better, the measure of financial performance used is Return on Assets (ROA), Earnings Before Interest and Taxes (EBIT), sales growth, cash flow growth, market value growth. Ramaswami (2009) supports previous research conducted by Srivastava (1998) which stated that MBC contributed to the financial performance of the organization.

With the characteristics of industries that have strong competitiveness and diverse players, and supported by the absence of dominating actors and a good supply chain process, the food industry is one example of an industry capable of applying the MBC concept in a changing environment. This encourages research that focuses on Market-Based Capabilities (MBC) in mediating the influence of the level of differentiation and organizational reputation on organizational financial performance. With the characteristics of industries that have strong competitiveness and diverse players, and supported by the absence of dominating actors and a good supply chain process, the food industry is one example of an industry capable of applying the MBC concept in a changing environment. This encourages research that focuses on Market-Based Capabilities (MBC) in mediating the influence of the level of differentiation and organizational reputation on organizational financial performance.

Literature Review

Resource Base View

Resource Based Theory (RBT) suggests that companies are able to increase competitive advantage through internal capabilities by understanding the company's unique characteristics in managing resources so that they become capital to survive and win competition in the long run (Wernerfelt 1984). The theory is the basis of further research as done by Rumelt (1984), Dierickx and Cool (1989), Barney (1991), and Collins and Montgomery (2005) which offer different approaches than before. RBV believes that resources are the main key to achieving financial performance. If resources have scarcity values (not easily imitated or replaced) then these resources can be utilized to achieve sustainable competitive advantage. The strength of the RBV lies in its competitive advantage based on internal alignment and external positioning. The RBV approach differs from the previous approach which was more of an approach to the external environment (industrial organization). RBV is more focused on the supply model of own demand rather than demand create own supply.

Differentiation level

Porter (1985) introduces differentiation strategies as a strategy that uses a unique approach to operational processes and products / services that can be accepted by the market. It can create competitive advantage and encourage the creation of financial performance in winning competition. Potocan (2013) in his research found that customer value-based differentiation strategies will encourage market research efforts, target market selection and product development processes which are indicators of MBC. Obasi et al. (2006) define differentiation strategies as a strategy to attract consumers with knowledge and sophistication to create unique products or services so that consumers are willing to pay higher prices for nonstandard products. The hypothesis:
H1: The level of differentiation has a significant effect on market-based capabilities.
H3: The level of differentiation has a significant effect on financial performance.

Organizational Reputation

Organizational reputation is influenced by image and identity proposed by Fombrun (2000) in the form of financial performance success, product / service quality, ability to serve customer emotions, creation of a work environment for internal and social parties. Cole (2012) said that reputation is a means to regulate communication and broader operational reach and is a strategic activity to optimize market value. Gamez (2015) states that organizational reputation as an intangible asset has an impact on market value and significantly improves financial performance.

The hypothesis:

H4: Organizational reputation has a significant effect on market-based capabilities
H5: Organizational reputation has a significant effect on financial performance.

Market-Based Capabilities (MBC)

Ramaswami (2009) defines MBC as the ability to combine tangible and intangible assets so that it becomes the company's competence in order to develop value. Market-based capabilities help business companies to be more capable of winning competition (Gray et al., 2007). Ramaswami et al. (2009) stated that Market Based Capability (MBC) has an effect on better financial performance. The measures of financial performance used are Return on Assets (ROA), Earnings Before Interest and Taxes (EBIT), sales growth, cash flow growth, and market value growth. The level of differentiation does not guarantee the achievement of financial performance if the organization is unable to enter the market. This implies that appropriate differentiation is not enough to achieve superior

performance but must be supported by Market-Based Capabilities (MBC). Levels of differentiation and reputation alone are not enough to achieve financial performance above the average, MBC enables organizations to better understand the market and become an intervening variable in achieving success in financial performance. The hypothesis is:
H2: Market-based capabilities have a significant effect on financial performance.
H6:Market-based capabilities mediate the relationship between the level of differentiation and financial performance
H7: Market-based capabilities mediate the relationship between organizational reputation and financial performance

Financial Performance
Financial performance according to Fraser et al. (2010) is an efficient and effective operation and financial management performance that achieves high profitability, as well as the adequacy of the flow of funds. Srivastava (2006) measures financial performance, uses the approach of sales, profits, growth, loan rates to other parties, satisfaction in the financial sector.

Research Issue and Methodology
Research Issue
This research is explanatory research, which is a type of causality research that aims to explain the relationship between variables through testing hypotheses (Ghozali, 2014).

Methodology:-
The population in this study was the food industry in Surabaya with a large scale and medium scale sampling taking into account the opinions of several researchers such as Julien (1998) who stated that the smaller the organization, the more vulnerable it is because small businesses usually consist of several people, generally there are still family relationships and often a family inheritance business. Sampling in order to represent the entire population, then in this study used Proportional Random Sampling Area sampling technique, where this technique requires a method of sampling based on the division of areas (regions) in proportion to the population. The sample design of this type is suitable to be chosen so that in each group of elements, the heterogeneity is maintained, so that the composition of the sample can be cultivated in such a way that it is similar to the characteristics of the population. The food industry data in accordance with the characteristics set in the Surabaya area are as many as 207 units with details in Table 3.1.

Tabel 3.1:-Number of Medium and Large Food Industry Populations in Surabaya

Wilayah	Jumlah
Surabaya Pusat	19 USB
Surabaya Utara	75 USB
Surabaya Timur	50 USB
Surabaya Selatan	24 USB
Surabaya Barat	39 USB
TOTAL	**207 USB**

Source: Surabaya Office of Industry and Trade (2016) processed

From the data in Table 3.1, the sample is chosen by writing the numbers 1-19 for Surabaya Center, numbers 1-75 for North Surabaya, numbers 1-50 for East Surabaya, numbers 1-24 for South Surabaya and numbers 1-39 for West Surabaya. The numbers are drawn based on the region and the numbers that come out are selected according to the results of calculations in Table 3.2 to be sampled in this study.

Table 3.2:-Number of Large and Medium Category Food Industry in Surabaya by Region

Wilayah	Jumlah
Surabaya Pusat	$\frac{19}{207} \times 99 = 9.08 = 9$
Surabaya Utara	$\frac{75}{207} \times 99 = 35.86 = 36$
Surabaya Timur	$\frac{50}{207} \times 99 = 23.91 = 24$
Surabaya Selatan	$\frac{24}{} \times 99 = 11.47 = 11$

	207
Surabaya Barat	39 x 99 = 18.65 = 19 207
TOTAL	**99 unit usaha**

Source: Surabaya Office of Industry and Trade (2016) processed

Finding and Discussion:-

Findings

Descriptive Statistic

Deskripsi Responden Menurut Jumlah Karyawan

Descriptions of respondents according to the number of employees based on the distribution of questionnaires are presented in Table 4.1 below.

Table 4.1:-Research Samples Based on Number of Employees

Kelompok Usaha	JumlahKaryawan	Frekuensi	Persentase (%)
Sedang	20 – 99	40	40%
Besar	≥ 100	59	60%
Total		99	100%

Source: Results of questionnaire data collection, processed.

Table 4.1 shows the characteristics of respondents based on the classification of the number of employees in the medium business as many as 40 companies (40 percent) with the number of employees of 20 to 99 people and in large businesses as many as 59 companies (60 percent) with a number of employees of more than 100 people.

Description of Respondents According to Company Age

Descriptions of respondents according to company age are presented in Table 4.2 below.

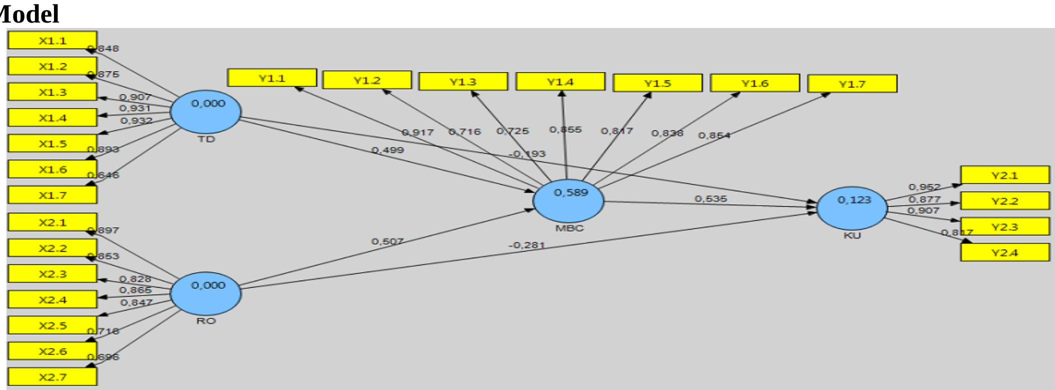
Table 4.2:-Research Samples Based on Company Age

Umur (tahun)	Jumlah	Persentase
3 – 8	43	43%
9–14	38	39%
>14	18	18%
Total	99	100%

Source: Results of questionnaire data collection, processed.

The results of distributing questionnaires obtained information that companies aged between 3-8 years were 43 companies (43 percent), 9-14 years as many as 38 companies (39 percent), and> 14 years as many as 18 companies (18 percent. Age classification of the most many are in the category between 3-8 years.

Outer Model



Gambar 4.1:-SmartPls Processing Results

The results of testing the full model above with the SmartPLS program can be seen from the R-Square value that describes the goodness-of-fit of a model. The recommended R-square value is greater than zero. The results of data processing in this study using SmartPLS provide the R-square value as shown in Table 4.3.

Average Variance Extraced (AVE)

Discriminant validity can be seen from AVE (Average Variance Extraced). The AVE value is declared satisfactory if> 0.5 (Hulland, 1999), the AVE test results are shown in the following Table 4.4:

Table 4.4:-Nilai AVE

Variabel	Nilai AVE
Tingkat Diferensiasi (X1)	0,751
ReputasiOrganisasi (X2)	0,669
Market-Based Capabilities (Y1)	0,673
KinerjaKeuangan (Y2)	0,791

Source: Results of questionnaire data collection, processed.

R-Square value that describes the goodness-of-fit of a model. The recommended R-square value is greater than zero. The results of data processing in this study using SmartPLS provide the R-square value as shown in Table 4.5.

Table 4.5:-Goodness of Fit dari R-Square

Variabel	R-Square
Tingkat Diferensiasi (X1), ReputasiOrganisasi (X2)>Market-Based Capabilities (Y1)	0,589
Tingkat Diferensiasi (X1), ReputasiOrganisasi (X2) >KinerjaKeuangan (Y2)	0,123

Source: Results of questionnaire data collection, processed.

Table 4.5 explains that the contribution or proportion of the Differentiation Level (X1) and Organizational Reputation (X2) variables to Market-Based Capabilities (Y1) is 0.589, Differentiation Level (X1) and Organization Reputation (X2) to Financial Performance (Y2) is 0.123 . The results of all R-Square values indicate that all R-Square values are greater than zero. This means that this research model has met the required Goodness of Fit.

Hypothesis Test Results

The results of the inner path coefficient along with the significance values for the full direct effect are shown in Table 4.6.

Table 4.6:-Direct Variable Effects of Research

Pengaruh	Bootstrap			
	Koef. Original	Koef. Bootstrap	Uji t	P value
Tingkat Diferensiasi (X1)-> Market Based Capabilities (Y1)	0.499	0.500	**8.186**	0.000
Market Based Capabilities (Y1)->KinerjaKeuangan (Y2)	0.535	0.545	**3.078**	0.002
Tingkat Diferensiasi (X1)->KinerjaKeuangan (Y2)	-0.193	-0.194	**1.517**	0.130
ReputasiOrganisasi (X2)-> Market Based Capabilities (Y1)	0.50	0.50	**6.862**	0.000
Reputasiorganisasi (X2) ->KinerjaKeuangan (Y2)	-0.281	-0.281	**2.002**	0.046

Source: Results of questionnaire data collection, processed.

Indirect relationships occur between: Differentiation Level (X1), Organizational Reputation (X2), Market-Based Capabilities (Y1) with Financial Performance (Y2). Indirect relationships that occur between these variables are presented in Table 4.7 below:

Table 4.7:-Indirect Variable Effects of Research

Pengaruh	Bootstrap			
	Koef. Original	Koef. Bootstrap	Uji t	P value
Tingkat Diferensiasi (X1)->KinerjaKeuangan (Y2)	0.267	0.277	**2.737**	0.007
Reputasiorganisasi (X2) ->KinerjaKeuangan (Y2)	0.271	0.270	**3.017**	0.003

Source: Results of questionnaire data collection, processed.

Discussion:-

Hypothesis test results based on the results of PLS analysis show that the hypothesis about the level of differentiation has a significant influence on market-based capabilities. This illustrates that the influence of the variable level of differentiation on market-based capabilities is significant. These results are similar to those of Potocan (2013) in their study found that customer value-based differentiation strategies will encourage market research efforts, target market selection and product development processes which are indicators of MBC.

Hypothesis test results based on the results of PLS analysis indicate that the hypothesis about organizational reputation has a significant direct effect on acceptable financial performance. The results of this study are in line with the findings of Ljubojevic and Ljubojevic (2008) that organizational reputation helps companies to get good employees, attract consumers, increase consumer loyalty, which can be implemented as a competitive performance factor and is useful in obtaining capital. The results of this study reinforce the findings of Robert and Dowling (2002) which confirm that there is a positive relationship between reputation and financial performance.

Hypothesis test results based on the results of PLS analysis indicate that the hypothesis about the level of differentiation has a significant direct effect on financial performance in the food industry is not acceptable. This can mean that changes in the level of differentiation will not bring changes to financial performance. The results of this study reinforce the findings of Aliqah (2012) that differentiation strategies have insignificant relationships with company performance that have indicators of ROI, sales growth, cash flow, customer satisfaction, quality products and market development. The results of this study are in line with the findings of Nandakumar et al. (2011) which states that differentiation does not correlate with financial performance. According to Nandakumar et al. (2011) cost leadership and differentiation strategies help organizations to meet company goals but do not help improve financial performance.

Hypothesis test results based on the results of PLS analysis indicate that the hypothesis about organizational reputation has a significant direct effect on acceptable market-based capabilities in the food industry. This can be interpreted that changes in organizational reputation bring changes to market-based capabilities positively. The better the reputation of the organization, the better the market-based capabilities. The results of this study reinforce the opinion of Yamamoto and Ohta (2001) that reputation does not only function as a guarantee of quality but also a driving force for the knowledge market in determining market prices.

Hypothesis test results based on the results of PLS analysis indicate that the hypothesis about market-based capabilities has a significant direct effect on financial performance in the food industry in Surabaya. This can be interpreted that changes in market-based capabilities bring changes to financial performance positively. The results of this study strengthen the research of Ramaswami et al. (2009) which examined the influence of MBC on organizational business processes that include New Product Development (NPD), Supply Chain (SC) and Customer Relationship Management (CRM), and their influence on the organization's financial performance. The results show that SC and CRM have a significant effect on financial performance, with the ability to predict markets, value creation, orientation to key customers, and supply chain leadership are driving factors in financial performance. The results of this study also reinforce the opinion of Srivastava et al. (1998) that market-based capabilities can accelerate cash flow receipts and increase cash flow.

Hypothesis test results based on the results of PLS analysis show that there is an indirect influence between the level of differentiation on financial performance through market-based capabilities with positive values. It can be concluded that market-based capabilities mediate the causal relationship between the level of differentiation and financial performance. Kaliappen and Hilman (2014) show that service innovation capabilities are proven to be able to significantly mediate the relationship between the level of differentiation and organizational performance.

Hypothesis test results based on the results of PLS analysis indicate that there is an indirect influence between organizational reputation on financial performance through market-based capabilities with positive values. It can be concluded that market-based capabilities mediate the causal relationship between organizational reputation and financial performance. Organizational reputation according to Barney (1991) is an intagible asset that can create a competitive advantage. But according to Priem& Butler (2001) how to carry out intagible assets on changing market conditions to create customer value. Therefore Srivastava et al. (1999) create a framework that shows how market-based assets and capabilities are used in the face of businesses to provide customer value and achieve competitive advantage.

Conclusion, Limitation and Research Extention

Conclusion:-

The level of differentiation in this study has an indirect influence on financial performance through market-based capabilities. By mediating market-based capabilities, the level of differentiation in the food industry is more appropriate and in accordance with market tastes. So that the differentiation carried out does not incur large costs. If differentiation is supported by market-based capabilities, the products produced are more in line with market demand, so that it will improve financial performance. The company differentiates by making varied products, this makes the company out of focus. With the existence of market-based capabilities that focus on customers who consume their products, the products that are produced already have market targets so that sales will continue to rise.

Companies that want to improve their reputation will increasingly try to improve the quality of their products. To improve product quality, companies need market-based capabilities so that the products produced can be accepted by the market. With products received by the market, financial performance will increase.

This research has limitations, namely only in the food industry in Surabaya, therefore further research with a wider scope is needed, for example in all industries in Surabaya or the food industry in Indonesia. The results of this study prove that in the food industry in Surabaya Market-Based Capability plays a role as a mediating variable between the level of differentiation and financial performance and organizational reputation with financial performance. Future research can apply it to different populations. This study assesses organizational reputation based on the opinions of internal companies. Further research should consider the organization's external opinion in assessing the reputation of the organization.

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