

Assessing Business Performance of the Traditional Market Trader: The Role of Buyer-supplier Relationship and Dynamic Capabilities

Moh Farid Najib ^a

Business Administration Department, Bandung State Polytechnic, Indonesia

Keywords: Buyer-Supplier Relationship, Dynamic Capabilities, Business Performance.


Abstract: Traditional market competition is not only facing the development of modern markets, and competition among traders. Therefore, the importance of buyer-supplier relations and the dynamic capabilities of traders is driving their business performance. The purpose of this study is to empirically examine the impact of the buyer-supplier relationship on business performance, and the mediating effect of dynamic capabilities. This study is based on empirical data collected from a survey of 840 traditional market traders in West Java, Indonesia on 69 traditional markets. Structural equation modelling (SEM) was used to test the research question by using the two stages. The first measuring the model by confirming the loading factor, Cronbach's alpha, variance extracted, construct reliability and discriminant validity. Secondly, testing the structural model. This study provides evidence that the business performance of traditional market traders is significantly linked to the buyer-supplier relationship and dynamic capabilities. The buyer-supplier relationship can build the dynamic capabilities of traditional market traders, which in turn can improve their business performance. This research contributes to the literature by providing empirical evidence that buyer-supplier relationship and dynamic capabilities of traditional market traders need to be continuously improved to ensure the availability of products and the competitiveness.

1 INTRODUCTION

The buyer-supplier relationship is an essential phenomenon in the context of industrial business marketing management because it can provide the partners with the opportunities to access important resources for the incorporation and creation of value (Lunnan & Haugland, 2008). In supply chain management the role of the buyer-supplier relationship is very important (Bello et al., 2003; Dyer & Chu, 2003; Najib et al., 2017). Buyer-supplier relationships in this context refer to the "Business to Business" construct. Thus, the important role of the relationship of buyer-supplier is; to control the diversity and utilization of knowledge, mobilizing resources, and coordinating, in other words, marketing and logistical perspectives, which means that the relationship of buyer-supplier has been identified as having a significant influence on buyer satisfaction and being a significant measure to anticipate the sustainability of the business relationships (Daugherty et al., 1998). The buyer-

supplier relationship provides competitiveness for companies (Prior, 2012), provides improvements in the marketing process (Asare et al., 2013), and is a key element of supplier relationships, including, long-term relationships (Rajagopal & Rajagopal, 2009), can improve business performance (Ambrose et al., 2010; Hsu et al., 2008; Najib et al., 2017). Purchasing efficiency and optimization of operating costs are a form of successful management of buyer-supplier relationships and the overall supply portfolio (da Silveira & Arkader, 2007; Ketchen Jr & Hult, 2007).

Therefore, to build the achievement of a good form of relationship, dynamic capabilities must be supported. Therefore, the importance of research on dynamic capabilities because the business performance of a company can be improved through dynamic capabilities. The dynamic capability has a significant positive effect on business performance, although there is no strong empirical evidence in the research literature that supports this idea (Helfat et al., 2009; M. Hitt et al., 2001). The concept of dynamic

^a <https://orcid.org/0000-0002-2064-6779>

capabilities essentially has implications for the capabilities of the company in utilizing resources within the company but is also related to the renewal and development of its capabilities (Najib et al., 2017). The principle of dynamic capability is to reconstruct and improve the core capabilities in response to the dynamic market to improve the performance and sustainability of competitive advantage (Dadashinasab & Sofian, 2014). An understanding of the competitive value of market orientation needs to be illustrated from the perspective of dynamic capabilities (Eisenhardt & Martin, 2000; Teece, 2007; C. L. Wang & Ahmed, 2007). The dynamic capabilities concept has improved the view of resource-based by anticipating the changing of company resources and ability concerning the changing of environmental and allows to identify the important specific processes for the company or industry evolution (Hou, 2008). A strategy of streamlining responsibility can improve business performance through developing and improving a company's dynamic capability (Hervas-Oliver et al., 2013).

This research focuses on traditional market traders in Indonesia who are seen as small businesses in the retail sector. The traditional market facing many challenges in the midst of changing the map of retail business competition in Indonesia. It's because the quality of modern market services shows better than traditional markets (Najib & Sosianika, 2018). This research aims to contribute in the field of respective research in explaining, what is the relationship between buyer-supplier relationships, dynamic capabilities of business performance among traditional market traders.

2 LITERATURE REVIEW

2.1 Buyer-supplier Relationship

The key elements of the buyer-supplier relationship, such as; long-term relationships, communication, cross-functional teams, and supplier integration which are followed at different levels of the transaction process (Rajagopal & Rajagopal, 2009). The indicators of supplier relevance consist of four, namely; trust, commitment, information sharing, and idiosyncratic partner of investment (Prior, 2012). The buyer-supplier relationships are built through, such as; honest communication, task competence, quality assurance, interactional courtesy, legal compliance, and, financial balance (Gullett et al., 2009). The

buyer-supplier relationships are built through; trust, commitment, communication, resource dependence, adaptation, and uncertainty (Ambrose et al., 2010). The conclusion (Najib et al., 2017) states that buyer-supplier relationships are built through; contract of agreement, cooperation norms, information exchange, operational linkage, and adaptation by seller and buyer.

2.2 Dynamic Capabilities

Dynamic capabilities as abilities that help parts in expanding, modifying, and reconfiguring operational capabilities while leading to new capabilities that are more suitable for changing environments (Pavlou & El Sawy, 2011). Dynamic capability is defined as the company's capability to integrate, build and reconfigure internal and external competencies to deal quickly with environmental changes (Zheng et al., 2011). The core of dynamic capabilities is the capability of organizations to develop, renew and maintain various resources (including tangible, intangible, and human resources) to create customer value (Mauludin et al., 2013).

The dynamic capabilities can be achieved through; sensing, learning, integration, and coordination capability (Gathungu & Mwangi, 2012). The dynamic capabilities over three dimensions, namely; integration capability, power capability, innovation capability (Tiantian, Gao; Yezhuang, Tian; Qianqian, 2014). The dynamic capabilities consist of; sensing, absorptive, integration, and innovation capability (Hou, 2008; Najib et al., 2017).

2.3 Business Performance

Business performance is a fundamental of responsive market orientation (RMO) and proactive market orientation (PMO) (Voola & O'Cass, 2010). The end result of an activity is performance (Thomas & Hunger, 2012). The business performance is fundamentally driven by the level of competition in the market where the company chooses to operate, which in turn is a function of the structural characteristics of that part of the market (Morgan, 2012). Because, company performance generally refers to organizational success, and success is considered as achieving organizational goals. Thus, company performance is important and the determinants index to determine the efficiency and effectiveness of the company (Najmabadi et al., 2013).

Measuring business performance can be done by waiting for market performance and financial

performance (Hsu et al., 2008). The measurement of business performance can be done by measuring customer retention, sales growth, operating profit margin, return on investment, and return on equity, (Najmabadi et al., 2013), market share growth, sales growth, and profitability (Najib et al., 2017). The measured business performance through measurements of average net profit growth, the value of work received, the number of contracts received, and the number of contracts renewed (Hussin et al., 2014). The company's performance is something important and a determining index to determine the efficiency and effectiveness of the company (Najmabadi et al., 2013).

2.4 Buyer-supplier Relationship, Dynamic Capabilities, and Business Performance

The buyer-supplier relationship has been identified a significant effect on buyer satisfaction and it's a measure of significance in anticipation of the sustainability of business relationships (Daugherty et al., 1998), and made a positive contribution to business performance (Helfat et al., 2009; M. A. Hitt et al., 2001). The buyer-supplier relationships are also able to provide competitiveness for companies (Prior, 2012), provide improvements in the marketing process (Asare et al., 2013), and as the key components of supplier relationships, including long-term relationships (Rajagopal & Rajagopal, 2009), improving a business performance (Ambrose et al., 2010; Hsu et al., 2008; Najib et al., 2017). The management of the buyer-supplier relationship will provide results which include; overall supply portfolio, improved supply efficiency and optimal operating costs (da Silveira & Arkader, 2007; Ketchen Jr & Hult, 2007).

The buyer-supplier relationship has a very important role in supply chain management (Bello et al., 2003; Doney & Cannon, 1997; Dyer & Chu, 2003; Sako & Helper, 1998). It can produce strategic benefits, especially a deep relationship with the interdependence of the company as a buyer or supplier (Chanchai et al., 2015), then it can be utilized to improve business performance (Barringer & Harrison, 2000).

Therefore, capability in managing relationships is an important one (Kale et al., 2002; Schreiner et al., 2009; Y. Wang & Rajagopalan, 2015). The role of a company's dynamic capabilities as an important source of competitive advantage is also very important. This dynamic capability has resulted in a

research focus on processes within the company. The purpose of the research on dynamic capabilities is to develop and renew its' resource base to deal with dynamic environmental changes (Hou, 2008; Pavlou & El Sawy, 2011; Teece, 2007; Zheng et al., 2011). Thus, the research hypothesis can be constructed as follows;

- H₁: Buyer-supplier relationship is positively related to business performance
- H₂: Dynamic capability is positively related to business performance
- H₃: Buyer-supplier relationship is positively related to dynamic capabilities

3 METHOD

3.1 Survey Instrument

The survey instrument was developed using a five-point Likert scale (strongly agree, agree, neutral, disagree, and strongly disagree). The operational variables of each construct are the result of the elaboration of theories, as follows: the supplier relationship variable with 16 items is developed from the results of the construct elaboration used by some research such as (Ambrose et al., 2010; Gullett et al., 2009; Najib et al., 2017; Prior, 2012; Rajagopal & Rajagopal, 2009). Furthermore, the variable of dynamic capabilities with 11 items was developed from the results of the construct elaboration used by (Gathungu & Mwangi, 2012; Hou, 2008; Najib et al., 2017; Tiantian et al., 2014). And for business performance variables with 13 items was developed from the results of the construct elaboration used by (Hsu et al., 2008; Hussin et al., 2014; Najib et al., 2017).

3.2 Data Collection

The data used to test the proposed hypotheses were collected from the results of a survey of 840 traders in 69 traditional markets in West Java, Indonesia, with 477 (56.6%) male respondents and 363 (43.2%) female gender profiles, from the business experience that 286 (34%) had more than 15 years, 191 (22.7%) had between 10 years and 15 years, 185 (22%) had between 5 years and 10 years, and 178 (21.2%) have been less than 5 years. The education level of respondents showed 141 (16.8%) had an elementary school, 239 (28.5%) had a junior high school, 388 (46.2%) had a high school, 44 (5.2%) had graduated diploma, and 28 (3, 3%) Bachelor's degree.

Furthermore, the status of the kiosks used for selling shows as many as 450 (53.5%) of their own and 390 (46.4%) of rent. Out of 840 respondents, 657 (78.2%) had business licenses and 183 (21.8%) did not have business licenses.

Structural equation modelling (SEM) was used to test the research question by using the two stages. The first measuring the model by confirming the loading factor, Cronbach's alpha, variance extracted, construct reliability and discriminant validity. Secondly, testing the structural model.

4 RESULTS AND DISCUSSION

4.1 Result

4.1.1 Measurement Model

Measurements used to test the hypotheses of this research are carried out using Structural Equation Modelling (SEM). Therefore, two processing phases are used, the first is the measurement model using the first order-Confirmatory Factor Analysis (CFA) and followed by the SEM. The general practice for both types of tests is to base the decision on accepting/rejecting various test statistics (e.g. AGFI, GFI, SRMR, NFI, CFI, RMSEA) (Hair et al, 2009), all of which have flaws. It becomes very dependent on the strength of the test (Sarlis & Gallhofer, 2014). The results of validity and reliability are determined by measuring the level of loading factor, variance extracted (VE), construct reliability (CR), discriminant validity (DC) and Cronbach's alpha (see Table 1, Table 2, and Table 3).

Measurement results of the model as shown in table 1, table 2 and table 3 using Confirmatory factor analysis (CFA) of exogenous construction (buyer-supplier relationship) can be accepted (CMIN = 2.498). The measurement model of absolute compatibility index is accepted (RMSEA = 0.059), additional indexes and GFI = 0.932, AGFI = 0.921, TLI = 0.950, NFI = 0.942, CFI = 0.963, IFI = 0.963, RFI = 0.936, (Hair, et al, 2009). And, the endogenous construct confirmation factors analysis (dynamic capability) can also be accepted (CMIN = 2.783), and the absolute compatibility index of the measurement model that is acceptable (RMSEA = 0.076) with additional indexes and GFI = 0.905, AGFI = 0.901, TLI = 0.946, NFI = 0.934, CFI = 0.943, IFI = 0.943, RFI = 0.990 The last confirmatory factor analysis for other endogenous constructs (business performance)

is acceptable (CMIN = 2.630), and the absolute match index of the measurement model that can be accepted with (RMSEA = 0.064) with additional indices and GFI = 0.921, AGFI = 0.906, TLI = 0.948, NFI = 0.924, CFI = 0.959, IFI = 0.959, RFI = 0.921.

The results of measuring the goodness of fit index criteria have shown the results are greater or equal to the suitability measure Therefore, a confirmatory analysis for all latent variables used in this study can be concluded that the theoretical concepts for indicators and manifest (Figure 2). However, these results are not sufficient to measure the suitability of the model, this means that an evaluation of the construct validity is still needed. Because the construct validity can provide confidence that the size of the indicators / sub indicators taken from the sample represents the population. Measuring the validity of the construction can be done through CV, AVE, CR, and, DC.

The results of construct validity as shown in table 1, table 2 and table 3 show that CV, AVE, CR, and, DC. The convergent validity is measured by the value of the loading factor. Convergent validity is an indicator that constructs must converge or share a high proportion of variance. The results from the estimated standard loading estimates as shown in table 2 that all loading factors are above 0.5. The estimated standardized loading must be equal to 0.50 or more and ideally 0.70. The loading factor must be equal to 0.30 for a sample size of at least 350 respondents (Hair, 2009). This means that for 840 respondents all loading factors are acceptable.

4.1.2 Structural Equation Modelling

The first measurement results show the level of acceptable goodness of fit and validation of the construct, then the next step is the measurement of the structural model. Figure 1 shows the overall model of the structural equation. The study purpose is to empirically examine the influence between the buyer-supplier relationship and business performance, and dynamic capabilities as a mediating variable. Figure 1, shows the influence of the buyer-supplier relationship, dynamic capabilities, and business performance. For more details, table 4 shows the testing of the research hypothesis.

Table 1: Validity and reliability construct variable buyer-supplier relationship.

Descriptions	Loading Factor	Cronbach's alpha	Variance Extracted	Construct Reliability	Discriminant Validity
Information Exchange		0.823	0.528	0.881	0.727
Quality of information received from suppliers	0.844				
Quality of information provided to suppliers	0.796				
Frequency of receiving information from your suppliers	0.626				
Frequency of providing information to your suppliers	0.612				
Operating Linkage		0.916	0.846	0.955	0.920
Implement procedures for supply/purchase	0.911				
Implement a system of supply/purchase activities	0.928				
Cooperative Norm		0.842	0.664	0.909	0.815
The level of congruence between expectations and reality in profitable cooperation with suppliers	0.634				
The level of compatibility between expectations and reality after transacting with suppliers	0.918				
The level of conformity between expectations and reality when dealing with suppliers	0.864				
Adaptation		0.853	0.580	0.900	0.761
Ability to adjust/adapt errors in the number of products made by the supplier	0.605				
Ability to adjust/adapt to product type errors made by the supplier	0.629				
Ability to adjust/adapt supply procedures by suppliers	0.882				
Ability to adjust/adapt the supply system by the supplier	0.883				
Legal Bond		0.851	0.573	0.892	0.757
The level of speed in finding transaction documents with suppliers	0.893				
The level of neatness in documenting each transaction with the supplier	0.923				
The level of commitment to the agreement with the supplier	0.582				
The level of agreement that is built with the supplier	0.550				

Table 2: Validity and reliability construct variable dynamic capabilities.

Descriptions	Loading Factor	Cronbach's alpha	Variance Extracted	Construct Reliability	Discriminant Validity
Sensing Capability		0.858	0.605	0.916	0.778
The capability to understand the dynamics that develop in the market	0.733				
The capability to understand customer needs	0.811				
Capability to feel the dynamics that develop in the market	0.785				
Capability to satisfy customer needs	0.780				
Absorptive Capability		0.856	0.623	0.916	0.790
Capability applies new values/information to the business	0.798				
Capability assimilates/adjusts the value/new information in the business	0.872				
Capability to recognize new information developments in the business environment	0.775				
Capability to recognize new values that develop in the business environment	0.704				
Innovation Capability		0.899	0.691	0.942	0.831
The capability to develop new markets (expansion) with innovative processes	0.845				
The capability to develop new markets in harmony with innovative behavior	0.823				
The capability to develop new types of products with innovative processes	0.842				
The level of capability to develop innovative new products	0.815				
Integration Capability		0.827	0.578	0.898	0.760
Capability to implement integrated inputs	0.508				
Capability ability to make an integrated input/suggestion effective	0.826				
Capability to apply patterns of integration of interactions in business	0.854				
Capability to be effective when integrating with the business	0.801				

Table 3: Validity and reliability construct variable business performance.

Descriptions	Loading Factor	Cronbach's alpha	Variance Extracted	Construct Reliability	Discriminant Validity
Sales Growth		0.928	0.762	0.960	0.873
The increase in the types of products sold	0.885				
The increase in the number of products sold	0.893				
The increase in the type of product requested by the customer	0.869				
The increase in the number of products requested by the customer	0.845				
Market Share Growth		0.912	0.728	0.960	0.853
The growth of the market share that is the business market forces	0.766				
The growth of the market shares due to the capability of business efficiency	0.868				
The growth of the market share of the number of products sold	0.903				
The growth of the number of the market share of the types of products sold	0.870				
Profitability		0.880	0.649	0.927	0.806
The level of ability to maintain business management efficiency	0.906				
The level of ability to manage the business efficiently	0.910				
Level of ability to generate the profits	0.691				
The increasing income from business	0.686				

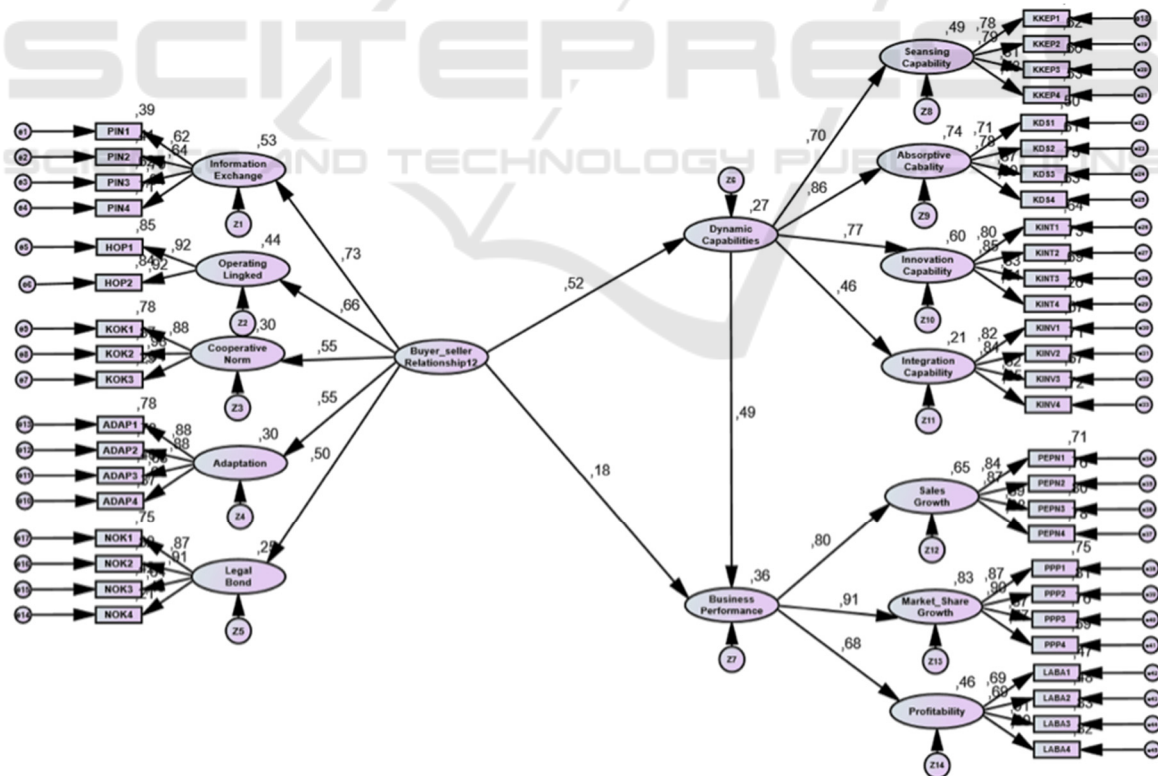


Figure 1: Structural equation model of buyer-supplier relationship, dynamic capability and business performance.

Table 4: Hypothesis Testing Result.

Hypotheses	Standardized (Estimated)	SE	CR	p-value	Result
H ₁ Buyer-Supplier Relationship → Dynamic Capability	.940	.147	6.414	.001	Accepted
H ₂ Dynamic Capability → Business Performance	.593	.083	7.185	.001	Accepted
H ₃ Buyer-Supplier Relationship → Business Performance	.384	.119	3.236	.001	Accepted

4.2 Discussion

SEM results, as shown in Table 4, state that H₁ (perceptions of traditional market traders in the buyer-supplier relationship are directly and positively related to dynamic capabilities) and show that the CR/Critical Value is 6.414, and the significance of the P-value (probability) is significant. In other words, the regression weights for the predicted dynamic capabilities in the buyer-supplier relationship differ significantly from zero at the 0.05 level (two sides), so it is decided to reject H₀ and accept H_a. Therefore, building a buyer-supplier relationship can improve the capabilities of the company to increase the competitiveness of the company (Asare et al., 2013; Prior, 2012), building a buyer-supplier relationship can increase purchasing efficiency and optimizing of the operational costs (da Silveira & Arkader, 2007; Ketchen Jr & Hult, 2007). Buyer-supplier relationships are built through; information exchange, operating linkage, cooperative norm, adaptation between seller and buyer, and legal bond. The highest quality of buyer and supplier relationships can increase the dynamic capabilities of traditional market traders because the various information obtained from suppliers can be anticipated in the face of changing the business environment. Therefore, to build the achievement of a good form of the relationship of the dynamic capabilities must be supported.

H₂ (traditional market traders' perceptions of dynamic capabilities are directly and positively effect to business performance). The results showed that the CR is 7,185 for the effect of dynamic capabilities on business performance, and the significance of the $p < 0.001$ which meant by default was significant. The regression weight for the business performance of traditional market traders is predicted by significant dynamic capabilities; it was decided to accept H₀ and reject H_a.

H₃ (traditional market traders' perception of the buyer-supplier relationship is directly and positively effect to business performance). The results showed that the CR is 3.326 for the influence of the relationship of buyers and suppliers on the business

performance, and the significance of the $p < 0.001$ means by default is significant. The regression weight for business performance is predicted by the relationship between buyer and buyer significantly; it was decided to accept H₀ and reject H_a.

Hypotheses 2 and 3. Buyer-supplier relations and dynamic capabilities have been proven to affect business performance, both in sales growth, market share growth, and profitability. The results of this study proved to support several previous studies, such as; (Helfat et al., 2009; M. Hitt et al., 2001) that the principle of dynamic capability is to reconstruct and enhance the core capabilities in response to the dynamic market to improve the performance and sustainability of competitive advantage (Dadashinasab & Sofian, 2014). While buyer-supplier harmony has been identified as having a significant influence on business performance (Ambrose et al., 2010; Daugherty et al., 1998; Hsu et al., 2008; Najib et al., 2017; Prior, 2012; Rajagopal & Rajagopal, 2009)..

5 CONCLUSIONS

The research finding indicates the importance of the buyer-supplier relationship for traditional market traders because it can increase the availability of products so that customers will become satisfied and can improve the business performance of traditional market traders through; sales growth, market share growth, and profitability. However, the buyer-supplier relationship needs to be supported by dynamic capabilities owned by traders. The buyer-supplier harmony can, on the one hand, improve business performance. It can increase dynamic capabilities of traditional market traders.

However, this study has several limitations such as the sample size, which is only represented in the area of West Java province, even though this province has the largest population in Indonesia. On the other hand, this research focuses on traditional market traders only, so to see a general picture of competition in the retail industry needs to compare with modern markets (supermarkets, hypermarkets, and mini

markets). Because this research has not analyzed the comparison with modern markets, the problem can be continued in subsequent studies. Although this study has proven to support the hypothesis related to buyer-supplier relationships, dynamic capabilities, and business performance, a longitudinal study can be offered to provide further, more interesting insights.

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