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# The Examination Model of Aceh Commodity Export Firms' Performance

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Examination  
Model of Aceh  
Commodity

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## Abstract

**Purpose** – This paper is intended to test for the model of commodities export performance (EP) in Aceh Province, Indonesia.

**Design/methodology/approach** – This research will focus on approach model of firms competency variable, customer relation, foreign environmental factor, and moderating variable of export competitive strategy which aims to improve firm performance in the export context.

**Findings** – The research framework models will give a new perspective to export activities conducted by exporting commodities in an emergent nation such as Indonesia and more specifically in Aceh.

**Originality/value** – The improvement of EP.

**Keywords** Export performance, competitive strategy, firm competencies, customer relationship, foreign environment factor

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## 1. Introduction

Exports play a very important role in contributing potential revenue to the country. Increased exports may have impact which is straight or indirect in increasing the domestic production, economic growth, declining unemployment rates, and generating foreign exchange rates to comply the requisite of import costs. The proficiency of the state to compete successfully in world markets, maintaining a trade balance that provides benefits and controlling external payment situations, reflects the economic strength and marginal competence of other nations. Therefore, export activities and the proficiency to export are required by a country in order success in international trade, where the export performances (EP) needed approaches in broad perspective concept in the form of quantitative and qualitative variables (Sousa, 2004).



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In developing countries, the focus is very much on the company's EP, as the balance of work and trade is a substantial factor to be considered by policymakers. Consequently, much research on the company's EP is considered an important factor explaining the growth of international commerce (Husted and Melvin, 2007).

There is a belief among economists that natural resources are a meaningful blessing where countries with rich natural resources have more advantages compared to countries with a few or without natural resources. Natural resources have assisted many nations to grow and develop their country, where the country then develops and provides the basis for developing-related technologies and capital goods industries (Ding and Field, 2004).

The global economy continues to strengthen gradually driven by the ongoing recovery in high-income countries, particularly in the US and Europe. This recovery has a positive impact on emerging market economies including Indonesia, as this means in general increasing the potential for the (World Bank's Trade Flow, 2014). However, the development of various commodity prices, which in aggregate contribute two-thirds of Indonesia's exports of goods, remained weak, while the pressure of price decline is likely to continue due to supply-side factors and conditions of growth adjustment (re-balancing) experienced by China against credit-driven investment.

Indonesia is a supplier country in the world market. No less than 140 countries are the export destination of Indonesia. From the released of statistical data by the Government Central Bureau of Statistics (BPS), almost 5,000 kinds of products, from Indonesia, enter the markets of these countries. Indonesia's exports in the period 2008–2012 fluctuated; in 2008, the value of Indonesia's exports to almost 250 countries valued at US \$107.89 billion. However, in 2009, decreased by 10.67% to US \$97.49 billion. A year later, it rose 24.86% to US \$129.74 billion. And, in 2011, again rose 6.17% to US \$162.02 billion, but in 2012, fell 5.54% to US \$153.04 billion. Of the many export destinations in Indonesia, there is also an increase in the period 2008–2012, including exports to the Philippines, Cambodia, Kenya, Haiti, Senegal, Gambia, Albania, Laos, and Nauru.

Although in 2014 Indonesia is faced with the political condition, it is being warmed up due to the presidential election. These conditions generally affect the growth of indicators. However, the exports of commodity and services may increase by 2015 by 6.5%. A decrease in 2014 of 0.3% occurs under the conditions of the election. As the above description, it shows that export activity is still showing its impact and estimated to continue to go up in the following years.

As much as countries whose purchases of Indonesian products are always high. Here are 10 main export destinations in Indonesia, China with a 13.63% market share, Japan (11.26%), USA (9.53%), India (8.13%), Singapore (6.89%), Malaysia (5.53%), Korea (4.37%), Thailand (3.59%), Netherlands (3.00%) and Philippines (2.41%) (Warta Ekspor Kementerian Perdagangan Republik Indonesia, 2013).

Similarly, the condition of foreign trade in Aceh fluctuated ranging from 1997 to 2015, which shows a significant slope caused by several things, such as Aceh hit by conflict in a long time. The following description of Aceh province exports from 1997 to 2015 is given in Table 1, that illustrated the volume and revenue during thus ranges of the years.

In Table 1, from 1997 to 2015 or about 19 years of international trading activity, there was a significant slope in the export volume of 9.45%, and so did the decline in sales revenue in the dollar decreased by 36.3%. Prior to 2004, Aceh was in prolonged conflict and security problems that persisted during that period. In general, the slope in sales volume is followed by a decrease in export earnings caused by the global recession that resulted in a weakening in the international trading sector. The global recession of 1997 and the last year of 2008 has had influenced in general Indonesia and particularly Aceh Region EP as well.

**Table 1.**  
Volume and Value of  
Exports in Aceh  
Province Period  
1997–2015

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Year	Export (Volume/kg)	Export (USD)
1997	15,744,065,076	2,654,301,240
1998	14,911,681,585	2,059,087,160
1999	12,987,076,537	1,780,912,864
2000	8,519,408,829	1,806,083,419
2001	3,405,879,409	666,738,727
2002	8,401,425,696	1,571,114,161
2003	7,483,440,452	1,704,621,446
2004	6,124,958,338	1,812,364,338
2005	5,307,764,303	2,072,415,260
2006	4,224,074,908	2,032,790,547
2007	3,573,192,907	1,854,234,711
2008	3,386,382,500	2,234,130,664
2009	2,742,507,597	1,138,018,858
2010	2,390,754,875	1,359,251,711
2011	2,240,752,691	1,483,590,754
2012	1,725,188,588	1,257,398,628
2013	1,486,982,850	962,969,640
2014	715,003,350	507,414,478
2015	1,182,177,854	93,336,621

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Source: BPS of Aceh Province 2016 (processed). In Table 1, from 1997 to 2015 or about 19 years of international trading activity, there was a significant declining of slope in the export volume of 9.45%.

## 2. Literature review

### 2.1. Firm competency

In the discussion of corporate competence, both with regard to international competence and the whole business competence (e.g., strong market position, strong human resources, and strong functional capability) seem to be an important impact to EP. This finding is aligned with the study by Aaby and Slater (1989). However, in the research, it still needs to consider other supporting research that explains the competence of the company in regard to support the improvement of EP.

A literature coverage of the export market indicates that the competence of production, information, marketing, and sales is important in regard to the competence of export companies. According to Morgan (2004), these capabilities can be determined through their role in the process of providing value to customers in line of production of commodity such as value, construction, and delivery.

Some approaches to the theory of corporate competency are tightly linked to resource-based view theory, where firms are appear as a specific set of resources and competencies (LaPatterson, 2005). Therefore, specific EP greatly determines the position of additional proficiency of the firm in finding, creating, and delivering value to customers in the international trading market.

Experience is seen to affect to EP variable as it gives more companies in terms of the perspective of management, international trading and transactions, business partnerships, and others (Majocchi *et al.*, 2005). In the wine industry in France, experience may have a positive effect to the EP.

The firm develops organizational capabilities that enable long-term corporate survival and attracts corporate organizational structures through the framework of those capabilities (Zehir *et al.*, 2012). In today's highly competitive business environment, innovation

capability in organizational capability is critical to achieving sustainable competitive advantage. Intense competition and rapidly changing market structure through the framework of user demand and expectations require the company to develop those capabilities that assist to the company's performance with way that will be repose on market dynamics.

Dynamic management and organizational capabilities that effectively coordinate and divert inside and outer resources to environmental change are needed to support international expansion (Damanpour and Aravind, 2011). Picking up organizational innovation leads to changes in administrative strategies, structures, and procedures that improve, inter-alia, organizational climate, communications, collaboration, information sharing, personnel policies, coordination, and cooperation mechanisms that can all improve the company's performance.

### *2.2. Customer relationship*

Customer-oriented companies increase satisfaction with customers' capability to pay through communications (Phan *et al.*, 2005). Communication involves sharing useful information for others and can include information about the customer's financial capacity. This sort of information provides an opportunity lead to higher customer repayment capabilities.

As a consequence of this, high levels of information sharing can be presumed as a safeguard mechanism because it contributes to better decisions (Phan *et al.*, 2005). Communication can also affect the capability of customer payments through behavioral commitment. Frequently sharing information strengthens relationships between importers and exporters, which prepares ways to assist customers when requested.

Thus, they represent a major differentiator for banking institutions to maintain and achieve competitive advantage (Vorhies *et al.*, 2009). Companies with higher levels of marketing ability are in a preferable position to identify and reply to existing and pent-up customer needs and build long-term customer relationships.

The longer the business relationship, the better the perceived performance. Firm size reveals its capability to absorb marketing costs and reach economies of scale (Agarwal and Ramaswami, 1992). Firms with larger resources are in a preferable bargaining position, which makes them poised to achieve higher levels of performance.

For exporting firm, volatility is the biggest concern coming from the environment, which means it is very hard to anticipate changes in overseas markets (Gaur *et al.*, 2011). However, as exporters maintain relationships with their overseas distributors which are based on co-operation, information exchange, and flexibility, this relationship minimizes the consequence of export volatility in overseas markets (Bello *et al.*, 2003).

### *2.3. Foreign environment factor*

Based on the approach derived from the contingent approach, there is a presumption that the external environment plays a key role in export activities (Navarro *et al.*, 2014), in influencing the relations of foreign-exported distributors.

From the perspective of international experience, it allows exporters to reduce the uncertainty associated with the environment in overseas markets, and also to know properly the mechanism of this market work (Navarro *et al.*, 2014).

The foreign market environment is very influential in the company to be able to enter, act, and interact to the market (Rasheed, 2005). In some cases, due to the difficulties in

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measurement, most of the work on exports has ignored environmental factors, although recent research have indicate significant influence on organizational influence on strategic decisions and EP (Kaleka and Berthon, 2006).

The foreign market environment affects how companies can enter, engage, and act on it (Rasheed, 2005). Due to the difficulty of measurement, most export activities have neglected environmental influences, although a recent study has indicated significant influence on organizational influence and subsequently on strategic decisions and EP (Kaleka and Berthon, 2006).

Therefore, in the activities of export, ingenuity, and precision in doing business research is a kind of new terms whose usage varies according to the study domain. Studies of ingenuity in general can be grouped into two perspectives. One perspective is that ingenuity is an externally focused generic capability that allows the company to adjust its operations quickly to cope with volatile market conditions and sudden changes in customer needs (Braunscheidel and Suresh, 2009).

The cornerstone of contingency theory is that forces in the external environment affect corporate actions (Boso *et al.*, 2013). Past study has presented that the conditions under which firms work play a definitive role in building corporate strategy (Cadogan *et al.*, 2003). Marketing knowledge often divides the corporate environment into three topics: competitors, customers, and technology (Germann *et al.*, 2013). This study adds to the intensity of competition because research indicate that the actions of competitors are a necessary element of environmental uncertainty.

Ingenuity in an organization could be extensively defined as the capability of an organization to develop in an ever-changing and unpredictable external environment (Yusuf *et al.*, 2004). Flexibility, besides, refers to a company's internal capability that enable it to respond immediately and adapt its supply chain in terms of speed, purpose, and volume (Prater *et al.*, 2001).

#### 2.4. *Competitive strategies*

Previous research found that trust positively affects the competitiveness of exporters in overseas markets, through lower transaction costs, increasing investment in certain related assets, and sharing superior information routine. Several previous studies have found that trust has a positive consequence on performance (Zhang *et al.*, 2003).

There are many companies currently allocating and devoting more attention and resources to export their products to overseas markets (Navarro *et al.*, 2009).

The success of a company operating in a particular business environment is heavily dependent on the organization's strategic orientation, and its success is tightly related to the level of market orientation (Navarro *et al.*, 2011). In the relation to export-related activities, many researchers presume that export market orientation (EMO) plays a significant role in export activity because EMO controls the organization's strategic behavior, achieving competitive advantage which is sustainable in overseas markets, and EP as well (Cadogan *et al.*, 2009).

The approach to competitive advantage is closely related to the positional advantage that the firm has in the market section in which it operates. This advantage is certainly based on the delivery by the customer on the superior value or lower cost achievement compared to the company's competitors, (Hooley and Greenley, 2005). The advantage of firm position in terms of cost, promotion, and sales is a determining factor that can improve the performance of the company (Hill, 1988). The company's positioning advantage is the

result of a competitive strategy to be a low-cost manufacturer in the industry or differentiate its product/service line.

The rapid development of research supports the adoption of alternative strategic orientations, including innovation orientation, technological orientation, entrepreneurship orientation, productivity, and quality orientation (Zhou *et al.*, 2005).

Institutions are the extent to which the ownership rights of private ownership and freedom of agreement are recognized or defined by applicable regulations (Acemoglu and Johnson, 2005). To point out, in the Chinese context, companies from ETE still face many institutional barriers (for example, fairness competition, access to finance, laws and regulations, tax burdens, and support systems) which can hamper the company's business that can be pursue a competitive strategy in overseas market (Zhu *et al.*, 2012).

The process that is making strategic-making by the firm is an important theme in the international business strategy and research (Papadakis and Barwise, 2002). This is in line with context decentralization of hierarchical, political behavior, and lateral communication is an important dimension in the process of decision making in international companies (Dimitratos *et al.*, 2011).

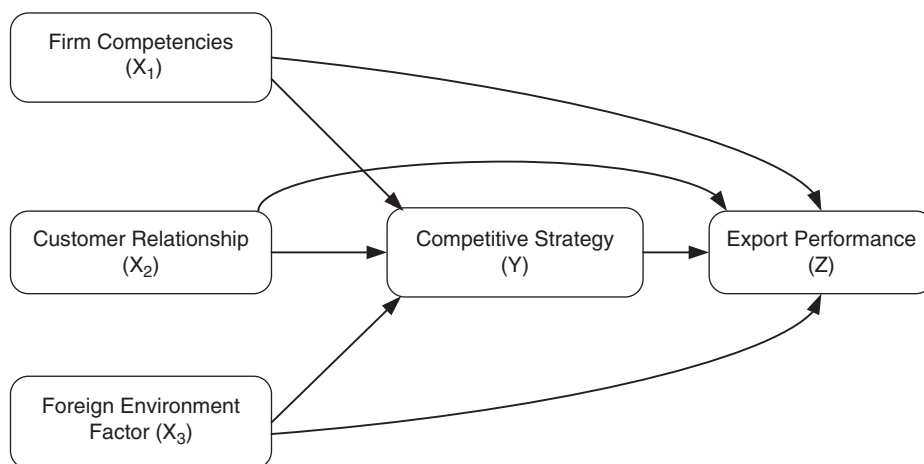
Changing the company's strategy can improve competitive strategies which is centered on new companies and reduce the capability of firms that are obliged to operate from traditional relational strategies (Peng, 2003). There is a clear extension of research on other Asian countries with specific populations. Other potential research by Peng (2003) and Dana (2007), illustrated the level and organization of ethnic Chinese population in Asian countries. Where these ethnic minorities are small populations of Asian countries outside China, but generally dominate the private sector (Dana, 2007).

### *2.5. Export performance*

Contributing in the form of theoretical findings gives direction for new research (Griffith and Zhao, 2015). First, the relation takes into consideration that the mechanisms governing relations and relational norms between foreign distributors and exporters are perceived as direct drivers of EP. Second, in accordance with the channel-related theory, this study conditions relational norm through the level of exporter dependency on foreign distributors and international capabilities of exporters (Bello *et al.*, 2003). Third, the contingency-related approach, there is a presumption that the external environment plays an important role in export activities (Navarro-García *et al.*, 2014), in influencing the relations of foreign-exported distributors.

The work to conduct an appraisal of EP is considered a complex task, and the extent to which valuation is particularly useful will depend solely on the credibility of the action (Lages, 2000). Specified steps such as growth, volume, strategies, and competitive positions are presented to six exporters in a preliminary interview session to gain their perspective on the steps taken. The response is that the actions taken are considered irrelevant, especially because of the small size of the company. Therefore, EP is assessed based on three steps, which is determined based on the outcome of the interview.

More than four decades, numerous published studies have discussed the determinants of Ep (Chen *et al.*, 2016). The significant contribution to the export activity of gross domestic product (almost 30% in 2015 according to World Bank statistics) and the popularity of exports as an international market entry mode (mainly for small and medium enterprises), which then triggered a lot of research conducted to identify factors Responsible for export success (Leonidou *et al.*, 2002). In the 1990s, researchers conducted more research to investigate the antecedents and performance results of export strategies (Aulakh *et al.*,



**Figure 1.**  
Research Framework

2000). Meanwhile, recent research mainly stresses on the key point of resources and capabilities associated with the company's exports.

### 3. Research framework

This research will notice for a causal connection between variables that can provide answers to the phenomenon of how benefit the export strategy in exporting companies in Aceh Province and its relation to EP in exporting companies. In this research, we will use an approach of some literatures that have a direct relation to the variables examined in this research are the key factors related to export strategy advantage in exporting firm in Aceh Province and EP at exporting company. Based on the review, in this research, a framework can be propose by this research as Figure 1.

### 4. Conclusion

Globalization and changes in the world market environment have an influence on the changing international trade market. Therefore, exporting companies are required to adjust to such rapid changes. Research framework models offered will give a recent dimension to export activities conducted by exporting commodities in developing countries like Indonesia and more specifically in Aceh which is one of the greatest export commodity and extremely prosecutes exports in order to develop aspects of the company's competency in exports, improve, and develop relations both with export destinations, anticipate and studying the dynamic foreign environment, and, most importantly, how exporting companies could attain competitive advantage over other international exporting competitors that have the capability and competitive advantage relative to other competitors, thereby achieving the final achievement of this model is the improvement of EP of the whole exporter.

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