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## STRATEGIC ORIENTATION AND SUPPLY CHAIN QUALITY MANAGEMENT ON MSME'S QUALITY PERFORMANCE: CASE OF EARTHENWARE KASONGAN

**Abstract:** Previous studies have found that MSME's performance can be influenced by many factors. On the other hand, a very dynamic market development requires companies to have the right strategic orientation and create a quality supply chain. Therefore, this study aims to analyze the relationship of strategic orientation, supply chain quality management and MSME's quality performance. Empirical result is obtained through the distribution of questionnaires to 250 earthenware MSME's owners in Kasongan, by proportionate stratified random sampling. The study conducted structural equation modeling to test the proposed hypotheses. The result show that strategic orientation have a significant effect on MSME's quality performance and supply chain quality management is able to moderate the relationship between strategic orientation and MSME's quality performance. This study is the first empirical test to examine this framework in MSMEs. The study results may help MSMEs to implement strategic orientation and supply chain quality management to develop MSME'S quality performance.

**Keywords:** Strategic Orientation, Supply Chain Quality Management (SCQM), MSMEs, Quality Performance

### 1. Introduction

Improvement of social welfare has always been a primary goal of all economic activity whether conducted by individuals, families and governments. Particularly for the government, especially local government it is the responsibility of a very large and certainly not easy. One area that has great potential in the development of the economic security is DIY (Special Region of Yogyakarta). DIY is a province famous and has a very large resource with a rate of 5.26% economic growth in 2017

(BAPPEDA DIY, 2018).

Discussions on economic growth, one of the engines of economic growth in the province is MSMEs. The contribution of SMEs to economic empowerment is very high. The high rate of employment by MSMEs can be a means of alleviating the poverty gap for the people. This is evidenced by the absorption of labor by MSMEs in 2017 of 96.71%. All parties, both from the government and the private sector, helped support the growth of MSMEs and helped increase their productivity. The Indonesian government considered the important role of MSMEs for economic growth of the people,

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economy equalization means fighting poverty and source of foreign exchange (MSMEs Jogja, 2019).

One of the MSMEs in the province is the center of earthenware industry in Kasongan, Bantul. MSMEs earthenware in Kasongan fascination is high enough for an industry that is very old and well-known quality is good to be able to bring international visitors. Therefore, by improving the performance of SMEs in Kasongan expected to spur economic growth in Yogyakarta.

On the other hand the biggest challenge in promoting the growth of SMEs in Yogyakarta are from external factors, a very dynamic market changes require businesses to be more adaptive and must constantly innovate. Therefore the role of strategi become very important for SMEs to remain sustainable growth.

SMEs must have a suitable strategy towards creating a good business performance and continuous so as to improve competitiveness and market share of the company, it can be understood as a strategic orientation. Companies that have a strategic orientation more explicit will reinforce positive effects on performance. (Cheng & Huizingh, 2014); (Jansson, Nilsson, Modig , & Vall, 2015). The statement was supported by research that states that the strategic orientation significantly influence the sustainable supply chain. The study defines the strategic orientation in three dimensions: entrepreneurial, market and resource, resulting in a company's strategic orientation implementation is realized in maintaining the reputation and continuous innovation to achieve the company's goals (Zailani, 2016).

Several studies have discussed and stated that strategy orientation is an important factor in improving the quality of company performance. But certainly not enough strategy to promote growth, companies need to have a quality supply chain. The practice of supply chain quality management (SCQM) was significantly correlated with

the supplier selection strategy, and this affects real business results, and the level of customer satisfaction (Lin, Chow, Madu, Kuei, & Yu, 2005); (Hanf & Pieniadz, 2007); (Gu, Song, & Chen , 2017); (Soares, Soltani, & Liao, 2017).

This study aims to analyze the relationship of strategic orientation, supply chain quality management and MSME's quality performance in earthenware Kasongan context The problems that would be discussed in this study are: (a). What is the role of strategy orientation on the quality of MSME performance?; (b). What is the effect of strategy orientation on supply chain quality management?; (c). What is the influence of supply chain quality management in improving the quality of MSME performance?

## 2. Literature Review

### 2.1. Strategic Orientation

Strategy orientation is a plan determined by the company in order to adapt to the external environment, have a corporate culture that is in accordance with the environment and able to face environmental challenges (Carvalho & Sabino, 2019). Strategy orientation is an important component for every company to achieve its vision and mission, without a clear strategic orientation, the company cannot run its business in the long term.

MSMEs or large companies must have a clear and mature strategy orientation. Strategic orientation can be described in six forms of orientation: entrepreneurial orientation, environmental orientation, supply chain orientation, technology orientation, market orientation and learning orientation. Of the six forms of strategic orientations are examined about how they affect the supply chain agility. The study states that the entrepreneurial orientation and technology orientation has no significant effect. Whereas market orientation has a

significant negative effect on supply chain agility (Mandal & Saravanan, 2019).

Another opinion describes the company's strategy orientation in two forms: supply chain orientation and environmental orientation. Then analyzed how it affects the green supply chain management (GSCM) in the company. The results of the study state that companies are less oriented to the environment and supply chain. However, due to pressure from the institution, it was asked to adopt GSCM practices in the operations of the company, which ultimately improved the company's performance. The results of GSCM's practice improve environmental salvation, create better social imagery, reduce costs and profitability that allows managers to know strategic orientation (Nadeem & Siddiqui, 2014). Strategic Orientation can be a valuable ability, used by managers to develop and implement Green Supply Chain Management practices to improve company performance (Kirchoff, Tate, & Mollenkopf, 2016).

Implementation of green supply chain management as has been emphasized by several companies also can be used as one of the strategic orientation. Strategic orientation used in the green supply chain management is a green strategic orientation (SGO). Strategic green orientation (SGO) has a crucial role to facilitate the implementation of integrated product development and coordinated between the supplier and the consumer (Hong, Kwon, & Roh, 2009).

The company's strategic orientation can also be seen from different indicators, with two dimensions: reputation and innovation. Associated with supply chain management, the results state that strategic orientation which is described by reputation orientation and innovation has a significant influence on supply chain resilience (Hsu, Tan, Hanim, & Zailani, 2016). Different strategic orientations can encourage various types of innovations in different ways with the mediating effects of shared learning abilities.

Furthermore, environmental uncertainties such as technological uncertainty and demand uncertainty were found to moderate the impact of shared learning capabilities on radical innovation (Jeana, Kimb, Chioua, & Calontone, 2018).

Discussion related to strategic orientation has various forms of application according to the needs and objectives of the company. When companies emphasize the company's goals in service, the company's strategic orientation is also built from the aspect of service. There are three strategic orientation dimensions: service orientation, learning orientation and consumer orientation. The results of the discussion stated that service orientation (SO) had a direct positive impact on the performance of companies in the manufacturing sector. Customer orientation (CO) and learning orientation (LO) do not have a direct impact on company performance, even though it has an indirect impact on the company's performance through the role of service innovation. In addition, service orientation has similar indirect impacts on company performance through service innovation (Lin, Luo, Jeromonachou, & Rong, 2018).

Strategic orientation can be seen in outsourcing using the dimensions of competitive analysis, aggressiveness, intervention, futurity, proactiveness, and riskiness. The results suggest that the majority of strategic orientation dimensions affect the level of outsourcing. Dimensions deviousness and proactiveness positively associated with the level of outsourcing, whereas competitive analysis and aggressiveness negatively affect it. In addition, the riskiness dimension has a positive effect, while the dimensions associated with the futurity did not affect the level of outsourcing. A positive and significant relationship was found between outsourcing and financial performance, while for non-financial performance, the relationship was not significant (Rodríguez & Fierro, 2018).

Strategic orientation can also play a role as a moderating variable and is associated with corporate innovation. In this case the strategy orientation is based on three dimensions: entrepreneurial orientation, market orientation and resource orientation. It is stated that all moderating effects have a positive influence. This shows that, in general, having an explicit strategic orientation will increase the effectiveness of innovation openness. When comparing the third strategic orientation, entrepreneurial orientation is positively reinforcing effects of performance significantly better than the market orientation and resources orientation. However, market orientation has a moderating effect that is significantly stronger than resource orientation (Cheng & Huizingh, 2014). Strategic orientation affects the sustainability of SMEs. Strategic orientation visits by using two dimensions: market orientation and entrepreneurial orientation. Companies committed to sustainability and entrepreneurial markets see the benefits of sustainability. The results also showed that the market orientation (MO) and entrepreneurial orientation (EO) differ in the interests of commitment to sustainability among SMEs (Jansson, Nilsson, Modig, & Vall, 2015)

## 2.2. Supply Chain Quality Management

Supply chain management is an integration of key business processes of companies from end-users to top suppliers who provide products, services and information that adds value to customers and stakeholders (Lambert, 2008). Supply chain is an important factor in running a company. How does the company establish relationships with business continuity are two determinants: the relationship with suppliers and customers? In the previous discussion, the majority of strategic orientations were linked to the supply chain, which shows that discussions related to supply chain still get a lot of attention and continue to develop.

Discussions related to supply chains are very diverse, one of which is supply chain resilience. Supply chain measured by indicators of turbulence, external pressures, sensitivity, and connectivity. It is known that the factors that influence the increase in supply chain resilience are regulatory functions by stakeholders such as the government. This proves that parties who have a role in the company's supply chain are not only business actors with suppliers and consumers, but the government with regulations can also influence the resilience of the company's supply chain. (Aigbogun, Ghazali, & Razali, 2017). In addition to regulation, there are other factors that influence the supply chain, which is the enviropreneurial orientation.

Enviropreneurial orientation that is measured by the ability to innovate, the courage to take risks, aggressiveness in competition, strengthening employees, proactivity, external pressure, pressure from consumers, pressure from environmental regulations and pressure from local communities can also influence the company's supply chain

In addition to regulation, there are other factors that influence the supply chain, which is the enviropreneurial orientation. Enviropreneurial orientation that is measured by the ability to innovate, the courage to take risks, aggressiveness in competition, strengthening employees, proactivity, external pressure, pressure from consumers, pressure from environmental regulations and pressure from local communities can also influence the company's supply chain (Namagembe, Sridharan, & Ryan, 2016)

Supply chain management is not only large enterprises but also very important for SMEs. Supply chain is a variable determining the level of the company's performance in SMEs. Supply chain seen from the dimensions of relationship with the consumer, information technology and quality of information. It is known that the three dimensions of SCM practice have a significant and positive relationship with

operational performance. It also provides empirical insights on how the change is made on the operational performance of SMEs at reasonable prices. This shows that the practice of supply chain management is positively and significantly related to the performance of SMEs at reasonable prices (Kumar & Kushwaha., 2018).

Supply chain quality management is a combination of production capabilities and the company's distribution network combined with the accuracy of market share and obtaining customer satisfaction quickly and profitably to form a good and reliable supply chain quality (Chai, Kuei, & Lin, 2013) (Gu, Song, & Chen , 2017). Related research conducted supply chain quality management in Poland and found that the company's activities are generally aligned with the current market opportunity for optimal business performance. Thus, it was found that manufacturers of branded products should create sophisticated network structures and implement strategic quality management. Networks that have focused companies, which act as external customers of a processor use operative quality management. Some companies in Poland are still not embedded in any supply chain network. There is no concept of supply chain quality management that can be installed in this chain because it does not have a strong enterprise focus (Hanf & Pieniadz, 2007).

The importance of supply chain quality management is supported by the statement that supply chain quality management (SCQM) practices are significantly correlated with supplier participation strategies. This affects real business results, and the level of customer satisfaction. Besides that the practice of SCQM significantly correlates with supplier selection strategies (Lin, Chow, Madu, Kuei, & Yu, 2005); (Kuei, Madu C. N., & Lin, 2008). Research on SCQM in manufacturing companies and found that manufacturing companies change from providing products to providing services, which means

companies must go through fundamental changes, especially in the supply chain. In addition, the study also emphasizes the points in SCQM practice as follows Research on SCQM in manufacturing companies and found that manufacturing companies change from providing products to providing services, which means companies must go through fundamental changes, especially in the supply chain. In addition, the study also emphasizes the points in SCQM practice as follows (Figure 1): (Gu, Song, & Chen , 2017)

Direct Service	Indirect Service	Service Configuration	Working Platform
<ul style="list-style-type: none"> <li>customer perceived value</li> <li>customer satisfaction</li> </ul>	<ul style="list-style-type: none"> <li>supply chain quality service</li> <li>demand chain service</li> </ul>	<ul style="list-style-type: none"> <li>business model</li> <li>stakeholders collaboration</li> </ul>	<ul style="list-style-type: none"> <li>system policy, the reform of the supply side</li> <li>industry transform</li> <li>sustainable development by service innovation</li> </ul>

**Figure 1.** The Points in SCQM Practices

It has been recorded that the integration has a positive impact on the integrity of the supply chain. The results showed that the integration of customer and supplier integration contributes to the integrity of the supply chain was found that the integrity of the supply chain had a significant positive impact on the performance of the company (Prulekar & Verulkar, 2015)

Then other studies also support that SCQM significant effect on the quality of the company's performance. The importance of QM and SCM synergies in the manufacturing industry and services. The inclusion of supplier capabilities, customer focus and internal or external collaboration in QM implies that integration and coordination between supply chain echelons is important for the quality of the supply chain and company performance. Integration and coordination of upstream and downstream echelons, information sharing also seems to affect the quality of the supply chain (Soares, Soltani, & Liao, 2017); (Zeng, Phan , & Matsui, 2013); (Zhong, Ma, Tu, &

Li, 2016).

Other studies discuss how SCQM can influence the performance of corporate innovation and find that: first, SCQM practices have a direct positive effect on SCQM capacity and indirect positive effects on innovation performance. Therefore, the practice of SCQM can improve the performance of innovation indirectly through SCQM's capacity as a mediator. Second, SCQM capacity can significantly affect operational performance and innovation performance. However, SCQM practice has no direct effect on operational performance. Third, innovation performance has a direct positive effect on operational performance (Soares, Soltani, & Liao, 2012); (Quang, Sampaio, & Carvalho, 2016); (Hong, Liao, Zhang, & Yu, 2019).

### 2.3. Quality Performance

The company's performance can be measured by several different indicators. The company's performance can be viewed from three dimensions: entrepreneurial performance, and strategic business performance goals to measure the performance of the company (Tomljenović & Stilin, 2010). Some other studies use more specific variables to see company performance such as the company's operational performance (Luu, 2016). Other research looks at company performance by using green performance outcomes variables and business unit performance (Hong, Kwon, & Roh, 2009). More specifically investigated the relationship between innovation activities and performance of the company. Where the company's performance is measured using the company's innovation performance (Cheng & Huizingh, 2014).

Unlike some previous studies no studies have examined the relationship between the company's strategic orientation and capability of the company's strategy and then analyzed how these relate to the company's

performance. The study analyzes the performance of the company's financial performance indicators and service performance (Lin, Luo, Ieromonachou, & Rong, 2018). Another study also examines the relationship of strategic orientation and corporate performance and measure the performance of companies with financial performance and non-financial performance (Rodríguez & Fierro, 2018).

From several studies it can be concluded that measures the performance of companies adapted to the form of the company and the variables that influence. In examining the company's financial hence use measurements in the form of financial performance, to measure environmentally friendly products created by companies that use green measurement performance, and if the company is comprehensive measurement then some of these measurements can be combined. Other studies more specifically explain the company's performance in terms of quality. The study analyzed the relationship SCQM to quality performance and measure quality performance measuring devices features / characteristics of the product, quality improvement programs, the durability of technical products, product specifications that are preset, function products above the average, the product has value for money more higher than competitors, cost reduction measures (Fynes, Voss, & de Búrca, 2005); (Soltani, Azadegan, Liao, & Philips, 2011); (Soares, Soltani, & Liao, 2017); (Zeng, Phan, & Matsui, 2013); (Zhong, Ma, Tu, & Li, 2016).

On the other hand addressed supply chain quality by using variable supplier quality performance. The study discusses what affects quality performance suppliers and finds that buyer supplier relationships can moderate the relationship between supplier evaluation system and strategic purchasing towards quality performance suppliers. The findings also suggest supplier manager of the company help corporate purchasing function to be a strategic weapon (Yeung, Cheng, &

Lee, 2015).

Quality performance is also discussed and stated that the performance of technology transfer has a positive and strong impact on total quality management, but does not have a significant impact on quality performance. A positive and strong relationship is determined between total quality management and quality performance. The relationship between the performance of technology transfer and quality performance has become significant with the mediating role of total quality management (Bolatan, Gozlu, Alpan, & Zaim, 2016).

Adding previous findings stated that: first, the quality of the performance can be affected by supply chain governance

decision via two dimensions, namely the adoption of Geographical Indications (GI) and the creation Ownership Structure. Then stated that on average, the quality of performance is positively related to the adoption of Geographical Indications (GI). Second, the creation Ownership Structure negatively correlated with the quality of performance. (López-Bayón, González-Díaz, Solís-Rodríguez, & Fernández-Barcala, 2017).

## 2.4. Research Model

This research applies research model that describes the relationship between the three variables of the study as shown in Figure 2.

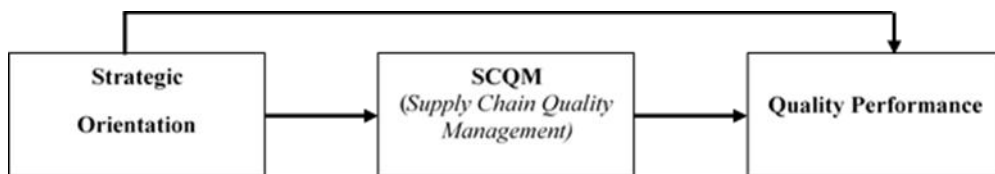


Figure 2. Research Model

## 2.5. Hypotheses Development

### 2.5.1. Strategic Orientation and Quality Performance

Strategic orientation is an important component for every company to achieve its vision and mission, without a clear strategic orientation, the company cannot run its business in the long term. MSMEs or large companies must have a clear and mature strategic orientation. Strategic orientation is described in six dimensions of orientation: entrepreneurial orientation, environmental orientation, supply chain orientation, technology orientation, market orientation & learning orientation. Stated that the strategic orientation on the performance of companies that are mediated by supply chain agility (Mandal & Saravanan, 2019). Strategic orientation can also be described in two forms: supply chain orientation and

environmental orientation. Strategic orientation can improve performance mediated by green supply chain management (GSCM) (Nadeem & Siddiqui, 2014). Strategic Orientation can be a valuable ability, which is used by managers to develop and implement Green Supply Chain Management practices, which in turn, improve company performance (Kirchoff, Tate, & Mollenkopf, 2016). Implementation of green supply chain management as has been emphasized by several companies also can be used as one of the strategic orientation that will improve the performance of the company (Hong, Kwon, & Roh, 2009).

The company's strategic orientation can also be seen from two different dimensions: reputation and innovation. It was stated that the strategic orientation described by reputation orientation and innovation had a significant influence on company

performance mediated by supply chain resilience (Hsu, Tan, Hanim, & Zailani, 2016); (Jeana, Kimb, Chioua, & Calontone, 2018). Regarding the role of strategy orientation, many studies have stated that strategy orientation can have an influence on company performance, as has been done by research (Lin, Luo, Ieromonachou, & Rong, , 2018); (Rodríguez & Fierro, 2018); (Cheng & Huizingh, 2014). Many studies discuss corporate performance that is influenced by strategy orientation and mediated by supply chain management. However, this study looks at the company's performance from the quality of company performance which is influenced by strategy orientation and mediated by supply chain quality management. Some studies that focus more on quality performance state that there is a positive and significant influence of strategic orientation on the quality of performance mediated by supply chain quality management (Yeung, Cheng, & Lee, 2015); (Bolatan, Gozlu, Alpkan, & Zaim, 2016); (Soares, Soltani, & Liao, 2017); (López-Bayón, González-Díaz, Solis-Rodríguez, & Fernández-Barcala, 2017). The research uses performance quality as an indicator of company performance. Quality performance is measured with features / characteristics of the product, quality improvement programs, technical durability of products, product specifications that are preset, function of the product above the average, the product has a higher cash value than competitors, cost reduction measures. So that the hypothesis can be formulated as follows:

**H1:** Strategy orientation has a significant effect on quality performance

### 2.5.2. Strategic Orientation and Supply Chain Quality Management

The company's strategic orientation can be elaborated in two forms: supply chain orientation and environmental orientation and its influence on the green supply chain management. The research resulted that the

company was less environmentally oriented and supply chain management. However, due to pressure from the institution, it was asked to adopt the green supply chain management (GSCM) practice in its operations, which in turn improved the company's performance. The results of GSCM's practice result in saving the environment, creating a better social image, reducing costs and profitability that allows managers to know strategic orientation (Nadeem & Siddiqui, 2014). The same thing also states that the strategic orientation can be a valuable ability, which is used by managers to develop and implement green supply chain management practices, which in turn, improve company performance (Kirchoff, Tate , & Mollenkopf, 2016). Implementation of green supply chain management as has been emphasized by several companies also can be used as one of the strategic orientation. The strategic orientation seen from the strategic green orientation (SGO) dimension results in SGO having an important role that facilitates the implementation of integrated and coordinated product development between suppliers and consumers known as supply chain management (Hong, Kwon, & Roh , 2009).

The research was supported by research that stated that strategic orientation seen from the dimensions of the entrepreneurial orientation and technology orientation did not have a significant effect. Whereas market orientation has a negative and significant influence on supply chain agility (Mandal & Saravanan, 2019). Slightly different from some previous studies, the company's strategic orientation viewed from two dimensions, reputation and innovation. The result stated that strategic orientation depicted with reputation orientation and innovation had a significant influence on supply chain resilience (Hsu, Tan, Hanim, & Zailani, 2016). The results of the research related to strategy orientation related to supply chain are also supported by research



that states that strategic orientation is seen from the dimensions of the entrepreneurial orientation measured by the ability to innovate, the courage to take risks, competitive aggressiveness, employee reinforcement, proactivity, external pressure, consumer pressure, pressure from environmental regulations and pressure from local communities can also influence the company's supply chain (Namagembe, Sridharan, & Ryan, 2016).

Many studies discuss strategy orientation that is influenced by supply chain management. But this study looks at supply chain management from supply chain quality management which is influenced by strategy orientation. Based on several studies that focus more on supply chain quality management, it can be concluded that supply chain quality management is significantly influenced by the company's strategic orientation (Yeung, Cheng, & Lee, 2015); (Bolatan, Gozlu, Alpkan, & Zaim, 2016); (Soares, Soltani, & Liao, 2017); (López-Bayón, González-Díaz, Solís-Rodríguez, & Fernández-Barcala, 2017). So the hypothesis can be formulated as follows;

**H2:** Strategic orientation has a significant effect on Supply Chain Quality Management

### 2.5.3. Supply Chain Quality Management and Quality Performance

Supply chain quality management is a combination of production capabilities and the company's distribution network that is integrated with precisely market share and obtains customer satisfaction quickly and profitably to form a good and reliable supply chain quality (Chai, Kuei, & Lin, 2013); (Gu, Song, & Chen, 2017). Research related to supply chain quality management and found that company activities are generally aligned with current market opportunities for optimal company performance (Hanf & Pieniadz, 2007).

The importance of supply chain quality

management (SCGM) is also supported by (Lin, Chow, Madu, Kuei, & Yu, 2005); (Kuei, Madu C. N., & Lin, 2008). Other research on SCQM in manufacturing companies found that manufacturing companies change from providing products to providing services, which means they must go through fundamental changes, especially in supply chain management (Gu, Song, & Chen, 2017). Then other studies analyzed the relationship of SCQM to quality performance and measuring quality performance with features / product characteristics, quality improvement programs, product technical durability, pre-arranged product specifications, above-average product functions, products that had value higher than competitors, cost reduction measures (Fynes, Voss, & de Búrca, 2005); (Soltani, Azadegan, Liao, & Philips, 2011); (Soares, Soltani, & Liao, 2017); (Zeng, Phan, & Matsui, 2013); (Zhong, Ma, Tu, & Li, 2016).

On the other hand, quality in the supply chain is discussed using variable quality performance suppliers. The study discusses what affects quality performance suppliers and finds that buyer supplier relationships can moderate the relationship between supplier evaluation system and strategic purchasing towards supplier quality performance (Yeung, Cheng, & Lee, 2015).

Quality performance is also discussed and stated that the performance of technology transfer has a positive and strong impact on total quality management, but does not have a significant impact on quality performance. Positive and strong relationship established between total quality management and quality performance. The relationship between technology transfer performance and quality performance has become significant with the role of mediating total quality management (Bolatan, Gozlu, Alpkan, & Zaim, 2016).

Adding the findings stated that: first, quality performance can be influenced by two variables namely Geographical Indications

(GI) and creation Supply Chain Ownership Structure. Then stated that on average, the quality of performance was positively related to the adoption of Geographical Indications (GI). Second, the creation of the Ownership

**Table 1.** MSMEs Craftsmen Earthenware Kasongan, Bantul, Yogyakarta

No.	Number of Worker	Frequency	Percentage
1.	Micro Enterprises: 1-4 worker	235	43.72
2.	Small Enterprises: 5-19 worker	159	29.71
3	Medium Enterprises: 20-100 worker	143	26.57
Total		537	100.00%

Source: BPS Yogyakarta, 2017

Structure has a negative correlation with the quality of performance (López-Bayón, González-Díaz, Solís-Rodríguez, & Fernández-Barcala, 2017). Other studies discuss how SCQM can influence the performance of corporate innovation and find that: first, SCQM practices have a direct positive effect on SCQM capacity and indirect positive effects on innovation performance. Second, SCQM capacity significantly affects operational performance and innovation performance. Third, innovation performance has a direct positive effect on operational performance (Soares, Soltani, & Liao, 2012); (Quang, Sampaio, & Carvalho, 2016); (Hong, Liao, Zhang, & Yu, 2019). So that the hypothesis can be formulated as follows:

**H3:** Supply Chain Quality Management has a significant effect on quality performance.

### 3. Methodology

#### 3.1. Population and Sample

The population in this research was the owner or manager of MSMEs in the Kasongan earthenware industry, Bantul, Yogyakarta. Proportionate Stratified Random Sampling method is used in this research to collect the data (Sekaran dan Bougie, 2013).

Based on the population of earthenware craftsmen in Kasongan, Bantul, Yogyakarta in 2017, the sample divide based on the stratum into three categories as follows: (1). Micro Enterprises, (2). Small Businesses, and (3). Medium Business.

The number of MSMEs Kasongan Earthenware Craftsmen, Bantul, Yogyakarta, is 537 with the following details (Table 1):

Samples are drawn by proportion: 50% of the number of craftsmen in each stratum. So that the number of samples obtained proportionally represents each stratum. The number of samples can be seen in the following detail (Table 2).

**Table 2.** Number of Samples MSMEs Earthenware Craftsmen, Kasongan

No.	Stratum	Number of Sample
1	Micro Enterprises	118
2	Small Enterprises	80
3	Medium Enterprises	72
Total		270

Source: Data Processed

#### 3.2. Data Collection

This study uses quantitative methods to examine primary data gathered from the companies. A questionnaire will be distributed to owners or manager of 162 MSMEs in the Kasongan earthenware industry, Bantul, Yogyakarta. The questionnaires were distributed to 270 respondents and 250 questionnaires were

properly filled by the owners or managers. Questionnaire is close question and used Likert scale can be created as the simple sum of questionnaire responses over the full range of the scale (e.g., 1 = strongly disagree to 5 = strongly agree).

### 3.3. Variable and Measurement

#### 3.3.1. Strategic Orientation

Strategic orientation in this research had three dimensions: entrepreneurial orientation, market orientation and the orientation of resources. The respective dimensions are measured by the following items (Cheng & Huizingh, 2014): (1). Entrepreneur Orientation is measured through three statement items; (2). Market Orientation is measured through five statement items; (3). Resource Orientation is measured through fifteen statement items (Appendix A)

#### 3.3.2. Supply Chain Management

Supply Chain Quality Management (SCQM) in this research had three dimensions: supply chain integration, customer focus, and supplier focus. The respective dimensions

**Table 3.** The Rule of Thumbs for Model Fit

No	Criteria	Threshold	Rule of Thumb
<b>Absolute Fit Indices</b>			
1	CMIN/DF	<2.00	Good
		<5.00	Acceptable
2	GFI	>0.95*	Great
3	AGFI	>0.90	Good
4	RMSEA	<0.06	Good
		0.05-0.10	Fair
		>0.10	Poor
<b>Incremental Fit Indices</b>			
1	NFI	>0.95	Great
		>0.90	Good
2	CFI	>0.95	Great
		>0.90	Good

Source: Hooper, Coughlan, & Mullen, 2008

are measured by the following items (Soares, Soltani, & Liao, 2017): (1).Supply Chain

Integration is measured through ten statement items; (2). Customer Focus is measured through nine statement items; (3). Supplier Focus is measured through eight statement items (Appendix A)

#### 3.3.3. Quality Performance

This research will more specifically analyze the quality of company performance. The measurement of quality performance is measured by seven statement items. (Soares, Soltani, & Liao, 2017) (Appendix A)

### 3.4. `Data Analysis Method

This study used IBM AMOS 24 to run Structural Equation Modelling (SEM). There were two tests in SEM testing namely measurement and structural model testing. The measurement model was conducted to test items validity by using Confirmatory Factor Analysis (CFA). If all items were valid, then, the analysis was continued to the structural model. The structural model was conducted by testing the path of each hypothesis as well as testing the model fitness (Hooper, Coughlan, & Mullen, 2008); (Hair, Black, Babin & Aderson, 2010), (Table 3)

## 4. Results and Discussion

In full test, of total 270 responses, 20 must be eliminated for the incomplete data. Therefore, this study used 250 useful data out of 270 with 92.59% response rate.

There are two model tests in structural equation modeling (SEM), first is measurement model conducted by using confirmatory factor analysis (CFA) technique and second is a structural model by testing the tested path. All items of 250 data were retested for its validity and reliability. CFA was conducted to test items validity. There was no a single item eliminated. All composite reliability (CR)

score was greater than 0.70. These results indicated that all the items from 250 data were valid and reliable.

Summarizes the goodness-of-fit score for the measurement model in table 4. As the table shown, the measurement model was fit in all criteria which may provide support for the model fit. There were four for absolute indices. First, CMIN/DF score was 1.83 far below the upper threshold 5.00 (see Table 3.3). Second, GFI score was 0.95 right on the rule of thumb 0.90-0.95. Third was the AGFI which score 0.94 greater than the rule of thumb 0.90. Four, RMSEA score 0.034 was also recorded below the threshold 0.06. For incremental indices,

**Table 5.** Path Analysis Results

Hypotheses	Path	Estimate	Results
H1	SO and QP	0.78*	H1 is supported
H2	SO and SCQM	0.26*	H1 is supported
H3	SCQM and QP	0.15*	H1 is supported

Source: Processed Data; \* $p < 0.05$

NFI score 0.95 right on the required score (0.90-0.95). As so for the CFI which scores 0.97 greater than the respective threshold 0.90. Therefore, based on these results, the model was fit and thus can be brought into further analysis (Tabel 4):

**Table 4.** Measurement Model Fit

No.	Criteria Goodness of Fit Index	Actual Score	Category
1.	CMIN/DF	1.83	Good Fit
2.	GFI	0.95	Good Fit
3.	AGFI	0.94	Good Fit
4.	RMSEA	0.034	Good Fit
5.	NFI	0.95	Good Fit
6.	CFI	0.97	Great Fit

Sumber: Processed Data

The last step in the analysis of SEM is to test the hypothesis. The final results of processing data can be seen from the figure 3 (Appendix B).

### Structural Model – Hypotheses Testing

From the statistical computation, it is found that Strategic Orientation (SO) which was initially hypothesized to have an effect on Quality Performance (QP) was in fact supported. The estimate  $\beta$  path score of the effect of SO on QP was 0.78, significant at p-value below 0.05. Orientation Strategic also significantly affected Supply Chain Quality Management (SCQM) with estimate  $\beta$  score 0.17 and significant at p-value below 0.05. The effect of Supply Chain Quality Management (SCQM) on Quality Performance was found significant with estimate  $\beta$  score 0.15 and significant at p-value below 0.05. Thus, it provided an empirical support for H1, H2 and H3.

The summary of SEM or hypotheses testing can be seen in Table 5 and Figure 4.

The significant effect of orientation strategic on quality performance supported (Yeung, Cheng, & Lee, 2015); (Bolatan, Gozlu, Alpan, & Zaim, 2016); (Soares, Soltani, & Liao, 2017);

(López-Bayón, González-Díaz, Solís-Rodríguez, & Fernández-Barcala, 2017).

This research proved that strategic orientation did significantly affect quality performance. On the other hand, it also provides support for (Mandal & Saravanan, 2019); (Nadeem & Siddiqui, 2014); (Kirchoff, Tate, & Mollenkopf, 2016) (Hong, Kwon, & Roh, 2009); (Hsu, Tan, Hanim, & Zailani, 2016); (Jeana, Kimb, Chioua, & Calontone, 2018); (Lin, Luo, Ieromonachou, & Rong, 2018); (Rodríguez & Fierro, 2018); (Cheng & Huizingh, 2014) in which they said that stated that the strategic orientation had a significant influence on company performance mediated by supply chain management.

Orientation strategic is also found significantly to influence supply chain quality management. This finding also supported (Yeung, Cheng, & Lee, 2015);

(Bolatan, Gozlu, Alpan, & Zaim, 2016); (Soares, Soltani, & Liao, 2017); (López-Bayón, González-Díaz, Solís-Rodríguez, & Fernández-Barcala, 2017) stated that supply chain quality management is significantly influenced by the company's strategic orientation. On the other hand, it also provides support for effect on quality performance. This finding was also in line with the proposed theory from (Lin, Chow, Madu, Kuei, & Yu, 2005); (Hanf &

Pieniadz, 2007); (Kuei, Madu C. N., & Lin, 2008) and supported (Soares, Soltani, & Liao, 2012); (Chai, Kuei, & Lin, 2013); (Quang, Sampaio, & Carvalho, 2016); (Gu, Song, & Chen, 2017); (Hong, Liao, Zhang, & Yu, 2019). This indicates that supply chain quality management have positive effect on operational and innovation performance.

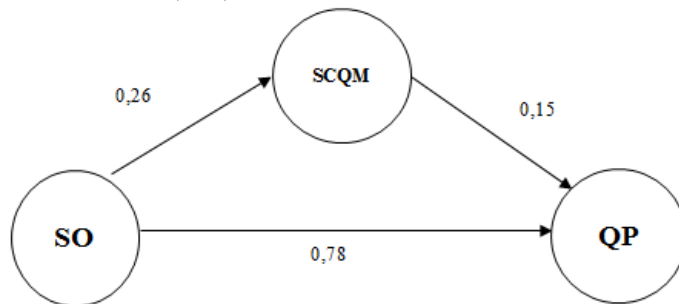


Figure 4. Structural Model Test

(Nadeem & Siddiqui, 2014); (Kirchoff, Tate, & Mollenkopf, 2016); (Hong, Kwon, & Roh, 2009); (Mandal & Saravanan, 2019); (Hsu, Tan, Hanim, & Zailani, 2016); (Namagembe, Sridharan, & Ryan, 2016) stated that strategic orientation is seen from the dimensions of the entrepreneurial orientation, market orientation, and resource orientation can also influence the company's supply chain management.

The result also shows the significant effect of supply chain quality management on quality performance. It supported (Fynes, Voss, & de Búrca, 2005); (Soltani, Azadegan, Liao, & Philips, 2011); (Soares, Soltani, & Liao, 2017); (Zeng, Phan, & Matsui, 2013); (Zhong, Ma, Tu, & Li, 2016); (Yeung, Cheng, & Lee, 2015); (Bolatan, Gozlu, Alpan, & Zaim, 2016) (López-Bayón, González-Díaz, Solís-Rodríguez, & Fernández-Barcala, 2017) stated that supply chain quality management has a significant

## 5. Conclusion and Managerial Implication

In conclusion, all of the variables examined in this research are supported. Currently MSMEs in Kasongan Bantul have sufficiently implemented strategy orientation in their business and are expected to improve the orientation of the strategy in managing consumer orientation, supplier orientation and resource orientation so that good supply chain quality management will be achieved for the company.

This research also shows that MSMEs in Kasongan Bantul currently have supply chain quality management well and are proven to improve the quality of company performance. Therefore the efforts of MSMEs in Kasongan Bantul in improving SCQM need to be improved and according to the results of previous hypothesis testing in increasing SCQM it can be done through increasing the orientation of the corporate strategy.

On the other side of the results of this study, it is known that strategy orientation has an important role in developing company performance, especially in increasing SCQM and the quality of company performance. MSMEs in Kasongan Bantul already have communities and are beginning to realize the importance of strategy orientation and developing it together. The advantages possessed by MSMEs in Kasongan Bantul are the integration between traders in a

community or community, so that every MSMEs has the same opportunity to obtain market information and is able to implement a strategy orientation well integrated with other MSMEs.

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