

The Role of Top Management Commitment to Enhancing the Competitive Advantage Through ERP Integration and Purchasing Strategy

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ABSTRACT

The role of the top management commitment is in enhancing the competitive advantage through ERP integration and the purchasing strategy. Data were collected using questionnaires from 49 manufacturing companies domiciled in the region of East Java, Indonesia. PLS technique was used to analyze the data. The result of the study indicated that top management commitment influences ERP integration and the purchasing strategy, top management commitment influences the competitive advantage, ERP integration affects the purchasing strategy, and ERP integration and purchasing strategy influences the competitive advantage. One of the most exciting findings revealed that ERP integration and purchasing strategy mediated the influence of top management commitment on the competitive advantage. Top management influences, directly and indirectly, the competitive advantage. This result provides the managerial implication that the management needs to establish an ERP integration and define a proper purchasing strategy in enhancing the competitive advantage of the manufacturing company.

KEYWORDS

Competitive Advantage, ERP Integration, Purchasing Strategy, Top Management Commitment

1. INTRODUCTION

In the new global economy, many countries have established communities within regional and world trading cooperation. The company has no choice rather than preparing to face the competition which intensifies as a world and regional trading community established. Nevertheless, this trading community has emerged a new opportunity and threat as well for the companies domiciled in the country member of the community. Among the opportunities is access into the broader potential market for the finished product and the sourcing of raw material from overseas. Similarly, this situation has also emerged new threats in the form of intensified competition between the product competitive dimensions such as cost, delivery, and responsiveness. This constraint has exposed the company to the

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risk of higher cost, longer lead time, and less responsiveness. The need for supply chain management practices become unavoidable as the network of the supply chain become more complex either for the sourcing of raw material from overseas or the distribution of the finished product abroad. The company should anticipate these potential risks and if possible, create a competitive advantage in respect of cost, delivery, flexibility, quality, responsiveness, and inventory system.

About this condition, recently, researchers have shown an increasing interest in the field of supply chain management in pursuit of how to enhance the competitive advantage from supply chain management. Research by Nikoogar et al., (2010) suggested that the implementation of enterprise resources planning (ERP) enhances the competitiveness of the company because ERP enables the company to retrieve appropriate data in the manner of real-time and accurate which, subsequently, facilitates the achievement in the costs reduction, right decision making, better customer response, and the improvement process. The implementation of ERP provides the ability to connect all departments in the company resulting in more efficient administration and more accurate data in controlling the company's inventory. ERP implementation allows the company to reduce the cost of goods or services without sacrificing the quality level.

The purchasing strategy is one factor that improves the competitive advantage of the company. Principally, the primary goal of the purchasing strategy is to establish long-term cooperation with the supplier within the scope associated with new product developments, improving the quality of services and goods, and sharing of ideas that can improve product innovation. The purchasing strategy is long-term planning to meet the company's material needs related to the process of evaluating suppliers, selecting and determining suppliers, determining material prices by negotiating with suppliers, seeking potential suppliers for the company (Chiang et al., 2012). Furtherly, in enhancing the cooperation between both parties, the organization needs to develop its suppliers in respect of flexibility, delivery, and cost which are required to optimize the overall operations of the enterprise. In the same sense, top management should encourage an excellent relationship between the related department within the company which correlates with the material purchasing process in supporting the production. This functional relationship allows all related department to receive precise information regarding the product specifications, quantity, and delivery schedule.

Top management commitment is also another factor which can enhance the competitive advantage. Leadership has an essential role in determining the success of a company in facing the competition. The leadership is defined as the ability of a person to influence and direct the group or team he leads to be able to achieve goals both on long-term and short-term. The leader should have the ability in managing corporate resources and determining the appropriate strategy to adapt to external changes which are reflected by the business strategy. A leader should also be able to facilitate the innovation of the products or processes (Tarigan, 2018). The leadership is also reflected in the form of Top management commitment which determines the success or failure of the ERP implementation in supporting innovation activity within the company (Lee et al., 2016).

Those previous studies, so far, have primarily concentrated on three main concerns, i.e., first, the user of ERP (Park et al., 2007; Wu and Wang, 2007; Larsen, 2009; Zhu et al., 2010; Ajer and Hustad, 2015; Matende and Ogao, 2013); second, the implementation of ERP (Nicolaou and Bhattacharya, 2006; Hallikainen, et al., 2009; Hsu et al., 2015); and third, ERP information quality (Zhou et al., 2014; Marinagi et al., 2015). Moreover, those researches have focused only on the direct influence of top management commitment, ERP integration, and purchasing strategy on the competitive advantage, and to the best of authors knowledge, very few studies that take into account the relationship of the four constructs simultaneously. This study fills the gap by examining the influence of Top management commitment on the competitive advantage through the mediating role of ERP integration and purchasing strategy. This topic, consequently, raises six research questions to be examined which are 1) whether Top management commitment affects the ERP integration, 2) whether Top management commitment affects purchasing strategy, 3) whether ERP integration has impact on the purchasing strategy, 4) whether Top management commitment affects competitive advantage, 5) whether ERP

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