Comparing Cost Leadership Strategy with Differentiation Strategy towards Firm Performance on Jakarta Islamic Index

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Abstract - The research aimed to examine the effect of cost leadership strategy and differentiation strategy on company’s performance. It was conducted in companies listed in the Jakarta Islamic Index from 2014 to 2018. Purposive sampling was used to obtain samples from 12 companies. Analysis was done by multiple linear regression with the help of the IBM SPSS 23 statistical program for windows with a quantitative descriptive approach. The results show that the cost leadership strategy influences company’s performance compared to differentiation strategy. The implementation of a low-cost strategy is significantly relevant to the condition of people who are sensitive to price and are not much aware about brand products in decision making. The design of a unique item model does not determine success in marketing a product, the relative price offered is quite high and only in certain market segments the product is of public interest. Product quality is defeated by the quantity of goods, people prefer how much goods are obtained than the durability of the products consumed.

Keywords: cost leadership strategy, differentiation strategy, firm performance

I. INTRODUCTION

The company’s goal in general is to maximize profits as theory of the firm states that an organization combines and manages its resources with the aim of producing goods or services for trading (Setiono, 2015). The achievement of the company’s sales will determine the value of a company, this reflects the trust and loyalty of the people to the company. As the value of a company, investors prosperity will also increase. The welfare of shareholders and the company are represented by stock price on the market exchange. The higher value of a company leads to the increasing share prices. The company is trying to increase the prosperity of investors to attract other investors to invest their finals in the company’s shares. One way is by listing the company into the Jakarta Islamic Index indexation. Being listed in the Jakarta Islamic Index (JII) is important because the majority of Indonesia’s population are Muslims who would prefer sharia stock investments. Based on the publication of the Kustodian Sentral Efek Indonesia (KSEI), the growth in the number of share investors in Indonesia in 2018 has increased by 44% compared to 2017. Many companies competing to be listed in JII so that each company has a competitive strategy to be listed in JII (Niode, 2012). On the other hand, companies that have been listed in JII will try to maintain their position by implementing several corporate strategies.

Decisions in business is determining the sustainability of a company. The theory of the company states that the decision made in order to maximize profit is intended to maintain the existence of the company (Setiono, 2015), so every company needs to thrive and survive. Maintaining a company in a highly competitive market industry requires strategies to bring the company forward and win the market segment than any other competitor. Several potential strategies are Porter strategic theory, the cost leadership strategy, differentiation strategy and the strategy of focus. The cost leadership strategy and differentiation strategy are often applied by companies in winning the market. The benchmark in this research is the measurement of success of the strategy applied by the company.
resulting in the company’s performance (Maharani & Budiasih, 2018).

A firm’s performance is a summary of the purpose which is the standard to be used as an appraiser of business success by economic entities in production activities (Setiawan, 2016). The need for information about the company’s performance as a measure of decision-making in the future by stakeholders and investors, for the measurement of performance needs to be done. The company’s performance has not had a basic standard, there are two approaches but financial and nonfinancial that can be used to describe and analyze the performance of the company. The financial approach uses the growth and profitability of the company, while the non-financial approach is based on the opinion (subject) or perceptions of the respondents who are considered more informative (Omsa, Ridwan & Jayadi, 2018). Performance measurement is also a process to measure the company’s efficiency and effectiveness measures (Rokhyadi, 2014). Optimal company’s performance is obtained through a series of strategies chosen and applied appropriately, especially with a business situation filled with an atmosphere of uncertainty that is faced with increasingly fierce levels of competition, so the right strategy is required since the strategic variables are believed to improve company’s performance. The strategy is perceived as a means of creating competitive advantage by the company, and is related to the strategies offered by Porter known as Strategic Positioning consisting of differentiation strategies and cost leadership strategies (Setiawan, 2016).

There have been numbers of researcher related to company’s performance influenced by Cost Leadership Strategy and differentiation strategies. Rustamblin, Thoyib, and Zain (2013) conclude that differentiation strategies are more effective and have an influence on the company’s performance on other generic Porter strategies. Furthermore, Setiawan (2016) finds that companies that choose cost leadership strategies are not better off giving company’s performance results than using differentiation strategies. Wibowo, Handayani, and Lestari (2017) point out that differentiation strategies using the size of Selling General and Administrative Expense (SG&A) or sales have an influence on company’s performance. It is assumed that companies implementing differentiation strategies have added input costs in producing unique goods compared to their competitors with the aim that the products are more attractive to consumers to increase the number of sales of the company with maximum profit. Purwantoro, Daryanto, and Djohar (2018) support the influence of differentiation strategies on company’s performance by pointing out that the company’s performance becomes more optimal when implementing a differentiation strategy.

On the other hand, Josiah and Nyagara (2015) has found influence between cost leadership strategies on company’s performance, while D. Banker, Mashruwala, and Tripathy (2014), Omsa et al. (2018) and Rokhyadi (2014) have stated that cost leadership strategies and differentiation strategies have influence on company’s performance. This research adopted the research of Chang, Fernando and Tripathy (2015). There are several differences with previous studies, namely by using a sample of data not only in the manufacturing sector but in other sectors in the index of the Jakarta Islamic index in 2014-2018, based on suggestions put forward by Wibowo et al. (2017). In addition, the research compares strategies for generic positions on company’s performance. Therefore, this research tries to explore the effect simultaneously between Cost Leadership Strategy and differentiation strategies on company’s performance. Whether by testing and different analytical techniques will give different results or remain the same, so it can contribute to the research literature and can be used as input for interested parties in making an economic decision.

Cost leadership strategy is a strategy to produce products with per-unit costs that are produced significantly low-priced compared with goods offered in the market (Amalia, 2015). This strategy emphasizes efforts to produce standard products with a noticeably affordable unit cost is a low cost strategy undertaken by companies to gain competitive advantage. Besides, the advantages of a company can be reflected when it is able to offer more economical prices compared to its competitors. Various combinations of level of differentiation and level of costs will give different results of strategic positions. The most successful companies having a level on the cost structure can benefit a high level of differentiation (Nainggolan, 2018). Hence with this series of strategies, it is expected that the company increases sales of products in the market compared to its competitors.

The differentiation strategy is a strategy that seeks to create unique products that can be distinguished from the ones produced by competitors or marketed goods. This strategy places more emphasis on product excellence, innovation and the creation of new products offered in the market with the aim of getting product uniqueness compared to its competitors. In addition, the achievement of this strategy is through product uniqueness and additional features, comfort, and product grade up, so that it will be difficult for competitors to imitate the marketed products (Wibowo et al., 2017). The purpose of the product differentiation strategy is to maintain the unique characteristics of the product, so it remains to be the consumers’ most choice, which ultimately increases the level of sales of the company.

The company’s performance is measured using the Net Profit Margin, which is one part of the profitability ratio. Net Profit Margin shows whether the relationship is proportional to the profit. For instance, when the Net Profit Margin value increases, the company’s performance will be more productive resulting in profit increase. On the other hand, this serves to create effective and efficient conditions by controlling company costs, thus the waste from production operational activities can be minimized while the expected level of profit is getting bigger
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(Wibowo et al., 2017).

The hypotheses on cost leadership strategy will also be developed. Similar products offered at a more significantly affordable per-unit-costs from market prices is one characteristic of low cost strategies. This strategy is intended for consumers who tend to be easily affected by price changes and purchasing decisions based on the price of goods. This is suitable for buyers who are not too concerned about the brand, and when there is a high intensity of product bargaining in the market. When the company implements a low-cost strategy and enters the market, the success of this strategy will be easily achieved, which is directly related to the success of the company’s performance as indicated by increased sales and high profit. Josiah and Nyagara (2015) and Rokhyadi (2014) show the influence of cost leadership strategies on company’s performance. Meanwhile in Differentiation Strategy, innovation is a concept that underlies product differentiation strategies. Product offerings follow the preferences of the people who continue to experience growth. Hence it requires innovation and upgrade to produce new variations of the products offered. Changes in terms of product shape and quality are carried out by the company to provide added value and function to influence consumers. The differentiation strategy measured using the SG&A/sales ratio shows that when the allocation value of SG&A is greater, profits will easily be achieved. Rustamblin et al. (2013), D. Banker et al. (2014), Chang et al. (2015), Setiawan (2016), Wibowo et al. (2017) and Omsoa et al. (2018) have similar views that product differentiation strategies have a greater influence on company’s performance compared to other generic strategies.

Based on the presentation and results of the previous research, the research hypothesis is proposed, namely:

H1: Cost Leadership Strategy influences firm performance.

H2: Differentiation Strategy influences firm performance.

II. METHODS

The population are all companies listed in the Jakarta Islamic Index (JII) from 2014 to 2018. The data source is secondary data by using data from the annual financial report results in companies indexed by JII. The sample selection is based on the purposive sampling method, which is determined by special characteristics by researchers aiming to get an accurate sample with predetermined criteria, so it can be representative. The sample criteria in this research are: (1) Companies listed in the Jakarta Islamic Index from 2014 to 2018; (2) Listed consecutively at the Jakarta Islamic Index indexation from 2014 to 2018; (3) Issuing financial statements from 2014 to 2018; (4) The financial statements are presented in rupiah currency; (5) Companies that do not report losses in 2014-2018 annual financial statements; (6) The company’s annual report has the data needed in relation to the independent and research dependent variables. The classic assumption test and multiple linear regression test are performed on the sample obtained.

Company’s performance is measured using the Net Profit Margin (NPM) variable. This ratio shows that when the value of NPM is higher, it will be equivalent to better earnings since this ratio illustrates how the technique of a company in controlling and managing sales in achieving profits is more efficient (Tandelilim, 2010). Calculation of Net Profit Margin follows a study conducted by Agustina & Sumario (2014), which is:

\[
NPM = \frac{Net\ Income}{Sales}
\]  

(1)

Balsam, Fernando and Tripathy (2011) and Chang et al. (2015) in their watchfulness have pointed out how to measure the cost leadership strategy using the ratio of net sales to capital spent. The ratio measures a company’s ability to obtain long-term assets using sales revenue. The ratio of sales to capital expenditures will often fluctuate when the business goes through a large cycle and small capital expenditures (Birjandi et al., 2014). Mathematically the measurement of cost leadership strategy is:

\[
CLS = \frac{Sales}{Capital\ Expenditure}
\]  

(2)

Measurement of differentiation strategies follows the calculation of the independent variables that have been carried out by Balsam et al. (2011) and Chang et al. (2015)

\[
DS = \frac{SG&A}{Sales}
\]  

(3)

Where DS = Differentiation Strategy; S = cost of sales; G = general costs; A = administrative costs; and Sales = sales. This ratio is a means of corporate investment to differentiate products against competitors. The application of this strategy to companies will require more costs compared to the cost leadership strategy to create unique products to increase company sales.

The relationship between the dependent and independent variable data can be identified through the use of classic assumption tests. This is essential to do before continuing to test the regression analysis of the research variables.

Normality test aims to determine whether the proposed regression modeling, or residual confounding variable has a normal distribution (Ghozali, 2016). The interrupting variable of a regression requires that it is spread normally. This is to meet the original zero mean if the variable and is normally distributed. If so, then the variables used in the research on the Y variable will also be normally distributed. Testing normality is implemented by looking at the value of the probability of normality test results using the Kolmogorovan-Smirnov test to determine whether the distribution
of variable data is normal or abnormal. The rules for regression modeling are normally distributed if the probability of Kolmogorov-Smirnov is greater than 5% (\( \rho > 0.05 \)).

Multicollinearity test functions to test whether the regression models indicate resources to a correlation between independent or independent variables. The prerequisite that must be fulfilled in the regression model is the absence of multicollinearity (Ghozali, 2016). The way to detect the findings of multicollinearity is to use a method that is regressing the analysis model and conducting a correlation test between independent variables using values from the variance inflation factor (VIF) and tolerance value. If the tolerance value is greater than 0.1 and VIF is less than 10, it means there is no multicollinearity. However, if the tolerance value is <0.1 and VIF > 10, there is multicollinearity in this research.

Heteroscedasticity test has the purpose to find out whether regression modeling has a difference in the value of the residual number one observation to the next observation. When the residual variance value from one observation to another observation is constant, it can be said as homoscedasticity. In contrast, when the results are different it is called heteroscedasticity. A good regression model that has a variance value tends to be fixed or homoscedasticity (Ghozali, 2016). Heteroscedasticity can be known through a test by using the Glejser test method, which is by compiling a regression between the residual absolute value and the independent variable. If each independent variable does not significantly influence residual absolute (\( \alpha = 5% \)) then the regression model in the research does not occur with symptoms of heteroscedasticity.

The autocorrelation test aims to test whether in the linear regression model there is a correlation between confounding errors in the t period and errors in the t-1 period (previous) (Ghozali, 2016). When there is a correlation, there is a problem with autocorrelation. This arises because of a series of sequential observations over time that are related to one another. A good regression model is free from autocorrelation. In the research, autocorrelation is tested by using Durbin Watson Test. Determination of the existence of autocorrelation can be determined through the Durbin Watson Test value, that is, when the value of \( d < d_L \) or \( d > 4-d_L \), the data is autocorrelated. Whereas for data with no autocorrelation, \( d_U < d < 4-d_U \). With a value of \( \alpha = 0.05 \), where \( d = Durbin Watson and \ d_L, \ d_U \) is a number from the Durbin Watson table.

Multiple linear regression functions to review the effect of independent variables on dependent variables with the following formulations:

\[
KP (NPM) = \alpha + \beta_1 CLS + \beta_2 DS + e \quad (4)
\]

Where \( KP = \) Company Performance is measured using Net Profit Margin; \( \alpha = \) constants; \( \beta = \) regression coefficient; \( CLS = Cost \) of Leadership Strategy; \( DS = \) Differentiation Strategy; \( e = \) error standard.

Test \( F \) basically indicates whether all the independent variables included in the model has a collective effect on the dependent variable (Ghozali, 2016). The test in the research uses a significant level of 0.05 (\( \alpha = 5\% \)). When significant or probability values are less than 5% (\( \rho < 0.05 \)) and \( F \) statistic > \( F \) table, it can be said that there is a joint effect between the independent variables on the dependent variable (\( F \) statistic = \( F (k; n-k) \)).

\( T \) test aims to illustrate the influence of the independent variables individually in explaining the variation of the dependent variable (Ghozali, 2016). Test statistic \( t \) is used to test the significance of the effect of each independent variable on the dependent variable. The test uses a significant level of 0.05 (\( \alpha = 5\% \)). This shows that the free variable will get the \( t \) value located in the critical area (reject area) if the true hypothesis is actually 0,05 if \( t \) count is greater than \( t \) table then \( H_0 \) is rejected, meaning there is an influence between the independent variable on the dependent variable, and vice versa.

III. RESULTS AND DISCUSSIONS

The sample of the research is presented in Table 1.

Table 1 The Samples in the Research

| Sample selection          | Amount |
|---------------------------|--------|
| The company listed at JII from 2014 to 2018 | 47     |
| Companies that are not listed in succession during the period | 32     |
| Companies that issue financial statements not in rupiah during the period | 2      |
| Companies that report losses during 2014-2018 | 1      |
| Number of sample companies | 12     |
| The number of samples during the research period x | 60     |

Based on the results of data analysis using the help of SPSS 23. It is declared that variables are normally distributed if the results of the Kolmogorov-Smirnov test show an asymp value. sig. > alpha (0,05). It can be seen in the Table 2 that the Kolmogorov-Smirnov test value is 0,187, while the asymp value is Sig. (2-tailed) for an unstandardized variable of 0,000 less than an \( \alpha \) value of 0,05. Hence it can be concluded that the data used is not normally distributed. Data is stated not to experience a normal spread because based on the results of the company’s annual financial report in the research sample shows that there are significant fluctuations in the number of financial results used in the research.
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Table 2 One-Sample Kolmogorov-Smirnov Test

| Unstandardized Residual |
|--------------------------|
| N                        | 60 |
| Normal Parameters \(^{ab}\) | Mean: 0,0000000; Std. Deviation: 0,10793834 |
| Most Extreme Differences | Absolute: 0,187; Positive: 0,187; Negative: -0,142 |
| Test Statistic           | 0,187 |
| Asymp. Sig. (2-tailed)   | 0,000\(^c\) |

\(^a\) Test distribution is Normal

The results of multicollinearity tests (Table 2) indicate that the cost leadership strategy and differentiation strategy variables have values greater than tolerance of 0,1 and VIF values are below 10, which means that the variables do not occur to be multicollinearity.

Table 3 Multicollinearity Test Results

| Independent Variable | Collinearity Statistics | Conclusion |
|----------------------|--------------------------|------------|
| Model                | Sum of Squares | df | Mean Square | F | Sig. |
| 1 Regression         | 0,086         | 2  | 0,043       | 3,560 | 0,035 \(^b\) |
| Residual             | 0,687         | 57 | 0,012       |
| Total                | 0,773         | 59 |
| Variable             | Tolerance      | VIF |
| constant             | 0,905         | 1,105 |
| CLS                  | 0,905         | 1,105 |
| DS                   | 0,905         | 1,105 |

The probability of the cost leadership strategy variable and differentiation strategy is statistically significant above 0,05. It can be concluded that the regression model does not have heteroscedasticity, as seen in Table 4.

Based on the results of the Durbin-Watson test with the help of the SPSS 23 application, the Durbin-Watson value is 0,99. This value is compared with the Durbin Watson value table for n = 60 and k = 3 with (α) 0,05 or 5%, then the value of dL = 1,48 and dU = 1,69. As a result, the Durbin Watson test value is at (4 - DW)> dU. This becomes the evidence of the absence of negative autocorrelation.

Based on the results of the data obtained, the results of multiple linear regression tests can be seen in Table 5.

Table 4 Heteroscedasticity Test Results

| Dependent Variable | Independent Variable | Sig. t | Conclusion |
|--------------------|----------------------|--------|------------|
| FP                 | CLS                  | 1,000  | There is no Heteroscedasticity |
| DS                 | 1,000                | There is no Heteroscedasticity |

Based on the results of the Durbin-Watson test, the probability value is 3,560 with a significance of 0,035. The results of df also show values of 57 and 59. The calculated f value is greater than f table which is 0,035 < 3,160. Thus, it can be concluded that simultaneously the cost leadership strategy variable and differentiation strategy do not affect the company’s performance.

Table 5 Result of Multiple Linear Regression Tests

| Model   | Unstandardized Coefficients | Standardized Coefficients |
|---------|-----------------------------|---------------------------|
|         | B   | Std. Error | Beta | T   | Sig.   |
| 1 (Constant) | 0,082 | 0,028     | 2,932 | 0,005 |
| CLS     | 0,009 | 0,004     | 0,263 | 2,007 | 0,050 |
| DS      | 0,131 | 0,124     | 0,139 | 1,055 | 0,296 |

Thus obtained the regression equation as follows:

FP (NPF) = 0,082 + 0,009CLS + 0,131DS + e

Based on the results of the SPSS output, the conclusions taken from the F test are provided in Table 6.

Table 6 Result F test

| Model   | Sum of Squares | df | Mean Square | F   | Sig. |
|---------|----------------|----|-------------|-----|------|
| 1 (Regression) | 0,086 | 2  | 0,043       | 3,560 | 0,035 \(^b\) |
| Residual | 0,687         | 57 | 0,012       |
| Total   | 0,773         | 59 |

Based on the results of the f test, the probability value is 3,560 with a significance of 0,035. The results of df also show values of 57 and 59. The calculated f value is greater than f table which is 0,035 < 3,160. Thus, it can be concluded that simultaneously the cost leadership strategy variable and differentiation strategy do not affect the company’s performance.

The t test is used to test partially, the statistical significance of the variable cost leadership strategy, differentiation strategy and company’s performance. Table 7 provides the results of the t test.
Based on the results of the $t$ test, it is found that the cost leadership strategy variable has $t$ count 2.007 > $t$ table 2.002, with a significance value of 0.05, probability below alpha. It can be concluded that there is an influence between the cost leadership strategy on company’s performance. The results indicate that implementing cost leadership strategies namely low cost, has an influence on company’s performance. The research result support the research conducted by Josiah & Nyagara (2015). Cost leadership strategy is the way a company attracts customers by offering per unit product prices below the competitor’s offer. This strategy is a business tactic that is by utilizing consumers who determine purchasing decisions based on product price offers from the company. This phenomenon is particularly suitable with the conditions in Indonesia, where buyers have low awareness about the brand and the intensity of product bargaining is high as well as easily affected by more relatively affordable goods. When companies implement cost leadership strategies, the success of this strategy will be easily achieved. Therefore, the implementation of cost leadership strategy influences the company’s performance as indicated by the intensity of company sales increasing and high profit.

| Model | Unstandardized Coefficients | Standardized Coefficients |
|-------|-----------------------------|---------------------------|
|       | B | Std. Error | Beta | T | Sig |
| 1 (Constant) | 0.082 | 0.028 | 2.932 | 0.005 |
| CLS | 0.009 | 0.004 | 0.263 | 2.007 | 0.049 |
| DS | 0.131 | 0.124 | 0.139 | 1.055 | 0.296 |

Based on the results of the calculation seen in Table 7, the differentiation strategy variable has a value of 1.055 < $t$ table 2.002 with a significance number of 0.296 probability above 0.05, so it can be concluded that differentiation strategy does not affect the performance of the company. The results of this indicate that by presenting unique products offered in the market, it has no influence on company’s performance. The results of the research do not support the research by Purwantoro et al. (2018). The differentiation strategy is a strategy that seeks to create unique products can be significantly distinguished from products by competitors or marketed goods. This strategy places more emphasis on product excellence, innovation and the creation of new products offered in the market with the aim of getting product uniqueness compared to the competitors. Conditions in Indonesia show that many imitation products are scattered in almost all places. Besides many sellers offer quality products that are not suitable for consumption in the market with a derivative level of super copy under imitation. This phenomenon is actually sad because many goods in the market are not in accordance with Indonesian national standards. Smart consumers will certainly consider purchasing decisions on product quality and product safety. If many customers have long-term thinking about consuming products, this strategy will succeed. However, the results of this study indicate that, currently, the product differentiation strategy has no influence on company’s performance.

IV. CONCLUSIONS

First, the research concludes that there is an influence between the cost leadership strategy on 12 companies’ performance listed on Jakarta Islamic Index (JII) indexation from 2014 to 2018. The results of the support the research conducted by Josiah and Nyagara (2015). This phenomenon is suitable with the conditions in Indonesia, where buyers have low awareness about the brand and the intensity of product bargaining is high as well as easily affected by more relatively affordable goods. When companies implement cost leadership strategies, the success of this strategy will be easily achieved. Therefore the application of cost leadership strategy affects company’s performance.

Second, differentiation strategy does not affect 12 companies’ performance listed on JII. The results of the research do not align with the research by Purwantoro et al. (2018). Conditions in Indonesia show that many replicas of the products are distributed in many places. If many customers have long-term thinking about consuming products, this strategy will be successful. Nevertheless, the results indicate that, currently, the product differentiation strategy does not significantly influence the company’s performance.

There are several suggestions for further research that can be considered: 1) It is better to increase the number of samples not only in the Jakarta Islamic index, but more broadly to obtain complete research data; 2) Further research can add to the number of variables that have influences on company’s performance; 3) The next research should be able to add years of research to obtain the validity of the research results.

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