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Increasing Financial Performance through Effective Differentiation Strategy, Business Strategy and Strategic Change in Mediating Role of Enterprise Risk Management

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The financial performance of any firm depends on various factors. The present study illustrates the relationship of differentiation strategy, business strategy and strategic change on the financial performance of firms and the mediating role of enterprise risk management. The main objective of the paper is to analyze the impact of these strategies as well as the mediating role of ERM. The complete paper consists of different sections including introduction, literature, methodology, framework, analysis of results and finally a conclusion. The numerous previous studies analyzed the impact of strategies on the financial output of firms. These studies proved that firm financial performance significantly depends on strategy formulation and implementation. The quantitative data collection technique has been used in this study and data was collected through a structured questionnaire. The questionnaire was distributed among 400 respondents and 319 valid responses were used for analysis. Furthermore, the data was analyzed through performing SPSS and AMOS software. AMOS has been accompanied by a researcher for analyzing the convergent validity of the data. The results of the analysis show that all variables do not have a significant impact on financial performance. The strategic change and business strategy have a significant impact on financial performance while the differentiation strategy does not have a significant impact on the financial output of the companies. The strategic change and business strategies do not only have a significant impact but also a positive impact on financial performance. This shows that business strategy and strategic change are important for organizational financial performance.

Key words: *Financial Performance, Effective Differentiation Strategy, Business Strategy, Strategic Change, Enterprise Risk Management.*

Introduction

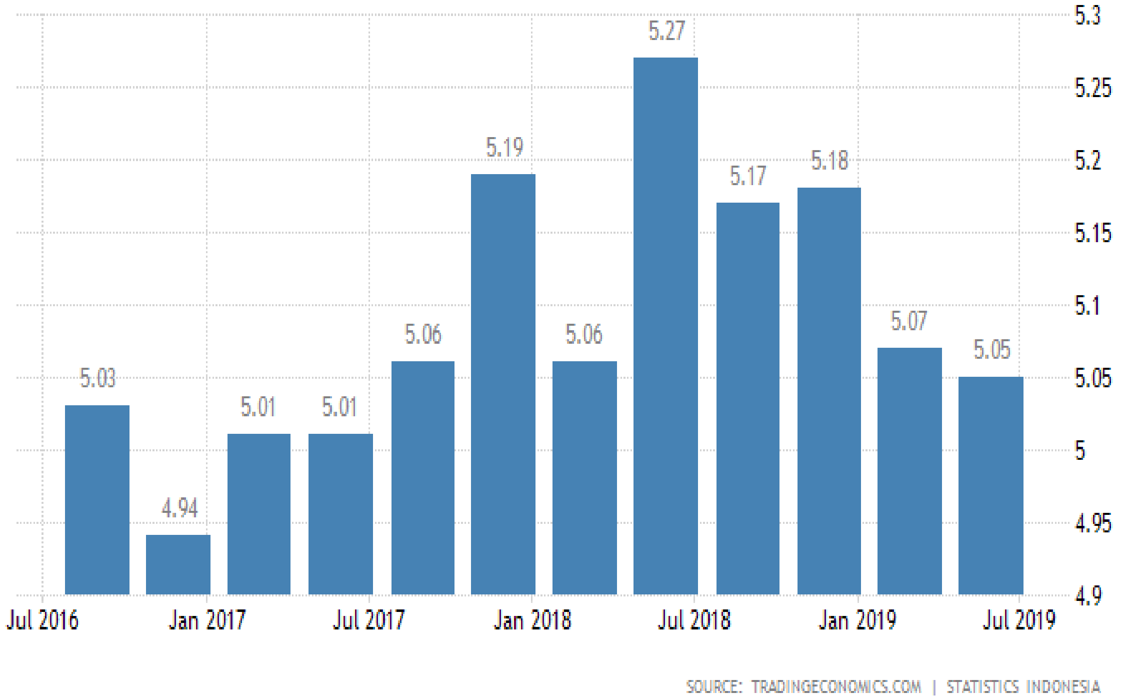
The history of financial performance is very old, and it is an important factor for the companies that are related to the manufacturing of goods. Several financial ratios such as leverage, liquidity, and profitability are used in the methodology of financial statement analysis (Chalu & Lubawa, 2018). The companies that rely on foreign investment have experienced hurdles in improving financial performance. Manufacturing companies contribute entirely to the Indonesian economy and try to achieve a competitive advantage (Hamid, 2018). In the context of manufacturing industry sales growth year to year, liquidity position and capital structure of the firm are crucial aspects. Differentiation strategy is a business strategy that differentiates the business from the competitors (Anwar, 2018).

Differentiation strategy enables the company to stand out in a market and then differentiating the products of the company from its competitors. Differentiation strategy is a more important task than the marketing strategy and it always carried out at the time of the development marketing strategy (Olson, Slater, Hult, & Olson, 2018). Typically the companies that have successful differentiation strategies are very skilled and have creative products and ideas. The fundamental need of a business is to have a successful business strategy that is essential for the sustainability of business and their venture (Crane, Matten, Glozer, & Spence, 2019). Without a successful business strategy, the organizations consider as directionless and they have a lack of efficiency. A business strategy should include main competitors, target market and firm big plan (Olson et al., 2018). A successful business strategy helps in measuring the growth and success of the business and increase adaptability.

In today's world, everything is changing, the population of the world is changing, the customer trends are changing, the use of technology is changing and the economy is changing, and this change is important for every business and organization. Without a consequent change in strategy, businesses would diminish growth and lose competitive edge (Ansoff, Kipley, Lewis, Helm-Stevens, & Ansoff, 2019). Innovation is directly related to the change strategy and plays an important role in the decision-making process and produces growth opportunities (Akram et. al., 2011; Schot & Steinmueller, 2018). Financial performance is a broad concept that refers to the degree by which the financial objectives are measured and it is an important part of financial risk management (Laisasikorn & Rompho, 2019). Financial performance helps in measuring understanding the firm's overall financial position or health over a given period of time (Sroufe & Gopalakrishna-Remani, 2018). ERM is a mechanism that is used to identify the risks in a project and business in a brainstorming fashion (Bensaada & Taghezout, 2019).

Enterprise risk management is an important task because it is used to identify the risks to the existence of the business and it also determines the success and health of the business enterprise. A generalized and broader enterprise risk management program helps in managing the financial reporting and the performance of the organization (Saeidi et al., 2019). The enterprise risk management policy makes an organization to comply with the Sarbanes Oxley Act of 2002 (Wang, Lin, Werner, & Chang, 2018). The following Figure 1indicates financial performance in context to Indonesia. It shows that the financial performance of Indonesian manufacturing in July 2018 gradually increased and then, over time, it decreases in July 2019.

Figure 1. Indonesia Manufacturing Sector Financial Performance



The paper has primary has its aim, to identify the role of differentiation strategies, business strategies and change strategy management processes in the FP of the manufacturing sector. It is observed that during the last few months, the FP of the Indonesia manufacturing sector has been reduced. It is already in the Figure above that in 2018, the FP of the manufacturing sector was good but over time is reduced. While, the primary reason behind that is the lack of implementation of business strategies, differentiation strategies and lack of risk management process (Kong, Lartey, Bah, & Biswas, 2018). The enterprise does not have key strategic objectives due to the reduced financial performance of the sector. In order to understand and analyze the impact of business process strategy, the following research was conducted. Diverse previous research suggests that there is a need for study that explores the impact of business and differentiation in enhancing financial performance. No previous research in this field illustrates the impact of strategies on increasing financial performance. Moreover, previously, no other research determined the mediating role of ERM in enhancing the FM. Therefore, this research has the following objectives.

- The study has a primary objective to identify the impact of differentiation strategy on FP of the manufacturing sector of Indonesia.
- The second objective is to analyze the effect of business strategy in enhancing the FP in Indonesia.
- The third objective is to identify the role of change strategy management in FP of the manufacturing sector of Indonesia.
- The other objective is to determine the mediating role of ERM in the relationship between business strategy, differentiation, and strategic change management process and FP in the manufacturing sector of Indonesia.

The overall study is significant and has a wider scope in the manufacturing sector of Indonesia. The study is significant in its aim to analyze the role of the business process through a significant role in business strategies. Therefore, this research is significant to the manufacturing sector of Indonesia. The complete paper consists of different sections; the first is the introduction of all concepts; comprises all previous studies related to variables is comprises the 'Literature Review'. The third presents the theoretical model/ framework while the fourth consists of the research methodology and data collection techniques. The fifth section is the analysis and results description. Finally, conclusions and recommendations for future research are made.

Literature Review

Resource-Based Theory

The financial performance of an organization depends on several factors. It cannot be denied that financial performance is the key aspect of an organization (Akgün, Keskin, & Kırçovalı, 2019). Financial performance helps to meet the financial objectives and is supported by the resources. A resource-based theory facilitates the FP of the company by managing the resources (Nason & Wiklund, 2018). The resource-based theory was initially proposed by 'Barney's' in 1991. The resource-based theory states that an organization can achieve a competitive edge through management of the strategic resources and applied effective business strategies (Holdford, 2018). When an organization succeeds to achieve a competitive position, the overall FP of the company enhanced. Moreover, Barney stated that with the help of resource-based theory, an organization can also manage the risks in response to an unseen event. Therefore, the integral part of the resource-based theory is to gain and sustain a competitive position with the help of effective management of resources. The more an organization manages its resources, the more effectively it gains a competitive position and vice versa. Therefore, the resource-based theory plays a crucial role.

Differentiation Strategy and Financial Performance

Whether it is the manufacturing sector, the financial sector or the telecommunication sector, the role of financial performance is essential. A business can enhance financial performance and achieve financial objectives in different ways (Danso, Adomako, Amankwah-Amoah, Owusu-Agyei, & Konadu, 2019). The right and effective use of differentiation strategies is one of the prominent ways. A study demonstrates that the industries with the help of differentiation strategies achieve economies of scale, meet the challenges and enhance business performance. Better use of resources and strategies at the right time is very crucial for business survival. The Indonesian manufacturing industries use the process of financial performance in order to measure the results of organization policies and current operations in monetary terms. A study discussed the importance of differentiation strategy in the manufacturing sector. The author of the study demonstrates that a differentiation strategy is an extent in which business focuses on core values of the product/services (Newton, Gilinsky Jr, & Jordan, 2015).

Moreover, the differentiation strategy illustrates that a business should add some basic features in products or services that differentiate itself from its competitors. In the manufacturing sector, when companies use differentiation strategies, they achieve high economies of scale and through this the financial performance of the business enhanced. The resource-based theory also supports the argument and relationship between financial performance and differentiation strategy. The effective use of resources helps to gain a competitive edge while the gain of a competitive edge enhances the business performance overall (Tavitiyaman, Zhang, Wei, & Saiprasert, 2018). So, this study developed the following hypothesis.

H1: There is a significant relationship between the use of differentiation strategy and financial performance.

Business Strategy and FP

A business needs effective and significant business strategies to meet financial objectives. For an executive, business strategy has a central role in performance development. Business strategy is a strategy that executives of the business apply to improve overall business performance. A study determined the relationship between business strategy and FP through actions of the business executives (Ukko, Nasiri, Saunila, & Rantala, 2019). Under the business strategy, the top-level management of the business takes a set of actions or set of decisions which assist business executives to achieve the objectives. Moreover, it is understood that the use of business strategy helps to achieve effectiveness. Under the manufacturing sector, business leaders use the business strategy to reduce manufacturing cost, etc. The effective use of business strategy helps to perceive as well as utilize business opportunities. Additionally, the study demonstrates that the application of business strategy helps to meet the challenges as well as threats (Rehman & Anwar, 2019).

The more effectively an organization meets the challenges, the higher its performance. When financial objectives are met, the overall FP is enhanced. At the same time, the business level strategy helps to reduce expenses. The business leaders using the business level strategy help to arrange the periodic payment plan for larger expenses. Overall, when the expenses of the organization are meet, profit is enhanced. The lower the expenses, the higher the profit and vice versa. Therefore, it is acknowledged that the financial performance of an organization depends on an effective business level strategy (Bendickson, Gur, & Taylor, 2018). At the same time, these strategies can be applied through the effective use of resource-based theory. The use of resources at the right time and for the right purpose helps to gain competitive position. Therefore, the resource-based theory supports the differentiation strategy and helps in the decision making the process. So, the second hypothesis of the study is given below.

H2: There is a positive relationship between differentiation strategy and FP.

Strategic Change and FP

Strategic change significantly affects business performance in an effective way (Rajapathirana & Hui, 2018). Businesses change their strategies in order to get the desired output and results. A related study illustrates that the change strategy management process helps to improve the profit of a company. Once an organization identifies the key drives to accelerate their profit it becomes easy to understand the needs and requirements of the customers. According to the studies, the change strategy management process increases the sales revenue of the businesses. At the same time, the change strategy process develops the new product line (del Carmen Triana, Richard, & Su, 2019). It is obvious that when an organization changes strategies, the company focuses on product diversification. Product diversification further improves customer service and in this way, the overall financial performance is enhanced. The resource-based theory also manifests the relationship between change strategy process and financial performance. The newly developed strategies enhance skills and capabilities. The hypothesis is.

H3: There is a significant relationship between the change strategy management process and financial performance.

The Mediating Role of ERM between Differentiation Strategy and FP

Risk management has a significantly central role for an enterprise to reduce or manage the risks and enhance business performance. A study related to strategy and innovation discussed that the risk management process helps to identify the possible risk and a management plan to overcome such risks (Pasch, 2019). The more an enterprise develops an innovation strategy under the risk management process, the more it enhances business performance. The study further contributes to understanding how firms pursuing differentiation strategy and explore the innovation outcomes. The more innovation outcomes develop, it highly it differentiates the product/services of an enterprise to its competitors. It is understood that as enterprise risk management has a mediating role affected by two factors such as differentiation strategy and financial performance. The risk management process affects the differentiation strategy and differentiation strategy overall develop innovative core values in product features (Liu & Atuahene-Gima, 2018). Further, the core values in a product affect the business/financial performance of the business. This relationship has also supported by the resource-based theory. According to the theory concepts, the use of resources helps to enhance the profit. While the fulfillment of financial objectives enhances the financial performance of the enterprise as well. So, the other hypothesis of the study is,

H4: ERM has a significant mediating role in the relationship between differentiation strategy and FP.

The Mediating Role of ERM between Business Strategy and FP

The ERM has also had a great influence on business strategy and effective use of business strategy affects the FP of the company as well. A study related to ERM and business strategy demonstrates that ERM should be effective because it directly connected to company strategy and financial objectives (Yang, Ishtiaq, & Anwar, 2018). An effective ERM process can affect the likelihood as well as the consequences of risk materialization. The author in a study discussed that the ERM process help in the business strategy process through better-informed decisions. When there are fewer risks associated with the enterprise, business leaders can easily and effectively make the decisions (Papadas, Avlonitis, Carrigan, & Piha, 2019). The study proves that ERM positively affects the strategic decision-making process while the strategic decision-making process furthers affects the overall business performance. Furthermore, the mediating role of ERM in the relationship between FP and business strategy relates to resource-based theory. an enterprise made business strategy only there are plenty of resources, skills, and capabilities. Therefore, it has a significant relationship.

H5: The ERM has a primary mediating role in the relationship between business strategy and financial performance.

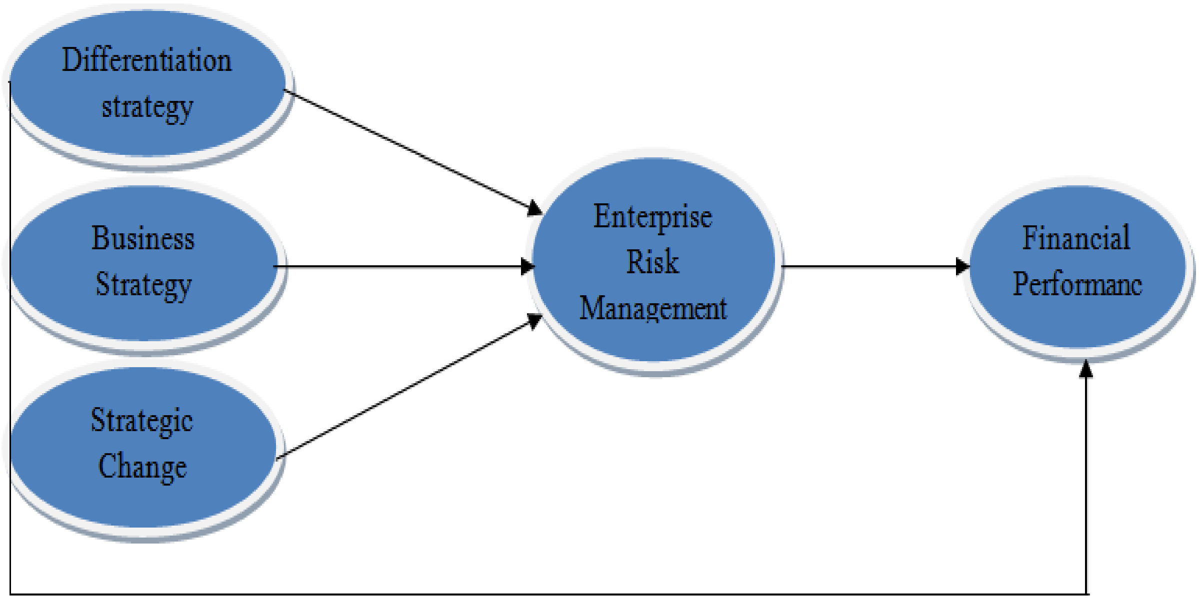
The Mediating Role of ERM between Strategic Change and FP

The ERM has also a crucial role in determining the strategic change process in an organization. A recent study shows that an enterprise always has a risk of customer behaviour (Venkataraman, 2019). It is obvious that organizations have to change management strategies when customer interests and needs change. In order to cope with this problem, an organization makes a risk assessment plan that overall, affects the change in strategic management. The ERM process helps to identify the possible risks and a firm changes its management according to customer behaviour, needs and interests (Soltanizadeh, Abdul Rasid, Mottaghi Golshan, & Wan Ismail, 2016). As a result, the overall performance of the firm is increased. It is essential to note that the performance of an enterprise significantly depends on strategic as well as financial objectives. The change in strategies is also affected by the resources based theory. Another hypothesis of the study is given below.

H6: The ERM has a primary mediating role in the relationship between change strategy and FP under the manufacturing sector.

The theoretical framework of this study is presented in Figure 1 below.

Figure 1: **Theoretical Framework**



Research Methodology

Population and Sampling

This specific research study has been designed to examine the impact of differentiation strategy, business strategy and strategic change on financial performance, and the mediating role of enterprise risk management. The manufacturing sector of Indonesia has been selected as the population of study as Indonesia exports many manufactured products which has consequently increased Indonesia economy activity. This research observed that in Indonesia financial performance of manufacturing companies decreased day by day due to the high level of competition and thus this research proposed that if the differentiation strategy, business strategy, strategic change and enterprise risk management integrated with each other in manufacturing sector then financial performance would increase. The major manufacturing industries in Indonesia are agriculture, oil and gas and this is the reason for their selection as the sampling frame of this study. The research used purposive sampling technique for the selection sample respondents comprising managers and managerial employees. This enables the researcher to select only those respondents who understand and fulfil the purpose of study and have strong opinions regarding proposed variables. The researcher distributed the questionnaire among 400 respondents, however only 345 responded. The researcher deleted the incomplete responses and invalid responses and there were 319 valid responses in the data collection.

Data Collection Procedures

To collect the primary and quantitative data, a survey questionnaire was considered the best suitable data collection method. Structured questionnaires are composed of closed ended questions used by a researcher. In this study, the researcher asked questions related to financial performance, differentiation strategy, business strategy, strategic change and enterprise risk management. The researcher also asked a few demographic questions in order to determine the demographic background. The questionnaire was in English language but the researcher converted it into the native language of Indonesia and checked the content validity of measures by collecting feedback from industrial practitioners. Further, the researcher pre-tested the questionnaire structure, wording and understandability of items through feedback from a pilot study of 30 respondents. After finalizing the questionnaire, the researcher administered it through a self-administering technique, and it is feasible that respondents were unable to understand the specific terms in the questionnaire.

Measures

In this research study, independent, dependent and mediating variables have been measured through the measures which have already been used in the previous literature because other authors have already verified their reliability and validity. This researcher measured the financial performance on the basis of 5 survey items, which have been adapted from research work of (Prieto & Revilla, 2006), for business strategy measurement, 10 survey items have adapted from (Dong, Liu, & Yin, 2008), for differentiation strategy 8 measurement items have taken through research work of (Chenhall, 2005) & (Chenhall & Langfield-Smith, 1998). Further, the researcher adapted the 6 survey items for strategic change from the research work of (Zhang, 2006). Finally, for enterprise risk management measurement, the researcher included the 6-survey items from the research study of (Sax & Torp, 2015). To measure the responses regarding all these survey items, the researcher accompanied the 5-point Likert scale, in which 1 stands for strongly disagree and 5 stands for strongly agree.

Data Analysis

The researcher performed the analysis of the data through two main items of software, SPSS and AMOS, by running different types of tests such as regression test, correlation test, reliability test, validity test and hypothesis testing. The researcher analyzed the reliability of data through SPSS with the help of Cronbach's alpha criterion such that its values have to be greater than the threshold limit value 0.70, to confirm item reliability. AMOS was utilized accompanied by the researcher to analyze the convergent validity, discriminant validity and model fitness through confirmatory factor analysis. Moreover, AMOS was also used to run the diagnosis of SEM, which helped in checking the acceptance or rejection status of the research hypotheses.

Data Analysis and Interpretation

In this study 319 questionnaires were distributed among the participants. The demographic details of respondents were that, there were 129 males and 190 were females, according to which the number of females were high, in terms of education, 37 of the respondents had graduated, 148 of the respondents had completed done their post-graduate degree, 125 of the respondents had completed their masters and 9 had other degrees. Age wise, 135 of the respondents were between 21 to 30 years old, 87 of the respondents were from 31 to 40 years old, 73 of the respondents were from 41 to 50 years old and 24 were 50+ in age.

Table 1: Descriptive Statistics

	N	Minimum	Maximum	Mean	SD	Skewness	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	SD
DiffStrat	319	1.00	5.00	3.4369	1.10845	-.701	.137
BusiStrat	319	1.00	4.90	3.5044	1.07618	-.851	.137
StaChang	319	1.00	5.00	3.4890	1.07841	-.717	.137
EnRiskMang	319	1.00	5.00	3.4478	1.09165	-.665	.137
FinanPerf	319	1.00	5.00	3.4439	1.12662	-.556	.137
Valid N (listwise)	319						

The above Table 1 shows the descriptive statistics of the study, the descriptive statistics details explain the variables of the study and they show that the descriptive coefficients that give a complete summary of data. This set of data represents the entire sample of the population. The data shows that there is no outlier in the data set because maximum values are in the threshold range of 5-point Likert scale and the value of skewness is between -1 to 1, which is the threshold range of normality and so, the given data is normal and valid. The data is valid for further testing.

Table 2: Rotated Component Matrix

	Component				
	1	2	3	4	5
DS1		.775			
DS2		.821			
DS3		.807			
DS4		.789			
DS5		.756			
DS6		.750			
DS7		.804			
DS8		.799			
BS1	.693				
BS2	.765				
BS3	.841				
BS4	.812				
BS5	.801				
BS6	.698				
BS7	.749				
BS8	.787				
BS9	.812				
BS10	.762				
SC1			.749		
SC2			.827		
SC3			.819		
SC4			.791		
SC5			.737		
SC6			.808		
RM1				.720	
RM2				.751	
RM3				.760	
RM4				.813	
RM5				.770	
RM6				.827	
FP1					.795
FP2					.828
FP3					.880
FP4					.892
FP5					.904

The above Table 2 of rotated components matrix shows that, almost all of the indicators have factor loading of more than 0.7, which means that all indicators are eligible to be exposed to further hypothesis testing techniques because all the factors are within suitable threshold level and all factors are suitable and in valid sequence and range. So, this data is good for further testing and analysis. There is no cross loading in the data shown in RCM so the data is reliable.

Table 3: Convergent and Discriminant Validity

	CR	**AVE**	**MSV**	**MaxR(H)**	**DS**	**RM**	**FP**	**SC**	**BS**
DS	0.946	0.688	0.303	0.949	**0.829**				
RM	0.919	0.655	0.299	0.969	0.517	**0.810**			
FP	0.950	0.792	0.214	0.985	0.311	0.392	**0.890**		
SC	0.928	0.683	0.303	0.988	0.550	0.402	0.417	**0.826**	
BS	0.955	0.679	0.300	0.990	0.548	0.547	0.463	0.476	**0.824**

The validity master sheet was used in order to confirm the convergent and discriminant validity for the research model variable. The discriminant validity provided the discrimination between variables while the convergent validity was measured with the help of composite reliability and average variance extracted. The results of the validities are shown in Table 3 above. The results and convergence of each variable is more than 70%. The average variances extracted are more than 50%, while the discriminate validity showed that loading of each variable discriminates form the other. Every variable has maximum loading with itself as compared with others. So, these validities prove the authenticity of the collected data.

Table 4: Confirmatory Factor Analysis

Indicators	Threshold range	Current values
CMIN/DF	Less or equal 3	2.296
GFI	Equal or greater .80	.815
CFI	Equal or greater .90	.933
IFI	Equal or greater .90	.933
RMSEA	Less or equal .08	.064

Table 4 above describes the CFA which is the confirmatory factor analysis used to confirm the fitness of hypothetical model before structural equation modelling and current results show that CMIN is less than 3, GFI is more than 0.80, CFI is more than 0.90, IFI is more than 0.90, and RMSEA is less than 0.08. All of the results showed that the data is in valid range and is good for further testing. Following Figure 1 is the screenshot of CFA.

Figure 1. CFA

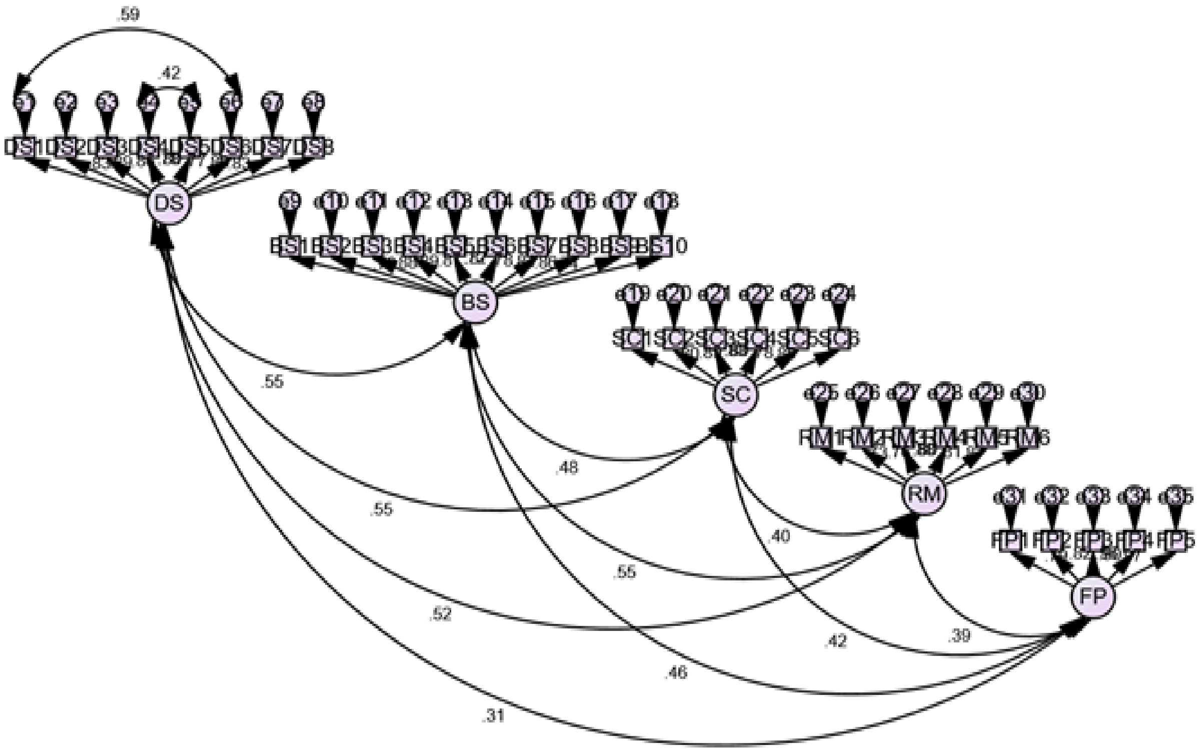
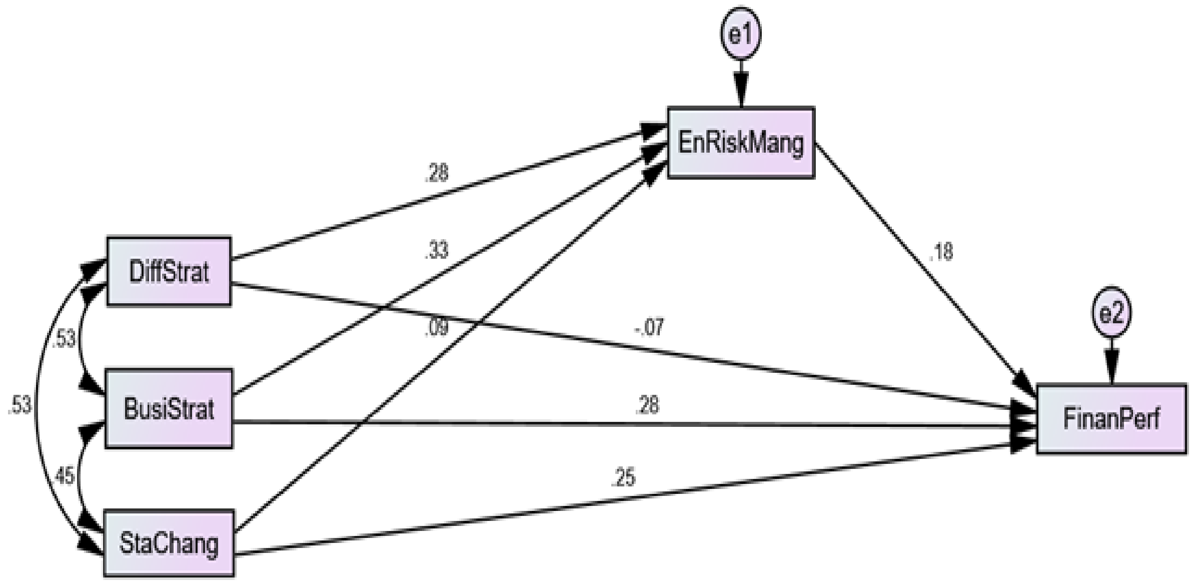


Table 5: SEM

Total effect	**StaChang**	**BusiStrat**	**DiffStrat**	**EnRiskMang**
EnRiskMang	.090*	.328***	.280***	.000
FinanPerf	.271**	.337***	-.018	.184**
Direct effect	StaChang	BusiStrat	DiffStrat	EnRiskMang
EnRiskMang	.090*	.328***	.280***	.000
FinanPerf	.254**	.276**	-.069	.184**
Indirect effect	StaChang	BusiStrat	DiffStrat	EnRiskMang
EnRiskMang	.000	.000	.000	.000
FinanPerf	.017	.060**	.052**	.000

The above table of SEM is showing the relationships of different variables with each other and what impact they do cast on each other. The impact of SC on ERM and FP is significant and positive, the impact of BS on ERM and FP is significant and positive. The impact of DS on ERM is significant while on FP is insignificant. Below is SEM in Figure 2.

Figure 2. SEM



Discussion and Conclusion

Discussion

This study was conducted to determine the different consequences of The Differentiation Strategy (DS), Business Strategy (BS) and Strategic Change (SC) on Financial Performance (FP) with the mediating role of Enterprise Risk Management (ERM).

The first hypothesis proposed was 'the impact of Differentiation Strategy on Financial performance is positive and significant' and this hypothesis was rejected. According to the study of Amalia (2014), the differentiation strategy takes time to embed in the business and generate profit, the costumer also takes some time to accept the difference and come out of monotony.

The second hypothesis proposed was 'the impact of Business Strategy on Financial perfume in positive and significant' and this hypothesis was accepted. According to the study of Kis-Katos & Sparrow (2015) , the strategies were planned only for the purpose of increasing financial performance.

The third hypothesis proposed was 'the impact of Strategic Change on financial performance is positive and significant' and this hypothesis was accepted. According to Luttrell, Resosudarmo, Muharrom, Brockhaus, & Seymour (2014), the strategy changes always impact on the financial performance strategies that boost work performance and strategies which don't tend to work, slow down the scale of performance.

The fourth hypothesis proposed was 'The mediating role of Enterprise Risk management between Differentiation Strategy and Financial performance' and this hypothesis was accepted. According to Sidharta & Affandi (2016), the introduction of a product with a unique feature takes time to process and for customers to accept, so it is automatically a risk.

The Fifth hypothesis proposed was 'the mediating role of Enterprise Risk Management between business strategy and financial performance is positive and significant' and this hypothesis was accepted. According to the study Simatupang, Rustiadi, & Situmorang (2012), strategy change is always a risk for t business, not only on financial performance but on so many other departments.

The sixth hypothesis proposed was 'the mediating role of Enterprise Risk Management between Strategic change and financial performance' and this hypothesis was accepted. According to Zuhdi (2012), the risk is increased when a strategy is changed because the external factors decide whether that strategy is going to work or not,

Conclusion

This study was purposively conducted to determine the consequent DS, BS and SC on FP with the mediating role of ERM. The data was collected from the manufacturing sector of Indonesia and 319 questionnaires were completed by respondents. The study shows how the change in BS DS and SC affects financial performance in both ways because change is never sure. It can be in favour and not.

Implications of the Study

This study has added to the theory that poses FP should be examined by different variables and this study also informs the organization regarding checks the DS BS and SC to monitor the increase or decrease in FP and how customers and the business take time to adapt DS and new BS to be impactful and effect the FP of the organization.

Limitations and Recommendations for Future Study

This data is only concerned with some of the variables that effect the FP and the other variables which effects the FP could be analysed in further studies. The sample was only taken from Indonesia and the sample should have been taken from bigger industrial countries which could thus provide more detailed data. In future, the writer should target big industrial areas of large and developed countries for more detailed examination and should also mention the other variables that effect the FP.

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