PARETO SALES NETWORK ASSET AS CRITICAL SOURCES OF COMPETITIVE ADVANTAGE : A RESOURCE-BASED VIEW PERSPECTIVE

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Abstract

Relationship skills can create a sales network and become an important part of a company to increase competitive advantage. The purpose of this study is to identify the inconsistency of the relationship between relational capability in competitive advantage and Pareto sales network assets as a mediator. The sample of this study came from food and beverage SME owners around the city of Semarang, Central Java. Respondent data was collected from 202 small and medium business sectors through questionnaires and interviews. This study used SEM-PLS for analysis. The results of the study found that (1) relational capability had a positive and significant effect on Pareto sales network assets; (2) relational capability has a positive and significant effect on competitive advantage; (3) Pareto sales network assets have a positive and significant effect on competitive advantage; (4) the greater the influence of relational capability on competitive advantage through Pareto sales network assets. The role of Pareto sales network assets has the potential to be a high leverage for competitive advantage in SMEs.

Keywords: relational capability; pareto sales network asset; competitive advantage

INTRODUCTION

The success of the company increasingly depends on the resources it has (Qun & Carlos, 2015). However, as more and more companies seek external collaboration, competition to build sales networks requires the ability to manage flexible relational relationships (Amaya Rivas et al., 2020; Martins, 2016). Relational ability is the key to the success of an organization (Salisu & Abu Bakar, 2019) and is one of the sources of competitive advantage in the face of a competitive environment (Pichlak, 2021). Many organizations experience obstacles in expanding their business relationships, this can certainly weaken the company's ability to increase sales. The urgency in developing business relationships (S. Li et al., 2020), expanding sales networks (Kreye et al., 2015) is the focal point in building competitive advantage (Shehata,

2020). The competition of small and medium-sized enterprises in the food and beverage industry, is an obstacle in realizing a competitive advantage. SMEs face problems in expanding their sales network, due to business partners who have difficulty in tying relationships between organizations. Therefore, SMEs need to explore relationship networks to build a competitive advantage.

The theory of resource excellence (Resource-Based View) (J. Barney, 2001) has discussed competition for business partner network resources in more depth. This perspective has changed the emphasis of traditional resource-based theory (Jay Barney, 1991; Wernerfelt, 1984) sees competitive advantage as a function of internal resources, to a perspective that considers the impact of external resources on the competitiveness of enterprises. This perspective has been called the extended resource-based view (ERBV) (Lavie, 2006; Lewis et al., 2010; Squire et al., 2009). The main premise of the RBV is that resources that are peculiar or superior to competitors, can form the basis of competitive advantage (Peteraf, 1993). Adopting this perspective to erbv would imply that resources obtained from external sources will be more likely to generate a competitive advantage if the company acquires better resources than its competitors (Kull et al., 2016; Xu et al., 2014). It is similar to internal resources, the extent to which external resources that are typical or superior to competitors' resources can be expected to be important predictors for the competitive advantage gained from those external resources.

In the food and beverage retail industry, the ability to create sales networks and build relationships becomes an important part of an organization. The role and importance of relationships between organizations in competitive advantage has received increased attention over the past two decades (Yi et al., 2021). A company's ability to build a sales network affects their ability to access the resources needed to recognize opportunities (Boudreaux & Nikolaev, 2018; Clark & Ramachandran, 2019). This capability allows them to exploit and mobilize complementary network resources of their business partners i.e., resources they do not have (Elena & Tatiana, 2015; Félix González et al., 2017). This can make the company more creative (Chang & Chen, 2020) and ensure high competitiveness (Ferreira et al., 2020).

According to Salisu and Abu Bakar (2019), relational abilities are very important to increase competitive advantage. Schillebeeckx et al. (2016) found that relational ability influences competitive advantage. However, Pulles et al. (2016) found that relational ability activities had no significant effect on competitive advantage. Based on the two differences in the results of the study, there are still research gaps in assessing the importance of the role of relational abilities in increasing competitive advantage, which requires further research. Therefore, the inconsistency is suspected to be mediated with the pareto sales network asset

This study was conducted on a sample of food and beverage SMEs in Semarang City, Central Java. Empirical investigations target the relationship between

relational ability on competitive advantage, pareto sales network assets on competitive advantage, and relational ability on pareto sales network assets. Therefore, this study aims to empirically examine the role of pareto sales network asset mediation on the relationship between relational capabilities and the competitive advantage of SMEs in Semarang City.

LITERATURE REVIEW

Relational Capability and Pareto Sales Network Asset

A company is said to have a certain "ability" if this company has the capacity to carry out certain activities in a reliable and at least satisfactory way (Martins, 2016). The capabilities of such an enterprise have specific goals and allow for the performance of repetitive and reliable activities (Bai et al., 2021). This capability will allow the company to repeatedly acquire external resources that can increase the company's competitiveness (Guo et al., 2020). Such capabilities usually lie within the realm of relational capabilities. Therefore, companies are getting better at managing the fabric of their business partners as an extension of their own resource base (Pham et al., 2017), it can be expected that this relational capability will affect the competitiveness of the company (S. Li et al., 2020).

Food and beverage SMEs face problems in implementing the expansion of sales networks. The ability to manage network assets is the main goal in achieving a competitive advantage. In the View of Resource-Based View (J. Barney, 2001), relational capabilities and the ability to build networks are assets that need to be managed in order to become strategic resources. One way to increase an organization's competitive advantage is to acquire and develop superior resources (Safari, 2020) to deal with the rapidly changing market dynamics. Companies need to develop internal resources that can simultaneously exploit external resources (Kull et al., 2016) to create a competitive advantage. An external resource that has the potential to excel is managing the pareto network (Asrari et al., 2016) as one of the assets that can drive the company's performance (Ferdinand & Killa, 2018).

The concept of working on the pareto network is an effort to have a small sales area but have an impact on large sales value (Craft & Leake, 2002) through good asset management. This activity is carried out because the market is heterogeneous but to be a trigger for company performance, it must be able to exploit into a distinctive capital so that it becomes a resource that can ensure the sustainability of the company's survival. Thus, the management of pareto sales network assets can be interpreted as a homogeneous resource to continue to guarantee competitive advantage and is the driving force of performance. Therefore, this study proposes a hypothesis :

H₁ Relational ability positively affects pareto sales network assets

Relational Capability and Competitive Advantage

Nyamrunda and Freeman (2021) show that relational ability to determine a combination of management structures and governance is created intentionally. This allows the implementation of the process of creating a competitive advantage in the conditions of resource exploitation to achieve the perspective of the process of the goals of business partners (Cenamor, 2021; Qosasi et al., 2019). Companies that have created relational capabilities in organizations aimed at better integrating customers and business partners and coordinating relationships between companies will also have positive and significant superior business outcomes (Azeem et al., 2021; Y.-Q. Li & Liu, 2018). Therefore, a company's relational capability can be seen as the capacity to expand the company's resource base (Pulles et al., 2016) that companies can leverage to improve competitiveness. Thus, this study hypothesizes that:

H_2 Relational ability positively affects competitive advantage

Pareto Sales Network Asset dan Competitive Advantage

The application of the Pareto concept in marketing strategies, especially in distribution channels, can be understood in several ways. First, the Pareto concept is relevant to the efficiency of market coverage in the sense that companies working with large-size distribution channels will be more efficient in covering larger areas of consumer engagement. Second, working with large potential distribution channels will drive the company's strategic readiness to improve the performance of producer and distribution channel member relationships. This large-size distribution member channel is referred to as the asset of the Pareto sales network (Ferdinand & Killa, 2018).

Companies can leverage the potential of strategic assets that can increase mutual profits between the company and members of the distribution channel (Mahboob et al., 2015). Hasman and Østerdal (2004) argue that marketers will usually treat their customers as strategic partners for mutually beneficial sales results in terms of sales volume, sales growth, sales profit known as Pareto efficiency. Working with large size customers is one example of efforts to maximize returns as Pareto Efficiency (McCarthy & Winer, 2019). Therefore, customer assets, in particular Pareto customers are recognized as strategic assets to improve performance. Grosfeld-Nir et al. (2007) have the view that establishing cooperation with members of distribution channels such as Pareto will increase the benefits of economies of scale, namely showing that the greater the economies of scale of business activities, the greater the efficiency of Pareto achieved. Network members are external strategic assets of the company, so cooperating with a sales network that has a high impact is a priority to maintain a competitive advantage.

Competitive advantage is the key to success in strategic asset management because it is a strategy designed to achieve corporate value (Azeem et al., 2021). Ma

(2004) defines a company that has a competitive advantage over its competitors when its profitability is greater than the average profitability of all companies in its industry. The cornerstone of competitive advantage is based on something unique that the company has, and the key to success in the market is the ability to create and maintain it (H.M. Liu & Yang, 2020; Musetescu, 2013). Therefore, the following hypothesis is put forward:

H_3 pareto sales network assets have a positive effect on competitive advantage

Mediating Role of Pareto Sales Network Asset

Relational capability is a strategic capability for business survival in this dynamic and competitive business environment (Nyamrunda & Freeman, 2021). With effective relational capabilities, SMEs will not only obtain additional resources from business partners that are not owned by the company, but can have the opportunity to expand their sales network effectively and on a large scale. Through pareto's sales network assets, SME companies can create an environment that inspires creativity and innovation and ensures the judicious deployment of physical and intangible resources to create a competitive advantage (Ferdinand & Killa, 2018; Quaye & Mensah, 2019). Therefore, SME companies oriented towards the expansion of pareto sales network can effectively utilize their relational capabilities to create superior customer value, increase competitive advantage and achieve distinctive performance. Yang et al. (2021) suggest that SMEs can obtain the information they need not only from internal experience, but also from external partners. Relationships with external partners help companies achieve a continuous sales cycle and encourage additional external collaboration (Smirnova, 2020).

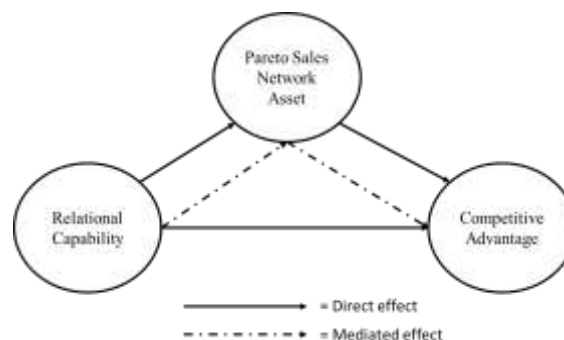H_4 Relational ability positively affects competitive advantage through pareto sales network assets

Figure 1. Conceptual Framework

RESEARCH METHODS

This research focused on SMEs in Semarang, Central Java. This study used purposive sampling as a sampling technique. A sample of food and beverage SMEs in

Semarang must meet the following criteria: research respondents must be owners or managers of food and beverage SMEs in Semarang; and the number of employees working in food and beverage SMEs is at least five people. Survey questionnaires are given online to owners or managers of food and beverage SMEs operating in the study area. Of the 275 questionnaires distributed to SME owners or managers, 221 questionnaires were obtained. However, during the examination of the questionnaire, there were 19 questionnaires identified as incomplete, so they were discarded. As a result, 202 valid questionnaires were entered into the Statistical Package of Social Science for the purpose of evaluating potential outliers.

RESULT AND DISCUSSION
Description Statistics

In this study sample, it was dominated by male respondents, with 57.1% of the remaining 42.9% being women. The educational background of respondents graduated from Postgraduate (4%), Bachelor (69.1%), Diploma (12%), High School (13.2%), followed by Junior High School (1.1%) and Elementary School (0.6%). Respondents with a recent bachelor's degree education dominated by 69.1%, which means that almost 70% of respondents had a higher education. The highest income earned by respondents was between Rp. 5-10 million (43.8%). Another characteristic is the age of the company and the number of employees. Most companies are 5-10 years old (37.2%), and the highest number of employees is between 5-10 people (41.4%)

Data Analysis
Measurement Model

Data confirmation analysis related to each variable was carried out using the *partial least square structural equation model* (PLS-SEM) to determine the reliability and validity of the data. Table 1 and Figure 2 show acceptable values for *Cronbach's Alpha* and *Composite Reliability*. In particular, all variables have values of *Cronbach's Alpha* higher than the acceptable 0.6 (Sarstedt *et al.* , 2017) . Similarly, the requirement for *Composite Reliability* of 0.70 of all variables has been established. The table also reveals that the average value of the variance extracted from each variable is greater than the acceptable threshold of 0.50 for *Convergent Validity* (Hair *et al.* , 2010) . Therefore, to ensure that each variable represents a different phenomenon, Fornell and Larcker (1981) criteria are used to evaluate *the discriminant validity* of the variables under study. As seen in Table 3, the value of each construct pair is greater than the value of the squared correlation between the construct pairs. Thus, *discriminant validity* and *convergent validity* can be established.
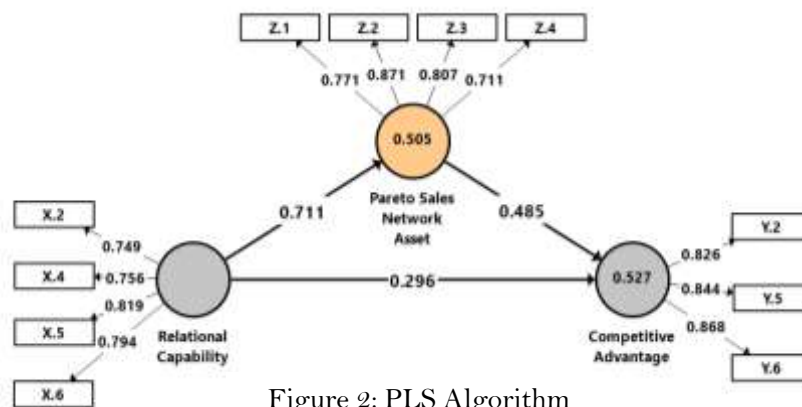
Structural Model

The PLS-SEM latent variable technique was used to test the hypothesis developed in this study. To evaluate the significant relationships hypothesized in this study, both the direct relationship of independent variables with mediation and dependent variables were tested. In the same way, the indirect relationship between

the free variable and the bound variable through the mediation variable is tested. Direct structural relationships are presented in Table 4 and Figure 2. The results showed that *Relational Capability* was positively and significantly influential with *Pareto Sales Network Asset* (β=0.707; t=14,605; p=0.000), so H_1 is supported. *Relational Capability* positively and significantly affects competitive *advantage* (β=0.295; t=3.774; p=0.000), so H_2 is supported. Similarly, *Pareto Sales Network Asset* positively and significantly influenced with (β=0.488; t=5.673; p=0.000), so H3 is supported. Collectively, *Relational Capability* explains 51 percent of the change (R^2) in *Pareto Sales Network Asset* SME, while *Relational Capability* and *Pareto Sales Network Asset* collectively account for 53 percent of *the Competitive Advantage* of SMEs (Figure 2).

Tabel 2: Reliability and Convergent Validity Test

Construct	Factor Loading	Cronbach's Alpha	Rho_A	Composite Reliability	Average Variance Extracted (AVE)
Relational Capability		0,785	0,786	0,861	0,609
X2	0,749				
X4	0,756				
X5	0,819				
X6	0,794				
Pareto Sales Network Asset		0,800	0,808	0,870	0,628
Z1	0,771				
Z2	0,871				
Z3	0,807				
Z4	0,711				
Competitive Advantage		0,802	0,805	0,883	0,716
Y2	0,826				
Y5	0,844				
Y6	0,868				

Figure 2: PLS Algorithm

Tabel 3: Discriminant Validity

Variable	Competitive Advantage	Pareto Sales Network Asset	Relational Capability
Competitive Advantage	0,846		
Pareto Sales Network Asset	0,695	0,792	
Relational Capability	0,641	0,711	0,780

Mediating role of Pareto Sales Network Asset

In this section, the last hypothesis is tested. The empirical results in Table 4 show H_4 is supported ($\beta = 0.346$; $t = 5,091$; $p = 0.000$) which means that *Pareto Sales Network Asset* mediates the relationship between *Relational Capability* and *Competitive Advantage* of SMEs. Thus, *Pareto Sales Network Asset* can be described as a strategic capability that helps SMEs acquire, assimilate, and expand sales networks from strategic partners to increase competitive advantage.

Table 4 : Direct and Indirect Relationship

Paths	Original Sample	Sample mean (M)	SD	t-statistics	p-values
RC→PSNA	0,711	0,707	0,049	14,605	0,000***
RC→CA	0,296	0,295	0,078	3,774	0,000***
PSNA→CA	0,485	0,488	0,086	5,673	0,000***
RC→PSNA→CA	0,345	0,346	0,068	5,091	0,000***

Note : RC, Relational Capability: PSNA, Pareto Sales Network Asset; CA, Competitive Advantage, *** Signifikan pada 0,05
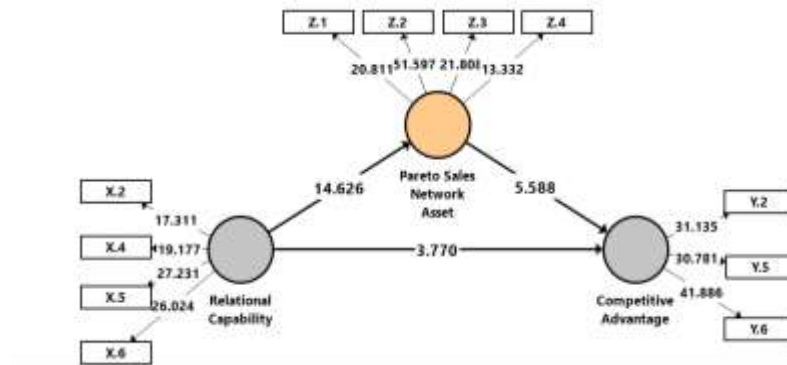

Figure 3: PLS Bootstrapping

The survey measurement items of all variables in the study were adapted from the previous literature. Specifically, four items of Relational Capability measurement adapted from the work (Pham et al., 2017; Rapeeporn et al., 2017; Salisu & Abu Bakar, 2019) examines the extent to which SMEs can develop effective cooperation with strategic partners to access information and resources that cannot be provided independently to effectively meet market needs. To determine how SME companies efficiently improve Pareto Sales Network Asset, measured by 4 items adapted from the study (Ferdinand & Killa, 2018; Rogers & Rodrigo, 2015) Furthermore, 3 items

used to measure Competitive Advantage in this study were adapted from (C.-H. Liu et al., 2019; Papadas et al., 2018), to ascertain how SMEs develop strategic resources gained from partnerships and business networks.

DISCUSSION

This study examines both the direct relationship of *Relational Capability* and *Pareto Sales Network Asset* with *the Competitive Advantage of* SMEs and the indirect relationship through the role of *Pareto Sales Network Asset*. The results of statistical tests show that *Relational Capability* is a strategic SME capability, which significantly increases competitiveness in today's dynamic and competitive market environment. This confirms the findings of previous studies (Pham *et al.* , 2017; Pichlak, 2021). Furthermore, these results show a significant positive influence of *Relational Capability* on *Pareto Sales Network Asset*. This demonstrates Pareto's nature of the SME sales network's ability to manage assets in improving operations, competitiveness, and performance in a rapidly changing competitive environment as confirmed by several previous studies. (Ferdinand & Killa, 2018; Kuo & Lee, 2019).

Nevertheless, the existing literature recognizes the influence of other environmental factors in improving the effectiveness of the company's relations with strategic partners. Yang *et al.* (2021) revealed that trust accelerates *Relational Capability* in creating a partnership of sales business partners. Therefore, this behavior suggests that SMEs in Semarang may have shown limited trust in their relationships with external partners such as competitors, suppliers, and others. Furthermore, the conceptual model examines the role of *Pareto Sales Network Asset* mediation in the relationship between *Relational Capability* and *Competitive Advantage* of SMEs. The results showed positively increasing the competitive advantage. It specifically implies that customers' high sales turnover and trusted, committed, and loyal customers directly affect the competitive advantage. Thus, trust, commitment and loyalty play a key mediation role through the creation of pareto sales network assets that benefit SME performance.

These findings contributed to the theoretical development in several ways. First, there is still little research investigating the relationship between *Pareto Sales Network Asset* and *Competitive Advantage*, most of the past research testing the relationship *between Network Capability* and *Competitive Advantage*. Thus, the relationship between *Pareto Sales Network Asset* and *Competitive Advantage* SMEs remains to be made and there is still work to be done to estimate the conditions under which alternative models may be appropriate for the small business context. The study revealed that two *Pareto Sales Network Asset* indicators of trust and commitment are essential for SMEs and have a positive impact on competitive advantage. This provides an additional foundation on the positive effects of trust and commitment on SMEs. The inclusion of two *Pareto Sales Network Asset* indicators as mediators between *Relational Capital* and *Competitive Advantage* can help our understanding of how the creation of external business partners affects the performance of small businesses. These findings support arguments for a strategic external resource management perspective (Koch & Windsperger, 2017) and contribute to the entrepreneurial literature by clarifying the role Pareto plays in small and medium-sized companies (Kuo & Lee, 2019). Second, the model provides empirical support

from Ferdinand and Killa (2018) that Pareto's conception relates positively to competitive advantage and furthermore, the findings show the role of pareto network sales asset mediation for small and medium-sized businesses that want to steer their companies to a sustainable competitive advantage.

IMPLICATIONS

This empirical study makes managerial and theoretical contributions. Theoretically, based on RBV offers some valuable explanations of the role of relational capabilities in increasing the competitive advantage and assets of the SME pareto sales network. Although the theory of the resource view considers relational abilities to be important resources, they differ at the time and place of deployment. RBV considers capability as a resource that determines what market to enter and how to survive. Therefore, through the deployment of valuable resources, such as relational capabilities, and pareto sales network assets, SME companies achieve a distinctive competitive position in the market. This underscores the postulates of RBV supporters (Jay Barney, 1991; Wernerfelt, 1984).

Practically speaking, SMEs in developing the economy must recognize and appreciate the potential role of relational capabilities, and an understanding of the pareto sales network in achieving a sustainable competitive advantage in this competitively changing and dynamic environment. The dynamic environment requires that SMEs must work not only with business partners, but also collaborate with all relevant and strategic public and private organizations to attract external information and resources to improve competitive position and performance. Through relational capabilities, SMEs can develop efficient collaborative relationships to acquire new resources, techniques, and knowledge. Therefore, SMEs in Semarang need to pay attention to their commitment in developing relational capabilities that can facilitate the formation of effective sales networks with strategic partners. Thus, SMEs that have successfully developed and continue to improve their ability to learn create a superior competitive advantage.

LIMITATION

This study aims to evaluate the impact of relational capabilities, and pareto sales network assets on the competitive advantage of SMEs in Semarang City. This research hypothesizes that the relational capabilities and assets of the pareto sales network are positively related to the competitive advantage of SMEs. The findings of this study provide support for hypotheses, but these capabilities have been shown to be contextually sensitive, so other environmental and operational factors may have influenced their relationship with the competitive advantage of SMEs. Thus, future studies should consider the replication of these studies in different cultural environments, and consider the potential role of other companies' strategies, orientations and capabilities such as marketing, absorption capabilities, innovation and management practices. Similarly, the data used in this study are *cross-sectional*, so further studies should consider *longitudinal* data. Although in this study using various sources to collect data can provide substantial in-depth data related to the relationship of the variables under study.

CONCLUSION

The findings of this study offer a managerial contribution to SMEs in Semarang City in developing relational capabilities and assets of the pareto sales network for

competitiveness and better performance. It is a fact that no business can operate efficiently in this global business environment without collaboration with strategic partners. Therefore, SMEs in Semarang City must reorganize their relational capabilities to ensure that it effectively helps develop collaborations that bring beneficial resources for better performance. In addition, SMEs in Semarang City must review their strategic planning in the development of sales networks to encourage their commitment by allocating sufficient and quality resources to embrace agents and suppliers. Based on the RBV perspective, SMEs through relational capabilities and sales networks can very well identify, acquire, transform and share ideas, information and knowledge that can help increase competitive advantage which in turn can impact business performance.

Through relational capabilities, SMEs can efficiently acquire and expand sales networks that can be used to provide products that meet changing market demands. Therefore, government policies and programs designed to support the development of SMEs must be adjusted taking into account the distinctive nature of SME companies in terms of collaboration and management of strategic assets that can improve the company's performance. This is important for SMEs in developing countries that are constrained by insufficient human capital chains, technological, collaborative, and inefficient innovation capabilities

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