

## Conference Paper

# The Implementation of Knowledge Management on Traditional retail

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## Abstract

Marketing brings a consequence that producers distribute their products to consumers. There are many kinds of a medium that producers can use to distribute their products, one of which is retailer business. In governance, retailer business can be classified into two types, namely traditional retailer and modern retailer. In the process, there are worries about the existence of traditional retailer as a result of the strengthening of modern retailer. Therefore, it is important to pay special attention to the traditional retailer to grow and evolve along with the growth and development of modern retailer, so that traditional retailer marketing can run optimally. This study aims to formulate the strategy for traditional retailer to keep sustainability concerning to the proper implementation of knowledge management through the developing of socio-entrepreneurship. This research uses SEM (Structural Equation Modeling) to measure the correlation between independent and dependent construct in term of increasing knowledge management of traditional retailer.

Based on the result analysis, competitive advantage in traditional retail is affected by the choice of strategies implemented by retailer. However, the implemented strategy is not optimal because it is not supported by the implementation of a good knowledge managements, especially in terms of accessibility to knowledge and practices required in the retail business. Traditional retail are difficult to gain an access to training and mentoring on strategies and techniques to manage retail business professionally in order to achieve a sustainable competitive advantage. When traditional retail want a more optimal to achieve a competitive advantage, they should improve their ability in implementing the management knowledge systematically, for example, building an association of traditional retail with the main vision to organize a training program or mentoring about strategy and technique management of retail business.

**Keywords:** Traditional retailer, management knowledge, competitive advantage.

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## OPEN ACCESS

## INTRODUCTION

Role and function of retail that are very important in marketing trade chain pushes retail business tends to be stable in fluctuating economic condition. The growth trend of retail sector is also relatively less affected by the global financial crisis (KKG) in 2010. This is evidenced by the growth rate of retail industry that would be able to grow exponentially at the level of 9.69% and 10% in 2010 and 2011. This is caused that the retail industry is in direct contact with the basic needs of society. Moreover, the circulation process of goods and money in the industry has also taken place with relatively faster compared to what is happening in other industries [10].

In governance, retail business can be classified into two types, namely traditional retailer and modern retail. The traditional market is a market that is built and managed by the government and private sector with a place of businesses such as stores, stalls, and tents owned and managed by small-medium enterprises, non-governmental organization (NGO), or economic enterprises with small-scale businesses and small financial capital. In contrast to the above, modern retail is a store with self-service system which sells various kinds of goods at retail in the form of minimarket, supermarket, department-store, hypermarket, or grocery wholesaler.

In the process, there are fears of the existence of traditional retailer as a result of strengthening modern retail. This potentially causes an unhealthy condition (unexpected condition) such as the possibility of occurring a contradiction between modern retail and traditional retailer, monopolistic practices of some modern retail, as well as weakening the bargaining power of suppliers. Taking the example of the period 2004-2007, the growth rate of supermarket reached 50% per year. In the same period, the growth of hypermarkets even reached 70%. (SWA 06 / XXV / 2009). However, ironically at the same time the growth of traditional markets declined significantly. Traditional retail continued to decline into 8%.

Based on the cases above, there is one to keep in mind that the purpose of current economic development not only pursues the accelerated economic growth, but also pay attention to the aspects of equitable distribution of income and improvement of institutional order. So it forces all parties concerned (the agents of retail, associations, government, retail business experts) take a part actively to resolve the issues. Traditional and modern retail should be able to grow and thrive in an effort to strengthen agro-industries marketing. One of the problems in the internal environment of SME is lack of mastering knowledge.

Knowledge management is an activity of planning, collecting, organizing, directing and controlling data and information that has been owned by a company which is then combined with a variety of thought and analysis of a wide variety of competent sources [6]. This research aims to know the conditions of knowledge management, retail strategy and sustainable competitive advantage of traditional retailer. This research is expected to provide an alternative solution to the problems of traditional retailer, particularly create retail strategy based on knowledge management to achieve competitive advantage optimally.

## METHODS

The approach used in this study was the quantitative approach, where this approach emphasized the breadth of information (not the depth). This research is a causal research that aims to analyze the relationships between one variable with another variable or how one variable correlates with the other. Method used to analyze the correlation of variables in this research is by using SEM (structural Equation Modeling). This approach is suitable for populations with limited variable, so that the data or the results of the research are considered to be a representation of the entire population.

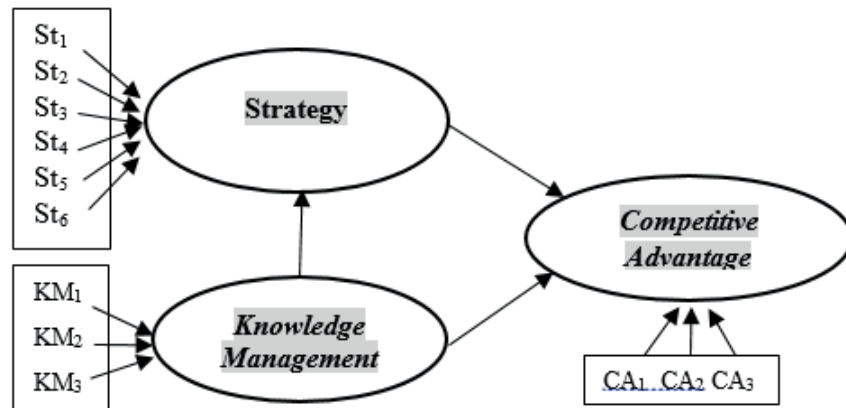
The latent variables analyzed in this study are retail strategy, knowledge management, and performance of competitive advantage of traditional retailer. The following operational definitions of each of these variables (Figure 1):

1. Knowledge management, is the ability of traditional retailer stores to access the knowledge of technique or retail strategy, to process knowledge into skills, and to apply knowledge or skills belonging to support retail strategy and competitive advantage.
2. Retail Strategy, is a strategy applied by traditional stores to improve the value of customer satisfaction.
3. Competitive advantage, is the capability of traditional retailer stores to create value that is not owned and cannot be imitated by competitors.

The explanation of each variable indicator of the three latent variables above is as follows:

1. Knowledge Management (KM), [7]:

$KM_1$  = Knowledge Acquisition



**Figure 1:** The implementation of knowledge management and impact to the strategy and competitive advantage of traditional retailer .

$KM_2$  = Knowledge Conversion

$KM_3$  = Knowledge Application

1. Retail Strategy (RS), [5]

$St_1$  = Location Strategy  $St_2$  = Product Strategy  $St_3$  = Pricing Strategy

$St_4$  = Servicing Strategy

$St_5$  = Displaying Strategy

$St_6$  = Promotion Strategy

1. Competitive Advantage (CA), [1, 2]

$CA_1$ : Financial Performance

$CA_2$ : Operational Performance  $CA_3$ : Marketing Performance

Hypothesis tested in this study are as follows:

$H_1$  = Knowledge management significantly influences the retailer strategy

$H_2$  = Strategies of traditional retailer significantly effect on competitive advantage

$H_3$  = Knowledge management significantly influences the competitive advantage.

Distribution of respondents in this study comes from the area of Yogyakarta city, Sleman, and Bantul Regency. Respondents who hail from the city of Yogyakarta are 41 respondents, from Sleman are 122 respondents, and from Bantul are 37 respondents. Of 200 traditional retails interviewed, 193 respondents filled out questionnaires to complete while 7 other respondents did not complete. Furthermore, the respondent data of 193 was processed further to outlier test, reliability, validity, normality, and

multicollinearity. As a result, there were only 161 of the respondent data can be processed and analyzed further. In this study, measurement and structural model is done by using statistical software LISREL 8.8.

## RESULT AND DISCUSSION

Building sustainable competitive on a business cannot rely on the product market based strategy or resource based strategy only. Knowledge resources also provide a strong basis for the company to create a sustainable competitive advantage. Knowledge management is a collective knowledge to help the organization to take action and compete more effectively to achieve goals (Davenport, DeLong, and Beers; 1998).

Knowledge management processes are such as:

1. Knowledge acquisition; a process that includes the collection and accessibility of knowledge required. It also refers to how the knowledge is gained from various external and internal sources [12].
2. Knowledge conversion; knowledge which is gained from a variety of sources (internal and external) needs to be converted into organizational knowledge for effective utilization in business [7].
3. It is the utilization of the knowledge gained by changing the potential ability to applied and dynamic capabilities that affect the performance of organization [11].

According to [8], Japanese companies have a competitive edge because they understand that knowledge is a source of innovation that supports competitiveness. This knowledge must be managed, because it must be planned and implemented. If the company is able to utilize its knowledge properly, then the company will have a competitive advantage that will support the achievement of corporate goals have been set.

### Measurement Model Analysis

The goal of this analysis is to observe the level of influence between the latent variables and the indicator variables. The level of the influence can be seen from the value of the CFA (Confirmatory Factor Analysis). It is the level of validity and reliability of the manifest variables or indicators against each of invalid latent constructs. The validity value can be identified from the value of loading factor that are resulted by

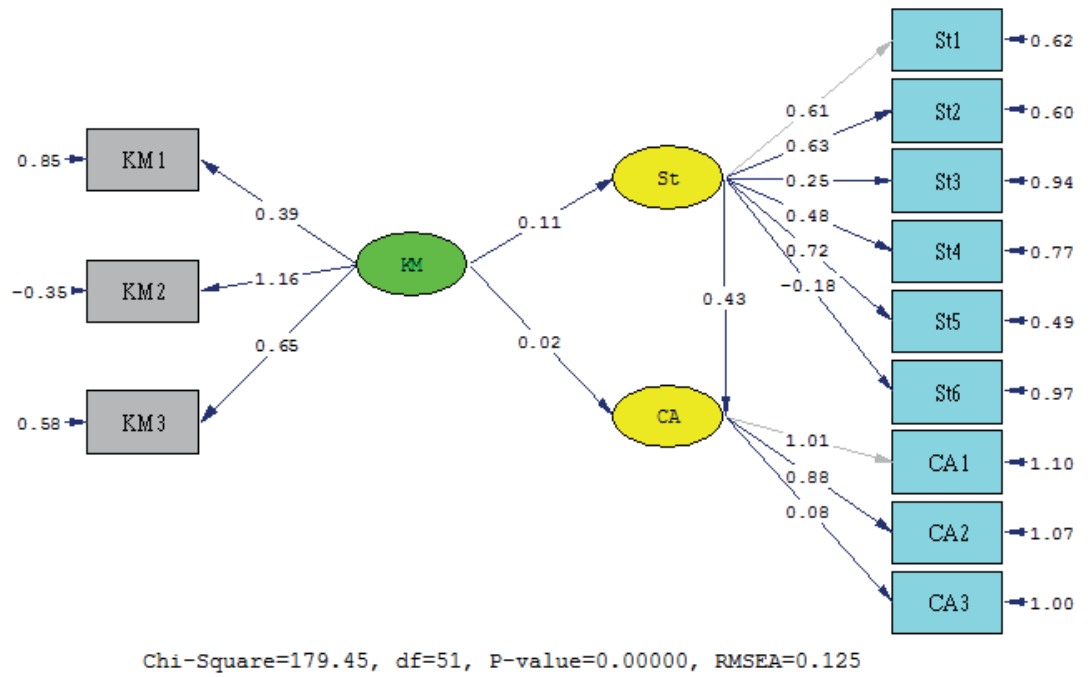


Figure 2: Measurement model(standardized solution).

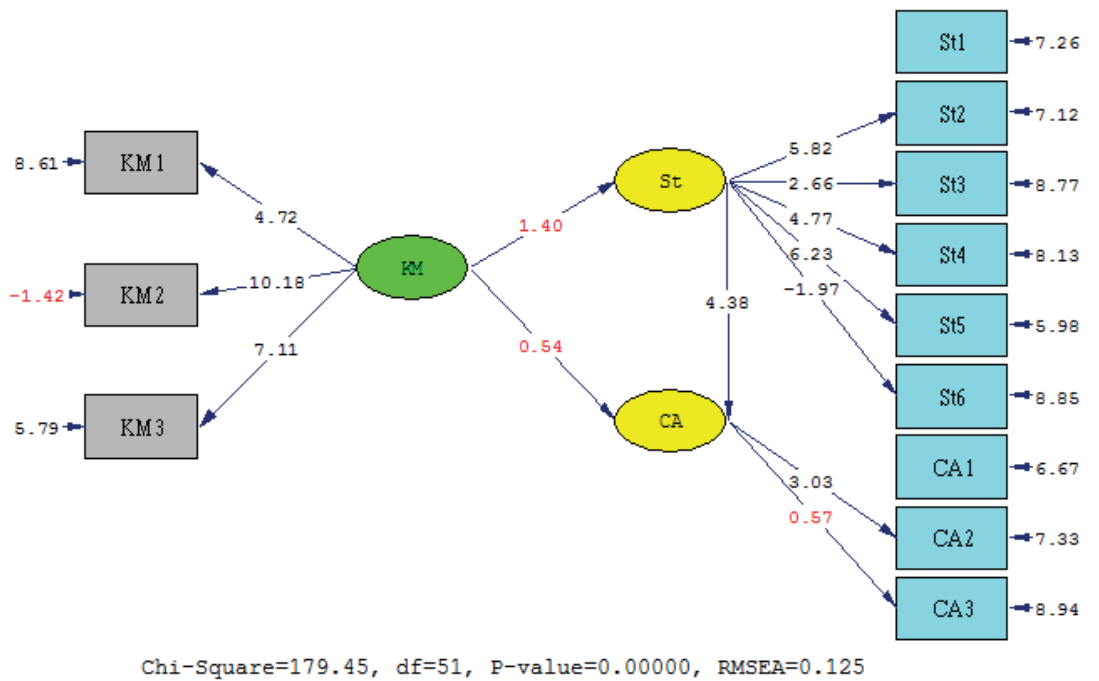


Figure 3: Measurement model (t-values).

the measurement model of standardized solution (Figure 2) and t-value (Figure 3). The indicator variable is said to have an effect if the loading value at the range of 0.3-0.4, and it is very influential when the loading value of > 0.5, with a value of the t-value > 1.96 and error variant between > 0.

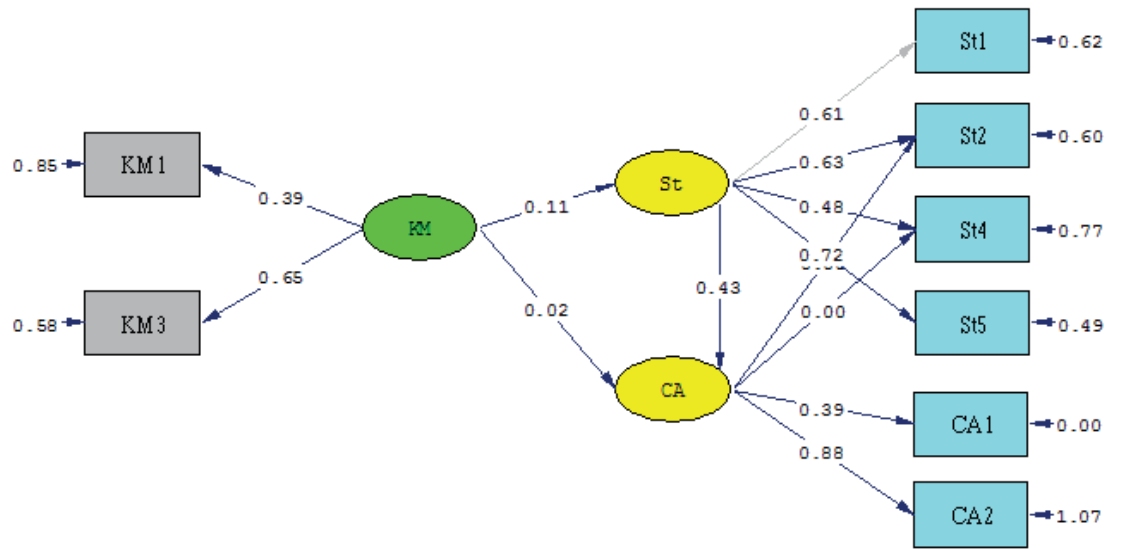
Based on the result of the standardized solution measurement model (Figure 2), it can be seen that there are 3 variables that have weak effect on the latent variable or have offending estimate that is  $St_3$ ,  $St_6$ , and  $KB_3$ . Meanwhile, based on the result of t-value measurement model (Figure 3), there are 2 variables that have weak influence on the latent variable that is  $KM_2$ ,  $CA_3$ . Thus, then those variables ( $KM_2$ ,  $St_3$ ,  $St_6$ ,  $CA_3$ ) will be removed from the model because they are not good enough to measure latent

The traditional retail has been weak in term of knowledge conversion ( $KM_2$ ). Traditional retail tend not to establish communication with other traditional retail because they think that they are a competitor rather than a partner. Such perspective causes traditional retail get harder to access knowledge, especially regarding retail management and competitive advantage strategy. Generally, traditional retail tend to focus on a price strategy only, they still believe that price is the most effective strategy to attract customers so that it results in poor customer service ( $ST_4$ ) and sale promotion ( $ST_6$ ). This is reflected in the weak impact of these three variables on competitive strategy. While the performance of a market-based ( $CA_3$ ) can also be omitted because the objects of this research, mostly, are taken from individual business, and some are from joint ventures or economic enterprise. According to [1], the measure of market-based performance is, one of them, the rate of return on shareholders, market value added, and annual profits. So, the combination of the measurement, in such circumstances, the financial performance and operational performance are enough to represent the overall retail performance [1].

## Structural Model Analysis

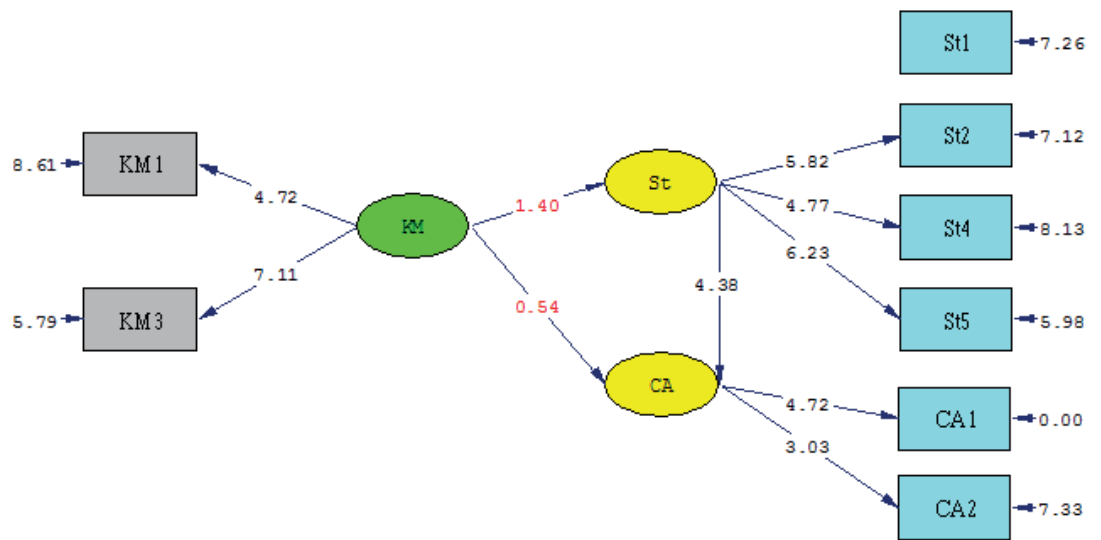
Structural model analysis is conducted to see the relationship of latent variables constructed in the hypothesis, namely knowledge relationship management, strategy, and the competitive advantage of traditional retailer. Test on the structural model is done gradually to obtain a good model (fit). Structural model is said to fit them when the chi-square value is close to zero, chi-square /df  $\leq 2$ , p-value (probability)  $\geq 0.05$ , and RSMEA  $\leq 0.08$ . Based on the result of the test, we get a fit model with chi-square / df = 0,17 ( $\leq 2$ ), p-value = 0,07 ( $\geq 0.05$ ), and RSMEA = 0,067 ( $\leq 0,08$ ). The structural model obtained can be seen in (Figure 4) and (Figure 5) as follows:

The standardized solution structural model (Figure 4) is obtained after going through the stages of eliminating the indicator variable which has no effect on the latent variables and after modifying (adding) two lines recommended by LISREL program



Chi-Square=25.20, df=15, P-value=0.04733, RMSEA=0.065

Figure 4: Structural model, revised (standardized solution).



Chi-Square=25.20, df=15, P-value=0.04733, RMSEA=0.065

Figure 5: Structural model, revised (t-values).

(modification indices). It adds path between endogenous variables ST2 (product strategy) and ST4 (services) to the latent variables CA (competitive advantage).

Recommendations for the addition of these pathways can be accepted because according to the theory that one of the basic ways to achieve competitive advantage is to offer the assortments product than its competitors [3] or by providing different services (differentiated services) from the competitors [9]. Thus, the overall structural models that have a good fit with the data were obtained and decent used to test the hypothesis.



Hypothesis test can be done by looking at the value of the t-value. The t-value value describes the relationship among latent variables. The relationship among variables is said to be significant if it has a value of t-value  $> 1.95$ , with a confidence level of 95%. Based on the results the t-value of the structural models (Figure 5) shows that the t-value among strategy and competitive advantage is 4.38 ( $\geq 1.96$ ), t-value among knowledge management and strategy worth 1.40 ( $\leq 1.96$ ), and t-value among knowledge management and retail competitive advantage of 0.56 ( $\leq 1.96$ ).

Based on the results of the analysis, it can be concluded that only the first hypothesis ( $H_1$ ) is proven, while the second hypothesis ( $H_2$ ) and third ( $H_3$ ) are not proven. In these studies, there is no significant relationship found between the knowledge management and the competitive advantage. The result was different with the available theory and also with the research by [4] which says that there was significant influence between the knowledge management against the competitive advantage. The low relationship of knowledge management in traditional retailer against the retailer strategy and the advanced competence explains that during this time the retail business done by traditional retail that run without going through the process of knowledge management which are planned, systematic, and sustainable.

The lack of the knowledge management process in traditional retail is because a lack of building program capacity of retail management that can be accessed by traditional retail, both from government and private. Due to lack of access to the program, during this time, the traditional retail run their business only with conventional strategies, without any new strategies to respond to the development of consumer preferences.

This can be seen from the choice of the strategy adopted by traditional retail that rely trade on location strategy, product diversity, and product display. While the service strategy and the price are still not optimal, even a promotion strategy has not been implemented.

However, the actual choice of a business strategy that has been applied to traditional retail has a significant influence on competitive advantage. This can be proved by the t-value retail strategy to the competitive advantage that is shown 4:38 ( $\geq 1.96$ ). The value at the same time also represents the probability that when traditional retail do knowledge management process that is planned, systematic, and sustainable, the traditional retail will be able to achieve the better competitive advantage.

## CONCLUSIONS

In the current condition, business strategies adopted by traditional retail have a significant influence on achieving a competitive advantage. However, the implemented strategy is not optimal because it is not supported by the implementation of a good knowledge managements, especially in terms of accessibility to knowledge and practices required in the retail business. Traditional retail are difficult to gain an access to training and mentoring on strategies and techniques to manage retail business professionally in order to achieve a sustainable competitive advantage.

When traditional retail want a more optimal to achieve a competitive advantage, they should improve their ability in implementing the management knowledge systematically, for example, building an association of traditional retail with the main vision to organize a training program or mentoring about strategy and technique management of retail business.

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