



# Mediating Effect of Information Systems Strategy on the Effect of Management Capability on Business Performance of Batik MSMEs in West Java Province

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## Abstract.

This study aims to examine the effect of management capabilities directly on business performance and indirectly through Information Systems Strategy. However, batik business performance is still not optimal, with some MSMEs experiencing sales fluctuations in recent years. Business performance is influenced by various factors, including management capabilities and information systems strategy. Management Capability plays an important role in fostering organizational resilience, especially in the face of challenges and disruptions. Also, Information System Strategy plays an important role in strategic management, especially for organizations that want to improve the decision-making process and gain a competitive advantage. The research hypotheses were tested using Partial Least Square-Structural Equation Model (PLS-SEM) analysis. The results of this study indicate that Management Capability is able to influence business performance both directly and indirectly through Information Systems Strategy.

**Keywords:** Management Capability, Information System Strategy and business performance.

## 1. INTRODUCTION

Every company is required to have high effectiveness and efficiency, because this can be an advantage to survive in the midst of increasingly rapid competitive conditions [1]. Business performance can be achieved by companies through the management of various resources and value creation. Business performance is an evaluation concept that can be measured based on subjective evaluation as an alternative to the accuracy of measurement objectives [2].

Today, business performance has become the center of attention of academics and practitioners, driven in part by the desire to identify what factors determine business performance in Micro, Small and Medium Enterprises (MSMEs) which are growing rapidly in developing countries [3]. Batik MSMEs play an important role in growing the national economy, and this has been proven by its ability to contribute to the national economy. has been proven by its ability to contribute to the country's foreign exchange because it has a large export market such as Japan, Small and Medium Enterprises (MSMEs), Japan has a large export market such as Japan, the United States and Europe.

The number of batik MSMEs in West Java is quite large, with examples in Cirebon Regency and Bandung Regency. However, the performance of batik businesses is still not optimal, with some MSMEs experiencing sales fluctuations in recent years. Business performance is influenced by various factors, including management capability and information system strategy.

Management Capability plays an important role in fostering organizational resilience, especially in the face of challenges and disruptions. By developing interactive control capabilities, organizations can improve innovative capabilities and overall business performance [4]. Management capabilities play an important role in improving business performance, both directly and indirectly [5]. Information Systems Strategy (ISS) plays an important role in strategic management, especially for organizations that want to improve their decision-making process and gain a competitive advantage. ISS aligns business strategy with information technology to support organizational goals. Implementation of ISS contributes to improved business processes, innovation, and overall organizational performance.

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This research tries to integrate several models, such as Management Capability, Information Systems Strategy and Business Performance. Specifically, this study discusses the mediating effect of Information Systems Strategy on the effect of Management Capability on the Business Performance of Batik MSMEs in West Java Province.

## 2. THEORETICAL BASIS

### 2.1 *Management Capability*

Management Capability is an important factor in organizational success and competitiveness. It encompasses various dimensions, including technology capability [6], age management [7] and project management [8]. The concept of experience capability has been developed and validated, focusing on an organization's ability to effectively manage customer experience [9]. Organizational attributes such as senior management commitment, risk management, and staff competence are critical to an integrated safety, health, and environmental management capability [10]. Innovation management capabilities, which are influenced by intellectual and emotional assets, impact organizational performance [11]. However, this field faces challenges related to infinite regress and initial conditions in theoretical explanations [12]. Public sector management capabilities are essential for socioeconomic development and successful program implementation [13].

Management capabilities include several dimensions, including dynamic capabilities, organizational change capabilities, and experience capabilities. Dynamic capabilities involve identifying opportunities, generating ideas, and supporting innovation [14]. Organizational change capability is complex, with multiple definitions and dimensions [15]. Experience capability focuses on managing customer interactions across touchpoints [9]. Technology capability management is critical for organizations, especially in research and development-intensive sectors [6]. Dynamic managerial capabilities are essential for strategic decision-making in dynamic environments [16]. These diverse aspects highlight the multifaceted nature of management capabilities in modern organization.

Recent research has explored various aspects of capability management models in various domains. Research has examined the role of capability management in education quality [9]. The application of capability management in digital business ecosystems has been explored, especially in healthcare resilience modeling [17]. In addition, research has examined the factors that drive information management capabilities in organizations [18]. Organizational capability models highlight the importance of knowledge, skills, and emotions in determining performance [19].

### 2.2 *Information Systems Strategy*

Information Systems Strategy (ISS) is critical for innovation, competitiveness, and organizational performance in the digital age [20] [21]. It involves aligning IT capabilities with business objectives to enable dynamic capabilities and improve enterprise performance [22]. ISS planning methodologies, such as the Ward and Peppard model and the Tozer method, use various analytical tools such as SWOT, Value Chain, and McFarlan's Strategic Grid to develop an effective IS/IT portfolio [23]. The integration of knowledge strategy planning with ISS can further enhance innovation capabilities [22].

As digitalization changes the business landscape, traditional ISS approaches are challenged, requiring new perspectives in crafting digital strategies [24]. Implementing integrated information systems can provide a competitive advantage, especially in sectors such as education and pharmaceuticals [25]. Overall, ISS is essential for organizations to navigate the complexities of the digital age and achieve strategic goals. In the digital age, ISS is becoming increasingly important, with organizations adapting their strategies to address the challenges posed by digitalization [21]. Successful ISS implementation requires a thorough understanding of the internal and external business environment, as well as the integration of various business units and processes [25].

Information Systems Strategy has several dimensions, including alignment with business strategy, technology infrastructure, process change, skills and competencies, and costs and benefits [26]. Digital strategy plays an important role in innovation and competitive advantage for organizations [20]. The concept of digital strategy has emerged, focusing on the digital environment, vision, approach, capabilities, stakeholders, and challenges [27]. Information Systems Strategy includes three main dimensions: organization, management, and technology [28]. IT strategy research has evolved to address the impact of digitalization on traditional strategy wisdom [21]. This relates to various aspects of IT/S, including virtual teams, enterprise social media, analytics, and artificial intelligence [29]. Strategic IS planning methodologies, such as the Ward and Peppard framework, help to align IS/IT strategy with organizational goals. [30]. Power dynamics within the organization also play an important role in shaping IS strategy, with different types of power influencing its development and implementation. [31].

**2.3 Business Performance**

The concept of business performance has evolved significantly over time, shifting from a focus solely on financial indicators to a more holistic approach that includes various stakeholders[32]. Modern performance measurement frameworks, such as the Balanced Scorecard, integrate various factors including strategy, processes and resources. The definition of performance is subjective and context-dependent, with both static and dynamic elements [33].

Business performance plays an important role in overall business success, especially in Romanian organizations [34]. Researchers have proposed a comprehensive framework for measuring business performance in specific industries such as construction[35]. However, conflicting empirical results highlight the need for a more rigorous approach to conceptualizing and measuring business performance [36]. An effective measurement system should provide an integrated view of performance and facilitate improvement planning[37].

Business performance is a multifaceted concept that includes various dimensions and measurement approaches. Business performance can be assessed through financial indicators, operational efficiency, market effectiveness, and customer satisfaction [38]. The Balanced Scorecard approach, which combines financial, customer, internal process, and learning perspectives, is widely used for performance measurement. It is critical for organizational success and growth, involving factors such as profitability, effectiveness, efficiency, and financial viability [40]. Performance measurement has evolved over time, with the 1990s being dubbed the “performance measurement revolution” due to the emergence of new methods and systems [32]. Recent research highlights the multifaceted nature of business performance, which includes market, quality and financial dimensions[41]

Therefore, departing from previous research, the conceptual analysis developed in this study is explained in the hypothesis developed as follows:

H<sub>1</sub> : Management Capability has a positive and significant effect on Business Performance

H<sub>2</sub> : Management Capability has a positive and significant effect on Business Performance by making Information systems strategy as mediation.

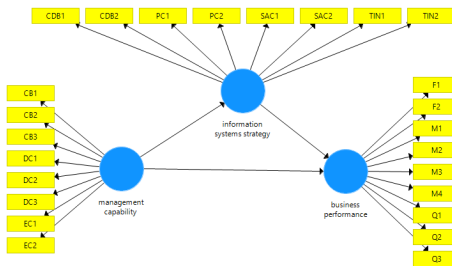
**3. RESEARCH METHOD**

**3.1 Conceptual Framework**

As can be seen, the variables in this study consist of three variables Management Capability, Information systems strategy and Business Performance. Each variable is measured by several items adapted from previous research. The items in this questionnaire are measured using a 5 Likert Scale ranging from Strongly Disagree (1) to Strongly Agree (5).

**3.2 Operational Definition of Variables**

The research framework depicted in Figure 1 illustrates the relationship between Management Capability, Information systems strategy and Business Performance. The research framework can be seen in the figure below



**Figure 1 Research framework**

Table 1 Operational definitions

<b>Variables</b>	<b>Dimensions</b>	<b>Indicator</b>	<b>No . Item</b>	
Business Per- formance	<i>Market</i>	Company sales growth	1	
		Sales growth Company's new products	2	
		Market share growth of the company.	3	
		Quality level of products produced.	4	
	<i>Quality</i>	The level of service quality provided by the company to consumers	5	
		The percentage level of satisfaction of the results of consumer assessment of the company	6	
		The level of Company image in the eyes of consumers towards the company	7	
	<i>Financial</i>	Average Profit in 1 quarter per year generated	8	
		Efficient Company Asset Growth in 1 quarter/working year	9	
	<i>Management Capability</i>	<i>dynamic capabilities</i>	Ability to identify new business opportunities.	10
Ability to review the impact of changes in the business environment on customers			11	
The ability to optimize the use of internal resources and take advantage of external opportunities in order to survive in a dynamic environment new products, improving products			12	
<i>change capability</i>		Ability to adapt to environmental changes.	13	
		Ability to update the resource mix to adjust to environmental changes	14	
		Ability to identify and assess market opportunities to enter	15	
<i>experience capability</i>		Ability to respond to customer needs quickly and effectively.	16	
		Ability to ensure consistency in product or service quality	17	
<i>Information Systems Strategy</i>		<i>technology infrastructure</i>	Ability to manage and optimize IT systems, including hardware, software, and networks.	18
			Effectiveness of technical support in troubleshooting and ensuring smooth operations.	19
	<i>process change</i>	The degree to which the changed processes are aligned with the existing information system strategy.	20	

Variables	Dimensions	Indicator	No . Item
178	A. Munawar et al.	The degree to which existing information systems are integrated with new business processes	21
	<i>skills and competencies</i>	Ability to analyze and interpret data for decision making.	22
		Ability to align IT strategy with business objectives.	23
	<i>costs dan benefits</i>	Ability to adopt new technologies that provide a competitive advantage.	24
		The level of efficiency of technology use by ensuring that the benefits obtained outweigh the costs incurred..	25

### 3.3 Data Collection

The sample must be able to represent the population, where if the object is less than 100 then it is taken entirely, but if it is large it can be taken 20-25%. In this study, all members of the population were used as data sources so that they became research samples with total sampling techniques or saturated samples. Based on this approach, the sample for this study amounted to 92 Batik MSMEs in West Java registered at the Center for Handicrafts and Batik at the Indonesian Ministry of Industry.

The questionnaire was made by distributing through an online form (google form) containing the questions given and accompanied by a written answer or choice in a structured form. The distribution of questionnaires to respondents was carried out by sending a Google Form link that had been prepared. Researchers also monitored and made direct contact with respondents to ensure that respondents had filled out the questionnaire provided.

## 4. DATA ANALYSIS

The data analysis in this study utilises the software Smart PLS 3.0. This software is employed to assess the reliability, convergent validity, and discriminant validity of the constructs in this research, as well as to test the formulated hypotheses. The Partial Least Squares Structural Equation Modeling (PLS-SEM) method is chosen due to its suitability for handling nonnormally distributed data. Furthermore, this method is well-suited for studies with relatively small sample sizes, such as this study involving fewer than 500 respondents [42].

### 4.1 Demographic information

characteristics of respondents stating that, based on gender, the majority are female; based on age group, the majority of respondents are in the age group of 34-41 years; based on education level, the majority of respondents are college graduates; based on position, the majority of respondents are managers.

**Table 2 Demographic characteristics of respondents**

Variable	Categories	Percentage
Gender	Female	53%
	Male	47%
Age Range	22-33 years	33%
	34-41 years	67%
Education	Diploma	5%
	Undergraduate	78%
	Master	15%
	Doctoral	1%
Position	Manager	77%

Director	5%
Owner	18%

Source: Authors' work (2024)

### 4.2 Measurement model analysis

The measurement model analysis findings are reassuring, indicating that all items exceed the threshold loading value of 0.50, and cronbach's alpha (CA) values are greater than 0.70 for all constructs. The composite reliability (CR) values are greater than 0.70, and the average variance extracted (AVE) values exceed the threshold of 0.50. The threshold value of rho\_A indicates values greater than the recommended value of 0.70, which is suitable for composite reliability. This confirms that convergent validity, a key aspect of our study, has been successfully achieved.

Table 3 Outer model test results

Factors	Item	Load- ing	CA	CR	AVE
management capa- bility	DC1	0,911	0,913	0,93	0,626
	DC2	0,782			
	DC3	0,713			
	CB1	0,854			
	CB2	0,736			
	CB3	0,824			
	EC1	0,733			
	EC2	0,755			
infor- mation sys- tems strategy	TIN1	0,730	0,918	0,934	0,639
	TIN2	0,718			
	PC1	0,777			
	PC2	0,748			
	SAC1	0,860			
	SAC2	0,856			
	CDB1	0,851			
	CDB2	0,840			
business performance	M1	0,827	0,944	0,953	0,692
	M2	0,754			
	M3	0,834			
	M4	0,761			
	Q1	0,858			
	Q2	0,855			

Q3	0,871
F1	0,864
F2	0,852

Source: Authors' work (2024)

### 4.3 Hypothesis Testing

To evaluate the structural relationship between latent variables, hypothesis testing must be carried out on the path coefficient between the variables by comparing the p-value with 0.05. The amount of p-value is obtained at the output of Smart PLS 3.0. Testing all hypotheses will be analyzed based on the results obtained from data processing as shown in.

Table 4 Path coefficient test results

Hypotheses	P Values	Conclusion
MC -> BP	0,000	H1 is accepted
MC -> ISS -> BP	0,000	H2 is accepted

Source: Authors' work (2024)

Table 4 show the results of the structural model test. Specifically, the results obtained show Management Capabilities that has a significant positive effect on Business Performance ( $p < 0.05$ ), serta *Information Systems Strategy* mampu memediasi pengaruh kemampuan manajemen terhadap kinerja bisnis secara signifikan ( $p < 0.05$ ).

## 5. DISCUSSION OF FINDING

The main objective of this study is to conduct a critical test of the factors affecting Business Performance in Batik MSMEs in West Java. The results of this study indicate that management capabilities are able to influence performance directly or indirectly through Information Systems Strategy.

Research consistently demonstrates that management capability has a positive and significant effect on business performance. Multiple studies have found that management capability directly improves business performance and strategy implementation[43][44][5]. Management capability enhances various aspects of performance, including profit growth, sales growth, and market growth [5]. It also positively influences product innovation and technology orientation, which in turn boost business performance [44]. Furthermore, management capability contributes to organizational agility, which acts as a mediator in improving business performance. The impact of management capability on performance is often strengthened through effective business strategies [43]. These findings highlight the crucial role of management capability in driving business success across various industries and contexts, emphasizing its importance for competitive advantage and organizational growth.



Research suggests that management capabilities and information systems (IS) strategies play crucial roles in enhancing business performance. Management capabilities have been found to significantly impact business strategy and directly affect business performance [43]. The alignment of IS strategy with social capital mediates the relationship between IS capability and business performance [45]. Business strategy acts as a mediator between management capabilities and business performance [46]. Additionally, business process management and supply chain management capabilities fully mediate the impact of IT capabilities on firm performance [47]. These studies emphasize the importance of integrating management capabilities with effective business strategies and IS alignment to improve overall business performance. The research highlights that firms should focus on developing comprehensive management capabilities and aligning their IS strategies with organizational goals to achieve better performance outcomes.

## 6. CONCLUSION

Management capabilities significantly impact business performance, both directly through effective leadership and indirectly by shaping information systems strategy. By fostering an environment that aligns technology with business goals and promotes data-driven decision-making, capable managers can drive substantial improvements in performance. Organizations that invest in developing these management capabilities are likely to see a positive correlation with their overall success.

In summary, strong management capabilities are crucial for enhancing business performance, both directly and through effective information systems strategy. Organizations that focus on developing their management skills and aligning technology with strategic goals will likely see significant improvements in performance and adaptability in a rapidly changing business environment

## CONFLICTS OF INTEREST

The author declares no conflicts of interest.

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