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Strategies affecting sustainable financial performance (A case study on southeast asian companies)

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ABSTRACT

This study aims to find out the effect of cost leadership and differentiation strategies on sustainable financial performance, including which strategy has a more dominant effect. Sustainable financial performance is financial performance that can be achieved and enjoyed into the future, not just for temporary in a certain period. The sample includes public companies in the Southeast Asia region consisting of 395 companies during the period 2107-2020, with a total 1,580 observations. This study uses Struc-tural Equation Modeling to analyze the data. The test results show that the cost lead-ership strategy has no effect on sustainable financial performance. In contrast, the differentiation strategy has a positive and significant effect on sustainable financial performance. The role of innovation is very important in achieving sustainability. This study proves that innovation moderates the effect of the two strategies on sustainable financial performance. This study failed to prove which strategy has a more dominant effect due to the different results of the effect of the two strategies on sustainable fi-nancial performance.

ABSTRAK

Penelitian ini bertujuan untuk mengetahui pengaruh strategi cost leadership dan diferensiasi terhadap kinerja keuangan yang berkelanjutan termasuk strategi mana yang memiliki pengaruh lebih dominan. Kinerja keuangan berkelanjutan merupakan kinerja keuangan yang dapat diraih dan dinikmati sampai dengan masa depan, tidak hanya untuk sesaat pada periode tertentu saja. Sampel yang digunakan dalam penelitian ini meliputi perusahaan-perusahaan go-public di wilayah Asia Tenggara yang terdiri dari 395 perusahaan selama periode 2107-2020, dengan total 1580 pengamatan. Penelitian ini menggunakana Structural Equation Modelling untuk menganalisis data. Hasil pengujian menunjukkan bahwa strategi cost leadership tidak berpengaruh terhadap kinerja keuangan berkelanjutan. Sebaliknya, strategi diferensi-asi memiliki pengaruh positif dan signifikan terhadap kinerja keuangan berkelanjutan. Peran inovasi sangat penting dalam mencapai keberlanjutan. Hal ini terbukti bahwa inovasi memoderasi pengaruh kedua strategi terhadap kinerja keuangan berke-lanjutan. Penelitian ini belum berhasil membuktikan stratagei mana yang memiliki pengaruh lebih dominan dikarenakan hasil-hasil yang berbeda dari kedua strategi tersebut terhadap kinerja keuangan berkelanjutan.

1. INTRODUCTION

The strategic framework built by Porter (1986) has led to the adoption of competitive strategies, such as cost leadership or differentiation, which are important to produce better performance (Amoako-Gyampah & Acquaah, 2008; Allen & Helms, 2006; Kharub & Sharma, 2016). The choice of strategy must be in accordance with the company's competitive advantage (Caseiro & Coelho, 2018). The correct choice of strategy can ultimately be verified through the firm performance. The results of previous studies indicate that there is a relationship between strategy and periodic financial performance. However, those results do not necessarily show the contributions of the strategies in

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achieving sustainable financial performance. The company's choice of a proper strategy must be proven by its ability to produce long-term performance, not just short-term or temporary performance. Selection of a proper strategy is the key to maintaining the competitiveness and sustainability of the company (Banker et al., 2014). Periodic financial performance alone is not enough to measure the success of the strategy in the future. It is necessary to measure the contribution of strategy in creating long-term or sustainable financial performance. Previous empirical studies have proven that there is a strategic relationship between firms and contemporary performance (Amoako-Gyampah & Acquaah, 2008; Allen & Helms, 2006; Kharub et al., 2019; Leonidou et al., 2015; Mohammadi et al., 2019; Teeratansirikool et al., 2013). However, until now there are still few studies that examine the effect of strategy selection on a company's sustainable financial performance.

Radically changing environmental conditions, intense competition, and the industrial revolution have changed the competitive landscape and forced companies to focus on selecting strategies that can make them sustainable (Alkhafaji, 2013; Myers & Chandler, 1962; Sadler, 2003; Wheelen & Hunger, 2012). Innovation holds a very crucial role in the rapid changing condition of the business environment (Clark & Guy, 2010). Companies that are open to innovation are better equipped to develop superior knowledge that sets them on top (Ziegler & Seijas Nogareda, 2009). Innovation becomes important because it is a powerful way for companies to gain performance improvement or sustainable competitive advantage, which ultimately contributes to the achievement of firm performance (Bigliardi, 2013; Nybakk & Jenssen, 2012; Semuel et al., 2017; Zehir et al., 2015). Innovations made by companies by implementing cost leadership business strategies will increase productivity and produce better company performance (Banker et al., 2014). For companies using a differentiation strategy, innovation is carried out through R&D or technology processes. Innovation risks in companies that chose the differentiation strategy have a complex multidimensional nature, such as in products, delivery systems, marketing, product features, technology, and others (Altuntaş et al., 2014; Huo et al., 2014). However, these results are still conflicting. Several other empirical studies find that innovation has no effect on the performance (Jenssen & Aasheim, 2010; Kostopoulos et al., 2011).

Considering the previous results, this study will focus on the role of innovation as the moderating variable in the relationship between strategy and sustainable financial performance. Theoretically, innovation is the important factor that keeps the company's competitive advantage so that the company can produce the better firm performance (Clark & Guy, 2010). Innovative companies will be better prepared to develop knowledge that makes the companies superior (Ziegler & Seijas Nogareda, 2009). The choice of strategy aims to maintain the company's existence and sustainability. Therefore, this study will focus on the influence of the two generic strategies on sustainable financial performance. This is what distinguishes this research from previous research because there are still relatively few studies that reveal the role of strategy in producing sustainable financial performance.

This study uses secondary data. To achieve better results, this study uses quantitative measurements to measure the company's strategy selection by following several previous studies (Amoako-Gyampah & Acquaah, 2008; Allen & Helms, 2006; Kharub et al., 2019; Leonidou et al., 2015; Teeratansirikool et al., 2013). The quantitative measurements capture realized strategies, can be generalized, and avoid biased data perception for self-assessed indicators. Qualitative measurements, on the other hand, depend heavily on contexts, cases, and are limited on certain phenomena or perspectives and have disadvantages on the subjectivity of both respondents and interviewers, which makes the data to be potentially biased (David et al., 2002; Yilmaz, 2013).

2. THEORITICAL FRAMEWORK AND HYPOTHESIS

Resource Based View

Resource-Based View (RBV) focuses on the internal resources that exist within a company to be developed and not external resources (Penrose, 1959). This perspective reveals the importance of strengthening internal resources to compete externally in the competitive world. In the RBV's perspective, non-homogeneous or unique resources are competencies that will be the basis of a company's strategies (Amit & Schoemaker, 1993). Competency-based strategies can improve competitive advantages (Hamel & Prahalad, 1994; Prahalad, 1998).

Wernerfelt (1984) reveals that strategy is a balance of exploitation of existing resources and development of the new ones. Companies can obtain competitive advantages when their resources are valued, rare, inimitable, and non-substitutable (Barney, 1991).

RBV is the main basis for studying the relationship between Cost Leadership and Differentiation strategies and Sustainable Financial Performance. This Resource-Based View theory explains the importance of a strategic approach in determining resource criteria that can generate competitive advantage (Adeniran & Johnston, 2016; Collis, 1991). The choice of a strategic approach between cost leadership and differentiation will determine the steps for selecting resources that are in accordance with the strategies and competencies so as to create a sustainable competitive advantage (Assensoh-Kodua, 2019).

Cost Leadership Strategy

The cost leadership strategy stresses the process of cost efficiency through increasing productivity in order to compete. According to Porter (1985, 1986), cost leadership is related to the sale of standardized products and has a wider reach in serving several industry segments, so that it can benefit from lower costs. Another opinion says that cost leadership is the act of producing products and services with certain features and has the lowest price among competitors, which will lead to the acquisition of competitive advantage. (Kharub et al., 2019). The cost leadership strategy requires a very strict cost control process, which enables companies to obtain bigger profits (Tanwar, 2013). The development of equipment and production processes can improve efficiency and reduce cost so that competitive advantages can be obtained. The innovations of this strategy are located on the following seven characteristics of cost leadership: low cost, maximum capacity utilization, economic scale, learning curves effect, technological advantages, outsourcing, and process innovation (Kaliappen & Hilman, 2017).

According to Hambrick (1983a), the main dimension of the cost leadership variable is efficiency. Efficiency can be measured from cost savings and assets utilization optimization. Companies can increase their financial performance from their cost of the assets' utilization and minimum input (Balsam et al., 2011). Companies that use the cost leadership strategy will minimize cost of the assets and fixed cost. The variable of strategy evaluation is identical with the research conducted Balsam et al. (2011) that uses the exploration factor analysis in defining the general factors in the variable variations. The high value of Sales/ Capex and Sales/P&E shows that the company is increasingly maximizing its asset value. The research conducts factor analysis and finds two factors that represent cost leadership. The variables of cost leadership evaluation are as follows:

Ratio 1

The first ratio is the ratio of sales compared with company capitals such as property, plant, and equipment. Companies that use the cost leadership strategy tend to invest on the operational development, including property, plant, and equipment. Higher ratio shows a more productive and efficient utilization of assets (David et al., 2002; Kotha & Nail, 1995; A. Miller & Dess, 1993; Wicks & Berman, 1999).

Ratio 1= Sales/Capex.....(1)

Ratio 2

The second ratio is the ratio of sales compared with companies' book value and equipment. Book value is the overall value of plants and equipment minus the accumulated depreciation. Companies with the cost leadership strategy will show higher value because of the development for increasing productivity and efficiency (David et al., 2002; Hambrick et al., 1982; A. Miller & Dess, 1993).

Ratio 2= Sales/P&E.....(2)

Differentiation Strategy

Differentiation strategy is a strategy that emphasizes on the uniqueness of products, both in terms of products and services, so that they can compete. This strategy creates more value for the customers, therefore achieving higher profits. Different products and services can reduce price sensitivity, reduce the potential for substitute products, and become a strong barrier for new competitors (Zehir et al., 2015). Differentiation strategy is a means for companies to expand as well as a way to achieve long-term sustainability. Differentiation strategy is a strategy with the most influence on firm performance, especially financial performance (Yamin et al., 1999).

Differentiation strategy has several characteristics such as innovations on

marketing, control on distribution, technological development and digitalization, and brand image enhancement (Dess & Davis, 1984). Innovations on this strategy is devoted to product specifications as mentioned in the eight characteristics of differentiation strategy: unique features, complementary services, continuous developments of new designs, attractive brands, creative marketing advertisements, innovation in services, wider dealer reach, and high prices.

Companies with differentiation strategy focus on their image and product innovations (Miller, 1987). The measurement of differentiation strategy variable, in the research conducted by Balsam et al. (2011), uses the exploration factor analysis in defining the common factors that exist in the variation of variables. The higher SG&A/sales and sales/COGS values show that the companies are trying to differentiate themselves from their competitors in terms of the representative value of investment costs and premium price. The aforementioned research conducted factor analysis and found two representative factors of differentiation. The variables of differentiation evaluation are as follows:

Ratio 3

The third ratio is the ratio of expenses in the form of sales, general, and administrative compared with net sales. Companies with differentiation strategy tend to have higher investments in marketing, product services, and distribution that strengthen the company's image and coordination so that the SG&A value will be higher. (David et al., 2002; Hambrick et al., 1982; A. Miller & Dess, 1993; Thomas & Litschert, 1991; Wicks & Berman, 1999; Wiggins & Ruefli, 2002).

Ratio 3= SG&A/Sales.....(3)

Ratio 4

The fourth ratio is the ratio of sales compared with cost of goods sold. Companies with cost leadership strategy will reduce their cost of goods to increase margins in cost efficiency. On the other hand, companies with differentiation strategy will have higher cost of goods because their products have the unique and innovative perception so that the Sales/COGS will have higher value. Companies with the cost leadership strategy will have lower value than companies with the differentiation strategy (Kotha & Nail, 1995; Nair & Filer, 2003; Wicks & Berman, 1999).

Ratio 4= Sales/COGS.....(4)

Sustainable Financial Performance

Stakeholders and shareholders certainly want the company's stability from time to time that can provide an overview and preferences regarding the sustainability of the company's performance that can be evaluated and predicted. Sustainable performance, according to the United Nation's Report of the World Commission on Environment and Development (1987), is the actions that are considered as strategies and investments where the development fulfills current needs without reducing the ability of future generations to fulfill their needs. Stability is a must in business.

In the context of financial performance, companies are also required to produce sustainable performance. Sustainable financial performance is the current financial performance that is expected to be achieved in the subsequent periods. Sustainable financial performance can be achieved when a company's resources are being directed continuously into increasing the creation of values in the present and future periods (Banker et al., 2014).

The commonly used indicator for financial performance in previous studies is ROA (Fabbe-Costes & Jahre, 2008; Mohammadi et al., 2019; Waddock & Graves, 1997). High ROA is the goal of some companies (Hambrick, 1983b; Wicks & Berman, 1999). To measure the stability and sustainability of financial performance, this research uses ROA persistence measured from the auto-regression coefficient (AR) of ROA for at least five years back. The coefficient (α_{1j}) from the regression formula becomes an indicator of sustainability or ROA persistence that measures the extent to which the current ROA can still be obtained in future periods (Miller & Dess, 1993).

The Effect of Cost Leadership on Sustainable Financial Performance

The cost leadership strategy has high productivity and low product costs so that it is possible to increase company profits for some time. Companies with cost leadership strategy will have very tight operating expenses, low-cost distribution channels, and more effective assets' utilization than their competitors so that they will reap benefits financially (Hilman & Kaliappen, 2014). The results of previous research show that cost leadership has an effect on firm performance (Allen & Helms, 2006; Hilman & Kaliappen, 2014; Nandakumar

et al., 2011; Powers & Hahn, 2004). Based on the explanation above, the hypothesis is formulated as follows:

H1: Cost Leadership has a positive effect on Sustainable Financial Performance

The Effect of Differentiation on Sustainable Financial Performance

The strategy used by companies is expected to help achieve performance in the current period and sustainability in the future. Differentiation strategy is a bridge in expanding the organizations to achieve long-term sustainability (Yao & Qin, 2016). The result of the previous studies on the relationship between differentiation and organizational performance shows a direct influence (Allen & Helms, 2006; Teeratansirikool et al., 2013). According to Leonidou (2015) and Mohammadi et al. (2019), differentiation strategy influences financial performance. Other studies show that differentiation influences sustainable financial performance (Banker et al., 2014). Based on the explanation above, this research hypothesizes as follows:

H2: Differentiation has a positive effect on Sustainable Financial Performance

The Effect of Cost Leadership on Sustainable Financial Performance Moderated by Innovation

Innovation influences firm performance directly and indirectly (Hilman & Kaliappen, 2014). Bayraktar et al. (2017) and Hilman & Kaliappen (2014) also find that innovation is a variable that strengthen the relationship between cost leadership and firm performance. Innovation strengthens the relationship between cost leadership and sustainable financial performance because the process of innovations is conducted on performance productivity and work processes to improve the company's financial performance (Banker et al., 2014). Innovation is needed in implementing long-term strategies, not just periodically. Based on the explanation above, the hypothesis is as follows:

H3: Innovation moderates the effect of Cost Leadership on Sustainable Financial Performance.

The Effect of Differentiation on Financial Performance Moderated by Innovation

Innovation has no effect on the relationship between differentiation strategy and financial performance (Jenssen & Aasheim, 2010; Kostopoulos et al., 2011). Companies with differentiation strategy will face high uncertainty because innovation activities require companies to go through risky activities (Biggadike, 1979). On the other hand, non-implemented innovation can place companies in a hard position (Jermias, 2008). All of this will influence financial performance. Innovation can weaken the relationship between differentiation and financial performance because of its high risk. Innovation in differentiation strategy is an intangible asset and has a fairly high cost (Banker et al., 2014). Based on the exposures of the previous researchers, the hypothesis can be formulated as follows:

H4: Innovation moderates the effect of Differentiation on Sustainable Financial Performance.

Differentiation Strategy has a More Dominant Effect on Financial Performance than Cost Leadership

Referring to the results of previous studies, differentiation strategy has more dominant effect on financial performance than cost leadership. Meanwhile, related to which strategy is superior. A differentiation strategy is more likely to enable the company to maintain this performance in the future (Banker et al., 2014; Leonidou et al., 2015; Teeratansirikool et al., 2013). The hypothesis can be formulated as follows:

H5: Differentiation Strategy has more dominant effect on Sustainable Financial Performance than Cost Leadership strategy

3. RESEARCH METHOD

Analysis Model

The analysis model that shows the relationship between the research variables can be seen in Figure 1.

Research Structural Model

The research model serves to explain the relationship between the dependent variable and the independent variable for each hypothesis. For each structural model, all control variables are included. The structural models for the four hypotheses are as follows:

Model 1.

$$SFP_{i,t} = \beta_0 + \beta_1 CL + \beta_2 INV + \Sigma Var\ control + \varepsilon$$

Model 2

$$SFP_{i,t} = \theta_0 + \theta_1\ DF + \theta_2\ INV + \Sigma\ Var\ control + \varepsilon$$

Model 3

$$SFP_{i,t} = \lambda_0 + \lambda_1 CL + \lambda_2 DF + \lambda_3 INV + \Sigma Varcontrol + \varepsilon$$

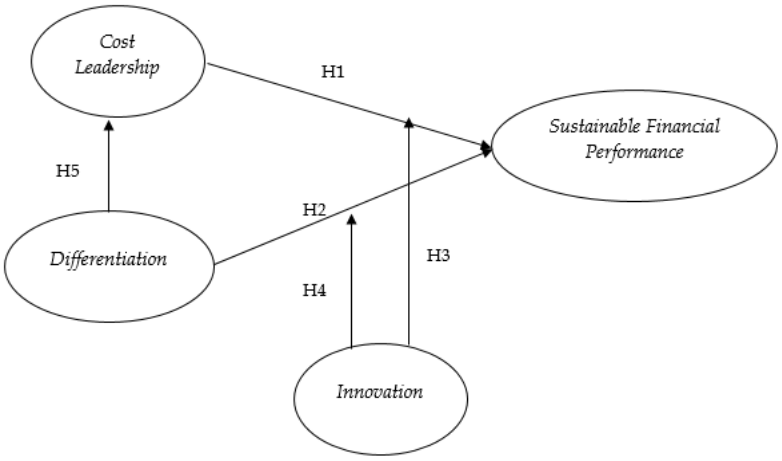

Figure 1
Conceptual Model Framework

Table 1
Sample Selection

Sample Criteria	Total
All Go-Public companies in Southeast Asia period 2017-2020	5,653
Issuing financial statements from 2017-2020	(463)
ROA values from 2011-2020 is available	(620)
Number of firms that fit with the criteria	395
Total observation for 4 years	1,580

Source: Data Processed

Model 4

$$SFPi,t = \gamma_0 + \gamma_1 CL + \gamma_2 DF + \beta_3 INV + \gamma_4 CL*INV + \gamma_5 CL*IN + \Sigma \text{ Var control} + \varepsilon$$

Sample

The research samples are go-public companies in Southeast Asia period 2017-2020. The sampling technique used is purposive sampling (non-probability sampling). As seen in Table 1, this study involves 395 companies that meet the criteria. They are from 12 industrial sectors originated from six different countries. The total sample is 1,580 observations.

Operationalization of Variables

Sustainable financial performance is measured by ROA persistence with the following steps:

a. Perform autoregression on ROA, with a minimum period of five years back to get the coefficient number from the regression, using the following formula:
$ROA_t = \alpha_0 + \alpha_1 ROA_{t-1} + \varepsilon_i$.....(5)
b. Coefficient (α_1) is close to 1, indicating a more sustainable ROA.

Cost leadership and differentiation strategy. The measurement of these variables uses four indicators: two indicators for cost leadership and two indicators for differentiation. According to Balsam et al., (2011), and Banker et al., (2014), the measurement indicators of each variable can describe the strategy used by the company. The indicator analysis goes through the confirmatory factor analysis (CFA) stage. CFA is used to examine if a variable contains the expected strategy dimensions as suggested by the theoretical arguments, using the following steps:

a. Get standardized factor loading value as a convergent validity that has a standardized value of ≥ 0.50 (Bagozzi et al., 1991).
b. Compute construct reliability value to calculate the factor consistency value that has a standard value of ≥ 0.70 (Werts et al., 1974).
c. Compute average variance extracted (AVE) as a discriminant validity value that has a standard value of ≥ 0.50 (Fornell & Larcker, 1981).

Both indicators in each variable are then calculated to obtain a factor score value that can represent the value of the variable.

Innovation: the measurement of innovation is as (Duane Ireland & Webb, 2007; Hill & Snell, 1988).

Innovation = RND Expense/Sales.....(6)

Control Variables
This research includes several control variables in the research model that are connected with firm characteristics. The firm characteristics chosen for this research are firm size, leverage, competition intensity, and country.

Firm Size
Companies with bigger size are considered to have more adequate resources and better management so that their performance will be better than that of smaller companies. Big companies are far more transparent, competitive, and have bigger resources. The firm size variable is measured by the natural log of book value of total assets. Small companies are considered to be less competitive in strategy determination than big companies (Ball & Foster, 1982; Dechow & Dichev, 2002). Firm size is measured using the following formula (Anderson & Reeb, 2003; Hamberg et al., 2013):

Firm size=Log Total Asset.....(7)

Leverage
Leverage is the funding from a capital structure that uses fixed costs to increase the rate of return to shareholders (Gitman & Zutter, 2011). A high leverage ratio shows that the capital structure of the company depends on the funding from outside the company. On the other hand, a low leverage value shows that the company is capable of financing its own needs and does not depend on external funding. Leverage is measured using the following formula (Brigham & Houston, 2018):

Lev= Total Debt/Total Equity.....(8)

Competition Intensity
Competition intensity drives the achievement of efficient and fair market and allows developments in the private sectors and economic growth (Guimaraes & Paranjape, 2019). The competition intensity of each company is different. For short-term, companies prefer low competition intensity, while for long-term, they prefer high competition intensity because the organizations will be beneficial to society (Kwieciński, 2017). Competition intensity describes the level of competitiveness in certain industry. It shows the company's market share in the industry. Each sector has different level of competition, in this study we calculate competition intensity for each 12 sectors. The competition intensity is measured by the Herfindal-Hirschman Index (HHI) as follows (Kotha & Nail, 1995):

$HHI = S1^2 + S2^2 + S3^2 + ... + Sn^2$ .....(9)
where:
S1, S2, …. Sn = companies' market share in an industry

Data Analysis Technique
This study uses Structural Equation Model (SRM) to test the research hypothesis. SRM is appropriate to determine the dependence of a series of interrelated relationships simultaneously. The SEM model will be represented in the path analysis. Before running hypothesis testing, the first thing to do is to test the normality. The normality is fulfilled, if z score is in the range of critical ratio values between -2.58 and +2.58.

Goodness of Fit
Goodness of Fit is conducted to test model against the suitability of the theoretical and empirical models. According to Hair et. al (2018), the criteria are as follows:

a. *Normed Square* (CMIN/Df) measurement based on the value of chi-square divided by degree of freedom. A good model has a value of ≤ 2.00.
b. *Goodness of Fit Index* (GFI) is a measurement of the accuracy of the observed matrix covariance. A good model has a value of ≤ 0.90.
c. *Adjusted Goodness of Fit Index* (AGFI) is a measurement that uses the degree of freedom ratio. A good model has a value of ≤ 0.90.
d. *Tucker Lewis Index* (TLI) is an incremental fit index that compares the tested model with the baseline model. A good model has a value of ≤ 0.90.
e. *Comparative Fit Index* (CFI) is an incremental fit index that is less sensitive towards the size of the samples and model complexity. A good model has a value of ≤ 0.90.
f. *Root Mean Square Error of Approximation* (RMSEA) is a measurement that tries to fix the tendency of chi-square statistics by rejecting models with many samples. A good model has a value of ≤ 0.80.
g. *Incremental Fit Index* (IFI) is a measurement used to solve parsimony problems and sample size. A good model has a value of ≤ 0.90.

4. DATA ANALYSIS AND DISCUSSION

Sample
Table 3 shows a total sample of 395 companies originated from six countries. The data classification of the industry types is obtained

from Thomson Reuters based on the Global Industry Classification Standard (GICS). Vietnam contributes the largest number of samples of companies that meet the sample criteria, as many as 178 companies, followed by Indonesia with 170 companies. Thailand has the smallest number of samples, only two companies.

Table 4 shows samples per industry type. Companies from the other industrial sectors are the biggest sample. These sectors consist of real estate, entertainment, mining, construction, transportation, hotel, etc. The second-biggest sectors are non-consumer durables with 74 samples. Overall, the research samples cover all the industrial sectors. This can be better contributed for wider generalization of the research findings.

Results

The descriptive statistic of each variable is presented in Table 5. Of the total existing samples, over a period of 5 years produced 1580 observations.

Tabel 6 is about confirmatory factor and reliability analysis. This table shows reliability test and validity test.

Normality Test and Outliers

The normality test is used to determine whether the error distribution meets the normal distribution. In Amos' normality test, it is indicated by the value of the critical ratio (CR). If the critical value is in the range of $-2.58 \leq x \leq 2.58$, it means that the data has a normal distribution. Likewise, if the results are outside the range of values, it shows the opposite. The results of the initial normality test shows that

Table 2
Sector of Companies

Type	Sectors	Total
1	Non consumer Durables (food, drinks, textile, tobacco)	74
2	Consumer Durables (furniture, household appliances)	8
3	Manufacture	55
4	Energy, gas, coals	30
5	Chemistry	9
6	Business Equipment (software, electronics, computer)	17
7	Telecommunication (television and telephones)	11
8	Utility	15
9	Wholesaler & retail	15
10	Health	17
11	Finance	3
12	Other (real estate, entertainment, mining, construction, transportation, hotel, et cetera)	141
Total Companies		395

Source: Data Processed

Table 3
Sample per Countries

Countries	Total
Indonesia	170
Malaysia	7
Singapore	11
Thailand	2
Philippines	27
Vietnamese	178
Total companies	395

Source: Data Processed

Table 4
Sample per Industry Type

Type	Sectors	Total
1	Non consumer Durables (food, drinks, textile, tobacco)	74
2	Consumer Durables (furniture, household appliances)	8
3	Manufacture	55
4	Energy, gas, coals	30
5	Chemistry	9
6	Business Equipment (software, electronics, computer)	17
7	Telecommunication (television and telephones)	11
8	Utility	15
9	Wholesaler & retail	15
10	Health	17
11	Finance	3
12	Other (real estate, entertainment, mining, construction, transportation, hotel, et cetera)	141
Total Companies		395

Source: Data Processed

Table 5
Descriptive Statistic

	N	Score	Min	Max	Mean	StdDev
CL	1580	0.120			0	1
DF	1580	0.010			0	1
SFP	1580		-1.400	1.490	0.256	0.447
LEV	1580		-0.867	25.40	0.705	1.304
SIZE	1580		7.319	14.65	11.62	1.498
INTENS	1580		0.000	23.41	0.125	1.085

Source: Data Processed

Table 6
Confirmatory Factor & Reliability Analysis

Construct	Standardized Factor Loading	t-value	Average Variance Extracted
Cost Leadership (C.R. = 0.731)			
Ratio 1 (Sales/Capex)	0.543	5.043***	0.526
Ratio 2 (Sales/P&E)	0.945		
Differentiation (C.R. = 0.894)			
Ratio 3 (SG&A/Sales)	0.816	10.44***	0.898
Ratio 4 (Sales/COGS)	0.978		
** = Item constrained for identification purposes			
C.R. = Construct Reliability			

Source: Data Processed

the critical ratio is outside the limits of the normality value, so the normality has not been met. The extreme values seem exist in this case. Next, the outlier data provided by AMOS is tested using the Mahalanobis Distance test. In the Mahalanobis Distance, the higher the value of Mahalanobis Distance indicates that the data has the outliers. The Mahalonobis Distance test also looks at the values of p1 and p2. The values of p1 and p2 are considered good when they are > 0.05. After eliminating outliers, based on the analysis of p1 and p2, the total sample remaining is 1480.

Table 7
Goodness of Fit Model 1

Criteria	Standard	Result	Notes
Cmin/df	≤ 2.000	0.812	Good Fit
GFI	> 0.900	0.999	Good Fit
AGFI	≥ 0.900	0.993	Good Fit
TLI	≥ 0.900	1.002	Good Fit
CFI	≥ 0.900	1.000	Good Fit
RMSEA	≤ 0.080	0.000	Good Fit
IFI	≥ 0.900	1.000	Good Fit

Source: Data Processed

Table 8
Goodness of Fit Model 2

Criteria	Standard	Result	Notes
Cmin/df	≤2.000	1.732	Good Fit
GFI	> 0.900	0.998	Good Fit
AGFI	≥ 0.900	0.985	Good Fit
TLI	≥ 0.900	0.993	Good Fit
CFI	≥ 0.900	0.999	Good Fit
RMSEA	≤ 0.080	0.022	Good Fit
IFI	≥ 0.900	0.999	Good Fit

Source: Data Processed

Table 9
Goodness of Fit Model 3

Criteria	Standard	Result	Notes
Cmin/df	≤2.000	2.821	Good Fit
GFI	> 0.900	0.995	Good Fit
AGFI	≥ 0.900	0.974	Good Fit
TLI	≥ 0.900	0.978	Good Fit
CFI	≥ 0.900	0.995	Good Fit
RMSEA	≤ 0.080	0.034	Good Fit
IFI	≥ 0.900	0.995	Good Fit

Source: Data Processed

Goodness of Fit

Goodness of fit test is a test on models to state that a research model has a good model. All the indicators of goodness of fit are acceptable as presented in Tables 7, 8, 9, and 10. The values of all indicators of model 1 goodness of fit show the good model. The same results are also applied for the model 2, model 3, and model 4. It implies that all the models are feasible to test the hypothesis.

Hypothesis Testing

Hypothesis testing is conducted to determine the influence of one variable on another. The hypothesis is accepted when the p-value is ≤0.10. The following are the results of hypothesis test for the four research models.

Table 11 presents the results of hypothesis 1. In this case, this study failed to prove the influence of CL on SFP. The coefficient value of CL is positive but not significant, thus hypothesis 1 is rejected. Table 12 shows the results of hypothesis 2, where coefficient value of DF is positive with a significance level of 0.05. DF can explain the variance of SFP. Therefore, hypothesis 2 is accepted. Table 13 shows the consistent results of hypothesis 1 and 2 by putting two variables in one equation (Model 3), and the results remain the same. CL has no effect on SFP, but DL has an effect on SFP. The

Table 10
Goodness of Fit Model 4

Criteria	Standard	Result	Notes
Cmin/df	≤2.000	2.228	Good Fit
GFI	> 0.900	0.993	Good Fit
AGFI	≥ 0.900	0.975	Good Fit
TLI	≥ 0.900	0.985	Good Fit
CFI	≥ 0.900	0.995	Good Fit
RMSEA	≤ 0.080	0.028	Good Fit
IFI	≥ 0.900	0.995	Good Fit

Source: Data Processed

Table 11
Model 1

	Estimate	SE	CR	p-value	Sig
SFP ← CL	0.005	0.061	0.077	0.939	
SFP ← IV	0.039	0.063	0.621	0.534	
SFP ← LEV	-0.140	0.009	-1.607	0.108	
SFP ← SIZE	0.014	0.009	1.540	0.124	
SFP ← INTEN	0.056	0.051	1.099	0.272	

Source: Data Processed

Table 12
Model 2

	Estimate	SE	CR	p-value	Sig
SFP ← CL	0.654	0.313	2.087	0.037	**
SFP ← INV	0.038	0.064	0.594	0.552	
SFP ←LEV	-0.015	0.009	-1.706	0.088	*
SFP ←SIZE	0.017	0.009	1.859	0.063	*
SFP ←INTEN	0.045	0.052	0.869	0.385	

Source: Data Processed

results of model 3 show that the coefficient value and p-value of DF variable increase compared to the results of model 2. Table 14 presents the results of Model 4 which tests the moderating effect of INV in the relationship between CL and SFP, and DF and SFP. The results show that INV moderates these relationships. Therefore, hypothesis 3 and hypothesis 4 are accepted. The results of Model 4 also confirm the consistency of the positive and significant effect of DF on SFP.

Hypothesis 5 aims to test whether CL or DF that has more dominant effect on SFP. However, this hypothesis cannot be tested, since there is no equal result of these variables. CL has no effect on SFP, while DF consistently has an effect on SFP. In this case, hypothesis 5 is not eligible to be tested. CF will have the explanation power to the variance of SFP when this variable is moderated by INV, but this variable alone has no meaning. From the several control variables included in the models, LEV and SIZE consistently explain SFP. Higher LEV shows the higher risks of the company in achieving the sustainable performance. There is a negative effect of LEV on SFP. Meanwhile, SIZE has a positive and significant effect on SFP. Big companies usually have abundant resources that enable them to compete with other companies and win the competition. Big companies generally have big market share and easier to achieve targeted revenue. They also have the resilience to compete, so they have a greater chance of achieving sustainable financial performance.

Table 13
Model 3

	Estimate	SE	CR	p-value	Sig
SFP ← CL	0.070	0.062	1.129	0.259	
SFP ← DF	0.699	0.291	2.403	0.016	***
SFP ← INV	0.041	0.063	0.643	0.520	
SFP ←LEV	-0.016	0.009	-1.868	0.062	*
SFP ←SIZE	0.017	0.009	1.832	0.067	*
SFP←INTEN	0.043	0.052	0.824	0.410	

Source: Data Processed

Table 14
Model 4

	Estimate	SE	CR	p-value	Sig
SFP ← CL	0.068	0.063	1.091	0.275	
SFP ← DF	0.767	0.315	2.430	0.015	***
SFP ←CL*INV	1.676	1.023	1.639	0.101	*
SFP ←DF*INV	0.776	0.475	1.633	0.102	*
SFP ←LEV	-0.016	0.009	-1.885	0.059	*
SFP ←SIZE	0.017	0.009	1.874	0.061	*
SFP ←INTENS	0.043	0.052	0.842	0.400	

Source: Data Processed

Discussion

The results show that cost leadership strategy has no effect on achieving sustainable financial performance. This finding is similar to the finding of some previous studies that the cost leadership strategy has no effect on company performance (Amoako-Gyampah & Acquaah, 2008; Kharub et al., 2019; Leonidou et al., 2015; Teeratansirikool et al., 2013). Cost leadership strategy is more difficult to implement, because this strategy requires a large market share, sacrifices profit margins, and generates profits through volume (Daly, 2002). Cost leadership strategy focuses on the cost and effectiveness of the company so it is considered temporary or periodic (Kim et al., 2004). In addition, the cost leadership strategy that relies solely on learning curves is also easily imitated by competitors, so it is considered temporary and unsustainable. (Banker et al., 2014; Birjandi et al., 2014). According to Eisenhardt & Martin (2000), cost leadership strategy is considered as a temporary strategy, thus it will difficult to expect sustainability performance through this strategy. In the digital era, customers will find it easier to compare the cheapest prices, which is an advantage of the cost leadership strategy. Companies with this strategy have no other choice, but to lower prices by thin margins in order to compete.

The differentiation strategy, on the other hand, is more stable in achieving sustainable financial performance because it attracts attention from different aspects such as credibility or company reputation. Customers are not sensitive to price when there is a lot of information about a product or service that can meet their needs (Lynch & Ariely, 2000). This study confirms that the differentiation has positive and significant effect on sustainable financial performance. Companies with a differentiation strategy build corporate value from customer loyalty, price inelasticity, and higher margins through long-term brand image and premium pricing (Balsam et al., 2011). These factors allow companies to have long-term engagement with customers. In addition, companies with a differentiation strategy focus more on customized products. Customized products will tie relationships with customers, which can further create a good corporate image (Graham & Bansal, 2007). Customers are willing to pay more for a better company reputation. Differentiation strategy focuses more on the long term through customization and customer engagement so that it can improve the prediction of the stability of a company.

The results of this study are supported by the results of previous studies that the differentiation strategy has a positive effect

on organizational performance (Allen & Helms, 2006; Leonidou et al., 2015) and financial performance (Mohammadi et al., 2019). Differentiation strategy has a unique characteristic and focus on long-term value to enable companies to achieve sustainable performance (Banker et al., 2014). Companies with a differentiation strategy will have products, services, and resources that are difficult to imitate because they have become a culture within the company system so that they can allow profits to be accepted longer (Carter & Ruefli, 2006).

In the context of a cost leadership strategy, innovation moderates the effect this strategy on sustainable financial performance. Companies with a cost leadership strategy need to pay attention to existing innovation within the company to achieve sustainable financial performance. Efficiency is the main dimension of the cost leadership strategy (Hambrick, 1983a). It requires company to pay attention to costs and asset savings by mobilizing the minimum number of assets with the desired sales input (D. Miller, 1987; Porter, 1980). Costs of capital expenditure and fixed assets can increase economic scale, thus profits will be more sensitive to the changes of the level of sales (Banker et al., 2014). Companies that only focus on the learning curve will be trapped in the experience trap which will be easy to imitate and will have challenges towards the innovation changes by their competitors (Amit & Schoemaker, 1993; Zimmerman, 1982). The correct innovations, efficiency and productivity in a company with a cost leadership strategy will have a positive influence on sustainable financial performance.

This study also proves the moderating effect of innovation on the influence of differentiation strategy to sustainable financial performance. Miller (1987) notes that there are at least two differentiation strategies: one is based on product innovation, and the other is based on marketing and management reputation. A differentiation strategy requires investment in research, product design, or marketing. In addition to unique products and services, another important aspect is speed to market. Speed to market or based time market is how companies innovate the distribution of products, services, and values faster than their competitors, which should have been attached to a differentiation strategy. Research shows that companies with a differentiation strategy and at the same time making innovation have a significant effect on the achievement of organizational performance (Jácome et al., 2002). The use of technology is one part of innovations that is important for differentiation strategy in achieving sustainable financial performance (Coombs & III, 2006). The results of this study are in line with the results of previous studies that innovation can moderate the relationship between differentiation and sustainable financial performance (Zehir et al., 2015).

Previous studies prove that differentiation strategy has a better influence than cost leadership on sustainable financial performance (Banker et al., 2014; Leonidou et al., 2015; Teeratansirikool et al., 2013). Nevertheless, in this study, the hypothesis which tested the dominant effect of the two strategies on sustainable financial cannot be concluded, because CL has no influence on sustainable financial performance, but differentiation strategy has.

5. CONCLUSION, IMPLICATION, SUGGESTION AND LIMITATION

This study aims to investigate the effect of cost leadership and differentiation strategies on sustainable financial performance of publicly held companies in the Southeast Asia during the period 2017-2020. The cost leadership strategy is a strategy that focuses on low costs and having big market share, while the differentiation strategy is a strategy that focuses on product and service uniqueness. Both of these strategies contemporarily show positive influence on financial performance in the previous studies, but this does not necessarily show that companies can achieve sustainable financial performance. The results of this study show that cost leadership strategy has no effect on sustainable financial performance, while differentiation strategy consistently has a positive and significant effect on sustainable financial performance.

Innovation successfully moderates the effect of of cost leadership strategy and differentiation strategy on sustainable financial performance. Innovation is a creation of value on existing products and services, and is seen as an important variable in achieving sustainability. Cost leadership has a positive and significant effect on sustainable financial performance when moderated by innovation variable. The differentiation strategy shows higher influence than cost leadership in achieving sustainable financial performance.

These findings have several implications for managerial level. First, innovation is a critical factor for companies, thus cost leadership strategy without innovation cannot be expected to attain sustainable financial performance. Second, management that implements a cost leadership strategy can no longer ignore the innovation aspect. This aspect is required to be sustainable. Third, the role of innovation for companies with differentiation strategy is no less important. A differentiation strategy accompanied by innovation is an effective combination to accelerate sustainable financial performance.

This study includes all sectors of listed companies in Southeast Asia. The wider coverage of samples is expected to generalize the results more broadly. Besides, this study only investigates the generic strategies: cost leadership and differentiation. Future research can apply other types of strategies, such as focus strategy, blue ocean strategy, or combination strategy to get the comprehensive picture on the role of strategy type to sustainable financial performance. Future research also need to consider the types of innovation, whether product innovation or process innovation, which require different measurement.

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