

Strategic Consensus on Organizational Performance: A Contingency Approach of Organizational Culture and Isomorphic Pressure

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Abstract:

Purpose: This research aims to test and analyze the consensus of organizational strategy with the contingency of organizational culture and isomorphism pressure which have an impact on organizational performance moderated by human capital. The survey is conducted to the owners/managers of Batik Micro Small Medium Enterprises (MSMEs) in 18 villages in Pekalongan, Indonesia.

Design/methodology/approach: The data collecting is using questionnaire and interview to some owner/managers and leader of the Batik group. Pekalongan is a city of Batik that has Batik MSMEs spread in every area of the villages. Therefore, the sampling technique used in this research includes two stages: proportional area random sampling and purposive sampling. 17 MSMEs were taken as samples in each village. Furthermore, after selecting 17 MSMEs, the study used purposive sampling technique with a sample size of 170 MSMEs. This research uses three variables: isomorphism, organizational culture, and organizational strategy measured by semantic scale and use two bipolar typologies. As for organizational performance, it is measured using Likert scale. The data analysis technique is using Euclidience Distance Simple Regression with contingency approach and moderation of Euclidience Distance Simple Regression.

Findings: These results provide are; (1) The higher the alignment degree between imitation strategy and hierarchy culture, the higher the organizational performance will be; (2) The higher the alignment degree between innovation strategy and adhocracy culture, the higher the organizational performance will be; (3) Human capital strengthens the consensus of imitation strategy with the contingency of hierarchy culture and benign isomorphism, so that the organizational performance is higher; (4) Human capital does not strengthen the consensus of innovation strategy with the contingency of adhocracy culture and hostile isomorphism, so that the organizational performance is higher.

Research limitations/implications: The sampling technique of this research is done using purposive sampling, so it is feared that it cannot generalize to the existing population. The data collection also uses primary data with measurement approach based on the owner/manager perceptions, which sometimes still requires assistance and good understanding for the respondents. Organizational performance will be increase if the condition of hierarchy culture, benign isomorphism, and imitation strategy are supported by the moderation role of human capital that can strengthen the relationship with organizational performance.

Practical implications: The higher the alignment degree between imitation strategy and hierarchy culture, the higher the organizational performance will be. If the organization tend to choose imitation strategy, it is more emphasizes on low market pressure, support from government regulation, low public and media pressure, and stable politic and safety, and vice versa.

Originality/value: This research wants to fill the research gap by examining the importance of having an alignment of organization strategy (Imitation vs Innovation) related with the contingency of organizational culture (Hierarchy vs Adhocracy) and isomorphism pressure (Benign vs Hostile) so that Batik MSMEs entrepreneurs can further improve their organizational performance (operational performance and environmental performance).

Keywords: organizational culture, isomorphism, organizational performance (operational performance and environmental performance), human capital

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1. Introduction

Since the 19th century, Pekalongan has become a center of batik and continues to experience growth. Batik industry in Pekalongan has been able to become a mainstay sector or the creative industry that is able to contribute to employment, economic growth, and poverty alleviation (pro job, pro-growth, and pro poor). Pekalongan Batik has become the pride of Pekalongan and Indonesian people. Batik artisans in Pekalongan are known to have a high spirit of creativity and always keep up with the times (Ankafia, Yaniar & Ferianto, 2019). The observations results of batik industry researchers in Pekalongan are still faced with various problems: the availability of raw materials, marketing, technology, and the diminishing interest to be batik artisans. Not to mention other problems such as; batik waste accumulates and pollutes the environment, the batik process ignores occupational safety and health, as well as the consumptive behavior or batik bosses that impacts on business sustainability. Batik entrepreneurs must always be dynamic and innovative in every work that is produced (Ankafia *et al.*, 2019; Febrianti, 2019; Poerwanto & Sukirno, 2012) so that it can have an impact on the sales turnover of the products sold. In fact, the motivation to imitate batik motifs is a common thing and even created by batik entrepreneurs themselves. As a result, batik that has similarities is scattered everywhere, both from the motifs, picture, or design that can be found in many markets with different quality of batik materials (Febrianti, 2019). If this condition is allowed, then in the long run it will be passed on from one generation to another, so it is feared that it will become norm and bad behavior that is attached and believed to be true from one generation to another. It is known that organizational culture inherent in organizations is a norm of behavior and values that are understood and accepted by all members of the organization and are used as a basis behavior rules (Hofstede, 1981). Batik artisans in Pekalongan are usually incorporated in the community that contains batik group with memberships that aims to develop their business. The work spirit from the batik artisans makes the community develop successfully although if it is faced with problems that continue to exist.

The existence of isomorphism pressure faced by Batik MSMEs also makes them conduct the business process in accordance with formalities in order to fulfill the legitimacy as entrepreneurs who follow the rules and business ethics that develop in the community. Batik MSMEs in Pekalongan tend to conduct business process that is similar to other MSMEs because they face the same environmental conditions. Even so, there are several MSME groups that do not do so. The observation result in field shows that the majority of Batik MSMEs in Pekalongan use synthetic colors, but there are still MSMEs that committed to use natural colors and oriented to green business practice. In fact, the most basic crucial problem besides human capital is some of the MSMEs still have limitations on working capital. Sometimes, they pursue profits although they are relatively small without ever paying attention to the quality of the products that is produced. As a result, they implemented a relatively simple organizational

strategy, such as selling their products at a low price, because the most important thing for them is to sell quickly and return the capital as soon as possible. This imitation strategy is mostly done by small businesses instead of medium business scope. Likewise, they also have difficulty in obtaining raw materials because they have to consider the price, starting from the price for the materials used for input to the production process, which relatively becomes more expensive. It also becomes the originality of the research. There are some existing research gaps, including:

1. Other research tend to only examine the mediation role of organizational strategy in analyzing the effect of contingency variable toward organizational performance and not use a contingency approach, so that it cannot detect the level of alignment of organizational strategies in improving organizational performance.
2. Research on the level of strategy alignment has benefits so that companies can achieve organizational performance better.
3. This research uses the concept of ideal strategy alignment and does not merely test the interaction of two variables that have an impact on organizational performance.
4. Other researches tend to only portray organizational performance, while this research also examines organizational performance with two indicators, namely operational performance and environmental performance.

As for the research problems that are going to be tested and analyzed are as follows:

1. The level of alignment of organizational performance (hierarchy Vs adhocracy) and organizational strategy (imitation Vs innovation) in improving organizational performance.
2. The level of alignment of isomorphism (benign Vs hostile) and organizational strategy (imitation Vs innovation) in improving organizational performance.
3. The role of Human Capital in strengthening the consensus of organizational strategy so that organizational performance can be increased.

2. Theoretical Background and Research Hypotheses

2.1. Contingency Approach and Alignment

The contingency approach believes that if something has gone well within one organization, then something cannot necessarily be done well in another organization. This is possible because there are various causes, including organizational culture, isomorphism, management style, implemented technology, and some inappropriate management practices (Muafi, 2008; Armstrong, 2008). Riyanto (1999) and Armstrong (2008) added that “the organization’s high work system is very unique and it must be adjusted very carefully for each company’s situation so that the company performance can achieve optimal results”. The notion of strategic alignment is sometimes described as “a model that is fit/alignment”, which is the core of the strategic management concept. Strategic integration is important to provide alignment between business strategy and human resource strategy, so that human resource strategy supports the achievement of business strategy and can be useful to help establish business strategy. The aim is to provide strategic alignment and consistency between human resource and business management policies.

Fombrun, Tichy and Devanna (1984) stated that just as companies that will face inefficiencies when they try to implement new strategies with traditional structures, they will also face problems when they try to implement new strategies with inappropriate human resource systems. The critical task of management is to unite the formal structure with the human resource system, so that both of these tend to be able to direct the strategic goals of the organization. Guest (1997) also stated that strategic human resource management is primarily associated with integration problem. HRM is “fully integrated with strategic planning”, so that HRM policies between cross-cutting policy areas with interrelated cross-hierarchies and HRM practices are used by line managers as part of their daily work (Armstrong, 2008; Delery & Doty, 1996).

The best alignment approach means that there is external alignment (vertical integration) and internal alignment (horizontal integration). Vertical integration means that there is an alignment of business strategy with human

resource strategy in each business life cycle, the dynamics of organizational change, and all organizational characteristics. Horizontal integration means that there is an alignment between policy and practice of human resources (Armstrong, 2008; Homburg, Krohmer & Workman Jr, 1999). The point of emphasis on contingency theory in this study is that organizations must adapt to organizational culture and isomorphism with organizational strategy if the organization wants to get higher performance. Managers need to play an active role in determining method and techniques that are best applied in each case. Different situations require different managerial reactions. If managers face certain situations, then managers need to learn certain important contingencies. Nothing else is called the 'best single way' (universal approach) (Winardi, 2005; Delery & Doty, 1996).

3. Organizational Culture and Organizational Strategy

Organizational culture is *"A system of shared meaning held by members that distinguishes the organization from other organization"* (Robbins, 2013). Value system, beliefs, and norms adopted by the organization in general will be inherited from one generation to another and make a difference in uniqueness between one organization and others. If the internalization of values, norms, and assumptions in the organization is held firmly by the members, it will result in feelings of calm, committed, loyalty, spurring harder work, cohesiveness, the same goal alignment, and capability to control organization member behavior that ultimately have an impact on productivity (Kotter & Heskett, 1992). Cameron and Quinn (1999, 2011) and Quinn and Cameron (1988) introduced a model of organizational culture that is known as The Competing Values Framework (CVF). CVF covers 4 quadrants with two main dimension approaches oriented to organizational effectiveness, namely; horizontal and vertical. Horizontal axis has two indicators; (1) flexibility, discretion, dynamism, and (2) stability and control. Vertical axis also has two indicators; (1) internal focus and integration, and (2) external focus and differentiation. The four types of culture formed from these two-dimensional interactions are; clan culture, hierarchy culture, adhocracy and market.

This research emphasizes on two cultural typologies, namely; Hierarchy Vs Adhocracy. If an organization adheres to hierarchy organizational culture, it means that the organization follows formal and structured rules. Efficiency is much emphasized and leaders encourage their employees to follow the business processes regularly and correctly. Stability, efficiency, and effectiveness of production are strictly guarded according to the prevailing rules so that they are more oriented to the certainty, security, and convenience of operations. More clearly, hierarchy organizational culture is characterized as; leading rational analysis, leading information clarity, leading high reliability, leading processes and leading through measurement (Cameron & Quinn, 2011; Quinn & Cameron 1988; Chen, Huang, Liu, Min & Zhou, 2018).

In contrast, if an organization adheres to the adhocracy organizational culture, it means that the organization is very dynamic, has an entrepreneurial orientation, innovative, and creative. The people who work in it are people who dare to face the big risk of trying and doing new things. This is because they are driven by entrepreneurs-oriented leaders who are also ready to take high risks. Each member of the organization has the same strategic orientation to try new things, new methods, and new innovative management practice. They are committed to be at the forefront of producing unique and high-value new products. This is because organizational members are given the freedom to work and express themselves, especially if they can create new creative ideas. More clearly, adhocracy organizational culture is characterized as; leading innovation and entrepreneurship, leading the future, leading improvement and change, leading creativity, and leading flexibility and agility (Quinn & Cameron 1988; Chen et al., 2018). Both of these organizational culture typologies have opposite continuum, so the researchers chose two of these typologies, namely: hierarchy and adhocracy.

Some research results prove that organizational culture has a relationship with organizational strategy and has a significant positive impact on organizational performance (Vestal, Fralix & Spreier, 1997; Zwaan, 2006; Muafi, 2008; Chen et al., 2018). Organizational performance is one of the factors that can stimulate or provoke innovative behavior among the employees in an organization (Martins & Terblanche, 2003). The type of adhocracy culture supports the creation of new products or services innovation, and in the contrary, hierarchy culture can hinder product innovation due to the existence of standard, structured, and rigid systems (Valencia, Valle & Jimenez, 2010). The research result from Valencia et al. (2010) also proved that organizations that adhere to the adhocracy's

organizational culture have a positive and significant influence on innovation orientation. On the other hand, organizations that embrace hierarchy organizational culture have a positive and significant effect on imitation orientation. It is strengthened by the research finding from Muafi (2009) and Priyono (2004) that when companies have Apollo's organizational cultural alignment with a defender strategy, then the organizational performance of the company will increase. Instead, organizational performance will increase when there is a match between Athena organizational culture and Prospector strategy. Apollo culture has an identical characteristic to Hierarchy organizational culture, and vice versa, the Athena culture has a characteristic that is identical to Adhocracy organizational culture. In fact, the research findings from Xu and Qianqian (2015) proved that hierarchy culture can improve imitation strategy, whereas the adhocracy culture is able to improve innovation strategy.

Actually, no one can blame if the company chooses imitation strategy. Imitation is not something bad if run by a company. It is proved by some companies that do imitation but it actually works and become more superior compared to other companies that introduce their innovation in the community early on (Schnaars, 1994). Even so, pioneer still has advantages and can compete with their followers from any aspects so that it has more sustainability in the long run (Robinson, 1988; Schnaars, 1994).

H1. The higher the alignment degree between imitation strategy and hierarchy culture, the higher the organizational performance will be

H2. The higher the alignment degree between innovation strategy and adhocracy culture, the higher the organizational performance will be

4. Isomorphism and Organizational Strategy

Isomorphism is a concept that defines a condition of organization that is faced to the same condition (DiMaggio & Powell, 1983; Akbar, 2012; Gudono, 2009; Katopol, 2016). Isomorphism is "a constraining processes that forces one unit in a population to resemble other units that face the same set of environmental conditions". More specifically, isomorphism process will encourage one group/unit to imitate another group/unit because it is faced with the same situation and condition. Isomorphism is divided into two types: competitive isomorphism, which is closely related to inter-group competition, and institutional isomorphism, which related to the competition to gain institutional legitimacy. This happens because organizations are not just competing for resources or consumers, but also to gain institutional or political legitimacy (Gudono, 2009).

According to Akbar (2012), Gudono (2009) and Katopol (2016) there are three types of isomorphism, namely:

- (1) *Coercive isomorphism*, which exist because of the influence of the pressure of political force of organization to gain legitimacy. Coercion that arise is not always formal and coercion that done by the organization can cause the organization to be truly obedient or even pseudo-obedient (just a ritual) so that there is an impression that the organization is obedient (Gudono, 2009).
- (2) *Mimetic isomorphism*, the organization reacts to the environmental uncertainty it faces due to imitation. This can be done by imitating the learning process of other companies, doing 'benchmarking' (Lawrence, 1999) or by using consultant services. It is done by not merely oriented to technical efficiency but emphasizes on aspects of ideology (Gudono, 2009; 2017).
- (3) *Normative isomorphism*, which exists because of the homogenization of organizations through educational process and professional organization associations (Akbar, 2012), coercion to be the same arises from the members of the profession. When companies pay attention to isomorphism aspect, in the future they will be able to gain competitive advantage (Jang, Lee & Nelson, 2014). Theodoro (2014) in his research found that normative isomorphism will have a significant impact in the professionalism of executive managers to design and implement policies.

The research result from De Simone (2017) and Ashworth, Boyne and Delbridge (2009) proved that isomorphism pressure has an impact on the choice of business model that will be chosen and implemented by companies. Companies must find a way to increase their profit by increasing the ability of services and systems they owned. Company size and cultural orientation become significant factor with imitation behavior. In the contrary, normative

isomorphism pressure, firm ownership, and manager awareness are not related to imitation behavior. This result is strengthened by Yang and Hyland (2012) who stated that understanding mimetic isomorphism is not only by examining the relationship between imitation and isomorphism, but also integrating the role of corporate experience and the degree to which local market competitors influence the imitation and isomorphism as a whole. In order to successfully run the mimetic isomorphism, it should be supported by resources, skills, personal, and administrative support (Katopol, 2016). It is also added by Masocha and Fatoki (2018) that ‘traits’-based imitation is considered to imitate the company that has the desired feature, while ‘outcome’-based imitation is considered to imitate the company that describes the desired outcome. Therefore, several studies have focused mostly on frequency-based imitation and traits. These findings also reinforce the findings of DiMaggio and Powell (1983) that mimetic isomorphism will direct the organization to have imitation behavior. In facing isomorphism pressure, manager can behave actively and passively. Active managers are the managers who have great curiosity in the external environment, are faced with a complex environment, and must be open-minded. In contrast, passive managers assume that they operate in a stable environment, think that passive scanning may be sufficient, and only wait to receive signals from outside (Day & Schoemaker, 2006). Hitt, Bierman, Shimizu and Kochhar (2001) stated that in organizations that compete strategically, people will look for patterns that can help them understand their external environment. Knowledge of the company’s environment will help and improve the company’s competitive position, increase operational efficiency, and win battles in the global era. Beal (2000), Barney and Wright (1998) and Day and Schoemaker (2006) stated that companies that do not mobilize and empower its managers and employees to recognize, monitor, predict, and evaluate external key strength may fail to anticipate the emergence of opportunities and threats of their companies. As a consequence, companies cannot implement effective strategies, lose opportunities, and are feared to lead to organizational death. Covin and Slevin (1989) and Robertson and Chetty (2000) proved that organizations that are faced with the pressure of a hostile isomorphism pressure will choose entrepreneurial strategy (progressive, proactive, and extensive product innovation). Whereas, companies that are faced with a benign isomorphism pressure will choose conservative strategy, that is expected to be able to improve organizational performance. The pressure of hostile external environment has these characteristics, including: industrial settings are very risky, have very tight competition, the business climate is volatile and difficult to predict, and does not have business opportunities that can be exploited. On the contrary, benign environment has the characteristics as follows: easily controlled, safe, munificent, and easily manipulated (Covin & Slevin, 1989; Robertson & Chetty, 2000).

H3. The higher the alignment degree between imitation strategy and benign isomorphism, the higher the organizational performance will be

H4. The higher the alignment degree between innovation strategy and hostile isomorphism, the higher the organizational performance will be

5. Organization Strategy (Imitation vs Innovation)

Strategy is a way to achieve goals, objectives, and policies. The most crucial and strategic issue that currently dominates business practice is innovation strategy (Hauser, Tellis & Griffin, 2005) and imitation (Schnaars, 1994; Valencia et al., 2011). These two typology strategies have their own advantages and disadvantages (Valencia et al., 2011).

Company strategy and innovation strategy can help companies to reduce the level of uncertainty through the innovation process (Gupta & Wileman, 1990) reduce managers to be able to allocate limited resources, and can help to prevent competitors to enter the market that has been obtained by the company (Zahra & Das, 1993; Bloodgood, 2013; Barnett & Hansen, 1996; Tempel, 2017). Meanwhile, imitation strategy can provide benefits including; low research and development spending, avoiding products that are not potential, can sell at lower prices, lower market education, and avoid product failure (Schnaars, 1994; Dhewanto, Indradewa, Ulfah, Rahmawati, Yoshanti & Zendry, 2015). In war strategy, the second concept of this typology becomes a separate reason for the company to use it (Ries & Trout, 1986; Hasnin, 2011). Hasnin (2011) explained that there are 4 warfare marketing strategies, namely: (1) defensive, if the company is the market leader who controls most markets; (2) offensive, if the company is the second market leader who controls most markets after the market leader; (3) flanking, if the

company is the third largest company that controls the market; and (4) guerilla, if the company holds the smallest part compared to other companies. Hasnin (2011) distinguished companies that innovate and imitate with two approaches as shown in Table 1.

	Innovator	Imitator
Pioneer	The first company to enter the market with innovative products	Company that competes to enter the market first by imitating the same product that produced by the innovator.
Late entrant	Innovator companies compete to enter the market first with other innovator companies. The product innovation is different, but it has the same product function.	Imitator companies will enter the market by following

Table 1. Imitation and Market Entry Process

In the pioneer line, companies can enter the market with two ways: innovator and imitator. Then, in the late entrant line, companies become the second to enter the market after the pioneer company started, either as innovator or imitator. The study from Lieberman and Asaba (2006) noted that in the competition process, it is said that superior products, managerial systems, and managerial processes are widely recognized as a fundamental part that can be used to attack competitors. This is a usual thing to do by companies, besides mimicking superior products and managerial systems and process. This is conducted when companies imitate to minimize costs (Katz & Shapiro, 1985). Each typology claims that the chosen strategy will be able to increase company performance. The research findings abroad (Tuan, Nhan, Giang & Ngoc, 2016; Kalay & Lynn, 2014; Vázquez, Santos & Álvarez, 2001) and in Indonesia found that innovation strategy is believed by some researchers to be able to increase company performance (Murni, 2000; Prakosa, 2005; Raharso, 2009). On the other side, some research findings also found that as an organizational strategy, imitation strategy is also capable to increase company performance (Assavapisitkul & Bukkavesa, 2009; Schnaars, 1994). Companies can gain profit from making creative imitation (capacity to absorb existed knowledge and produce new knowledge) which can be useful as a unique ability owned by the company (Assavapisitkul & Bukkavesa, 2009; Gary & Larsen, 2019). The research findings from Lee and Zhou (2012) individually also stated that creative imitation has stronger positive effect on financial performance (i.e. slow asset returns) than pure imitation. Furthermore, if it is combined between pure and creative imitation with strong marketing capabilities, it can positively affect market performance, especially market share.

This research focuses on organizational performance that is measured operational performance and environmental performance by using perceptual measure. The importance of environment performance is for the companies to product efficiently because it can reduce costs caused by environmental damage, improve productivity according to the safety standard, and opportunity to get new market (Porter & Van Der Linde, 1995). Organizational performance plays a key role in strategic researches (Beal, 2000; Muafi, 2008). This is because it bases on the reason that in general MSMEs are faced with several obstacles: incomplete recording of financial reports, rare audit in family companies, unsupportive information technology, limited human resources, and tends to rely more on perception (Muafi, 2009).

6. The Moderating Role of Human Capital

In improving organizational performance, it turns out that Human Capital also plays a strategic and important role in the relationship between organizational strategy and organizational performance. MSMEs nowadays are required to have superior performance in a long-term. This performance can be driven not only by physical asset, but also human capital asset. Today, in the 21st century, the awareness of organization of human resources as an asset has been so high. The assessment of organizational performance should be more emphasized to non-physical asset (Intangible asset) (Mayo, 2000). Mayo (2000) also added that Human Capital can be measured by including; individual capability, individual motivation, leadership, organizational climate, and workgroup effectiveness. Each indicator of human capital has different contribution which will later be able to make valuable contributions to the

organization. The role of HR has shifted from administrative to strategic roles (Jac Fitz-enz, 2009; Schuler & Jackson, 1987). Organizations are increasingly aware that human resources are not just investments, so they cannot rely solely on sophisticated services, produce good product design, and sophisticated marketing strategies and technology. All of these must be supported by the right work system, motivation, and human resource management that are right on target (Jac Fitz-enz, 2009). The research result from Hitt et al. (2001) proved that there is a moderation role of human capital in the relationship of strategy and company performance by using resources strategy contingency alignment approach. Hitt et al. (2001) emphasized on human capital measurement from two indicators; education quality and experience as partner in local firm. Unique and valuable human capital is a strategic asset of the company (Barney & Wright, 1998; Carmeli, 2004). Human capital is the most important part of the achievement of organizational performance (Bontis, 1998; 1999; Bontis, Keow & Richardson, 2000; Bontis & JacFitz-enz, 2002; Alpkhan, Bulut, Gunday, Ulusoy & Kilic, 2010). In the context of Chinese MSMEs, Liu, Liang, Zhang and Zhang (2010) found the result that human capital moderates the effect of differentiation strategy on company performance. However, the effect of low-cost strategy on company performance is not significant. This result contributes that human capital plays an important role in the implementation of company strategy (Hayton, 2003). The moderating role of human capital in analysing the alignment between organizational strategy with the contingency variable toward the improvement of organizational performance has been studied by researchers. The research result from Hitt et al. (2001) proved that there is a moderating role of human capital in the relationship between strategy and company performance by using the resource strategy contingency alignment approach. Hitt et al. (2001) emphasized that human capital is measured by two indicators, namely: the quality of education and experience as a partner in local firm.

In the context of SMEs in China, Liu et al. (2010) found that human capital moderates the effect of differentiation strategy toward company performance. But, the effect of low-cost strategy in company performance is not significant. This result contributes that human capital plays an important role in the strategic implementation of the company (Hayton, 2003). Gates and Langevin (2010) suggested that the more advance companies are, the more they should continue to strive to develop the indicators of human capital measurement. The findings also even strengthened other research findings that HR managers will prefer differentiation strategies when they use innovation indicators in human capital development. Conversely, when companies choose cost reduction strategy, they should choose efficiency in human capital development in the company. Crook, Todd, Combs and Woehr (2011) have conducted a meta-analysis study by looking at the superior role of human capital in increasing organizational performance. From 66 research results, it was found that there are 3 moderating roles of human capital in strengthening the relationship toward company performance. These results are strengthened by other finding in industrial companies in Turkey from Ozer and Cam (2017) who concluded that human capital can strengthen the relationship between innovation capitals toward market value of the company. It is suggested that managers should consider the interaction between human capital and innovation capital because it will have a major impact on increasing the market value of the company in the long run. Therefore, unique and valuable human capital is a strategic asset of the company (Barney & Wright, 1998). Human capital is the most important part in achieving organizational performance (Bontis, 1998; 1999; Bontis et al., 2000; Bontis & Fitz-enz, 2002; Alpkhan et al., 2010).

H5. Human Capital can moderate by strengthening the alignment of the relationship between imitation strategy and hierarchy organizational culture toward organizational performance.

H6. Human Capital can moderate by strengthening the alignment of the relationship between innovation strategy and adhocracy organizational culture toward organizational performance.

H7. Human Capital can moderate by strengthening the alignment of the relationship between imitation strategy and benign isomorphism toward organizational performance.

H8. Human Capital can moderate by strengthening the alignment of the relationship between innovation strategy and hostile isomorphism toward organizational performance.

7. Research Method

This population of this research is all Batik MSMEs in Pekalongan. The population criteria that are taken are: Batik MSMEs with assets of 50 million to 2.5 billion and have annual sales of 300 million to 50 billion. To determine the sample size, the researchers used sample of the majority of Batik MSMEs that spread in 18 villages. The technique that is used is proportional area random sampling by taking the sample proportionally of 17 MSMEs in each village.

In the next stage, researcher chooses purposively with characteristics namely; Batik MSMEs that have entered this category have been established and operating for at least 5 years. The response rate in this research is 68 percent, because the number of respondents who return the questionnaire is 170 respondents. The scale technique of the variable uses bipolar semantic differential scale ranging from scale 7 (very strongly appropriate) to scale 1 (very strongly inappropriate). This research considers two contingency that plays an important role, namely; organizational culture (OC) (hierarchy and adhocracy) and isomorphism (Isom) (benign Vs hostile). These two variables are variables that have typologies that conflict with each other and have conflicting adjectives. For organizational strategy, the variables used are innovation strategy (INOV) and imitation strategy (IMIT). For measuring organizational performance, this research uses MSMEs performance (Perform) both business and environmental aspects, and then it is compared to the competitors, using Likert scale (1/very low to 7/very high).

Recommendations from Miller (1987) suggested that company performance can be measured using self-reports of the managers or company leaders and it can be done by comparing the performance of the same industry average or the same competitor. This was also done by Govindarjan (1988) and Priyono (2004). It is intended so that companies can be more objective in measuring their performance in addition to managers/company leaders must be involved in decision making and require relevant and definite information related to similar companies.

Organizational performance indicator is associated with non-financial measure. While the environmental performance indicator is how far MSMEs can produce efficiently without damaging the environment, increase productivity is referring to environmental safety standards, and opportunity to get new market without polluting the environment when operating. In order to support the research result to be able to represent higher quality result, this research is also supported by interview with some of the managers and owners of the MSMEs. The statistic technique is using euclidience distance regression. Furthermore, it is tested with moderation regression. The reason for using euclidience distance regression is because: (1) this research uses a simple regression model in which the measured data does not use time series data; (2) this research uses a perceptual approach where respondents are only used to explain phenomena (not predict behavior) so it is recommended that there is no need to carry out classical assumption tests; and (3) euclidience distance (ED) scores or deviations from two independent variables is used to see the level of alignment between variables that is studied. The greater the ED scores, the smaller the alignment between variables, so that it will affect organizational performance (Priyono, 2004; Riyanto, 1999; Muafi, 2009; Muafi, 2008). The result of validity and reliability tests show that all items and variables are valid and reliable.

The questionnaire for organizational culture uses the indicator that organizational culture refers to 5 indicators, which are; dominant characteristic, employee management, strong relationship in the organization, emphasis on strategies, and success criteria (Valencia et al., 2011). Isomorphism is measured by considering 5 items (market pressure, government regulations, public pressure, politic and security, pressures of the media) where respondents are asked to give a degree of isomorphism pressure in a very hostile condition to very safe (benign) condition. Isomorphism typology refers to Robertson and Chetty (2011) and Covin and Slevin (1991). All of the environmental indicators are then identified by asking respondents to choose answers that are adapted to the characteristics of hostile and benign environment. Threatening environment belongs to hostile environment and safe environment belongs to benign environment. For the organizational strategy variable, respondents were asked to show the degree of pressure of imitation strategy to innovation strategy. The questionnaire is sourced and developed from Schnaars (1994) and Perez-Luño, Cabrera and Wiklund (2007). Human Capital measure refers to 3 indicators; education, work experience, and competence (Hayton, 2003; Carmeli, 2004).

For the organizational performance (operational and environmental performance) variable, respondents were asked to choose their answers from 7 choice alternatives: 1 is Very Low (VL); 2 is Low (L); 3 is Rather Low (RL); 4 is

Neutral (N); 5 is Rather High (RG); 6 is High (H); and 7 is Very High (VH). The questionnaire is sourced from Muafi (2009), Muafi (2017), Robertson and Chetty (2011) and Porter and Van Der Linde (1995). This research divides organizational strategy into two, namely; imitation and innovation. Organizational strategy is divided based on the result of actual score average of organizational strategy. If the score result is ≥ 3.5 , then it belongs to innovation strategy group, and vice versa. The indicators of organizational strategy are: opportunity to enter new market, resource exploitation, monitor the production process and sales of the competitor, be the lead in product variety and design, and product sales at competitive price. The researched variables, operational definitions, indicators, measurement scales, and reference sources can be seen more clearly in Table 2.

No.	Variable and references	Description	Indicator/Sources	Measurement Scales	
1.	Organizational Culture (Valencia, Valle & Jiménez, 2010).	Values, beliefs, and norms inherent in the organization that are believed to be true and have been passed down from one generation to the next one.	Orientation Leader Type Value Drivers Theory of Effectiveness	Hierarchy Score 1. CONTROLLING Coordination Monitor Organizer Efficiency Timeliness Consistency and uniformity Control and efficiency with capabel procesess produce effectiveness	Adhocracy Score 7. CREATIVE Innovator Entrepreneur Visionary Innovative outputs Transformation Agility Innovativeness, vision, and new resource produce effectiveness
2.	Isomorphism (Jac Fitz-enz, 2009; Muafi, 2009; Covin & Slevin,, 1991)	External environment pressure that exists outside the company	Market pressure, Government regulation, Public pressure, Politics and safety, Mass media pressure	Benign (Score 1) Unpressure	Hostile (Score 7) Pressure
3.	Organizational Strategy (Schnaars, 1994; Pérez-Luño et al., 2007; Naranjo-Valencia, Jiménez-Jiménez & Sanz-Valle, 2011).	Strategy that is agreed upon to be implemented in the organization, including the choice of imitation and innovation strategy	Opportunity to enter new market Resource exploitation Monitor the production process and sales of the competitor Be the lead in product variety and design Product sales at competitive price.	Imitation Unpressure	Innovation Pressure
4.	Human Capital (Hayton, 2003; Carmeli, 2004).	Knowledge, skills, and ability of a person that can be used to produce products and services	Knowledge Skills Ability	Scale 1 Very Strongly Unimportant	Scale 7 Very Strongly Important
5.	Organizational Performance (Muafi, 2009; 2017; Robertson & Chetty, 2000; Porter & van der Linde, 1995).	The performance achieved by the organization is compared to the performance of competitors over the past 5 years (operational performance and	Efficiency without damaging the environment Work quality by referring to environmental safety standards, Organization capability Work adaptation	Scale 1 Very low below the average competitor	Scale 7 Very high above the average competitor

No.	Variable and references	Description	Indicator/Sources	Measurement Scales	
		environmental performance)	wihout polluting the environment when operating Service quality		

Table 2. Variable, Description, Indicator, and Measurement Scale

Hypothesis test through simple linier regression by using the measurement with euclidence distance of the misfit score between independent variable of organizational strategy (imitation strategy_innovation strategy) with the variables of each contingency. The equation used to test the hypothesis 1 to 4 is:

$$Y = B_0 + B_1 \text{Dist X1X2} + e \tag{1}$$

$$Y = B_0 + B_1 \text{Dist X1X3} + e \tag{2}$$

Y = Organizational Performance as dependent variable

B₀ = constanta

B₁ = regression coefficient

Dist X1X2 = euclidence distance of organizational strategy_organizational culture (X2)

Dist X1X3 = euclidence distance of organizational strategy_isomorphism (X3)

The equation used to test the hypothesis 5 to 7 is:

$$Y = B_0 + B_1 \text{Dist X1X2.Z} + e \tag{3}$$

$$Y = B_0 + B_1 \text{Dist X1X3.Z} + e \tag{4}$$

Y = Organizational Performance as dependent variable

B₀ = constanta

B₁ = regression coefficient

Dist X1X2.Z = euclidence distance of organizational strategy_organizational culture (X2) with the moderation of Z (human capital)

Dist X1X3.Z = euclidence distance of organizational strategy_isomorphism (X3) with the moderation of Z (human capital)

The procedure that is used to calculate the euclidence distance score between variable and tested its effect on performance is done in a few steps:

1. Group samples into two typologies with their strategies: imitation and innovation.
2. Determine the value of ideal alignment type between strategies with the contingency variable of organizational culture and isomorphism.

Calculate and sum the amount of deviation or misfit score or called euclidence distance (Dist), which is to calculate the difference of ideal score of each strategy group with environmental contingency variables, strategy postures, and HR training models. The formula that is used is as follows:

$$\text{Distance} = (X_{id} - X_{ac})^2$$

Where;

Distance = Euclidence Distance for the ideal type

X_{id} = ideal score of imitation or innovation strategy variable

X_{ac} = actual score of contingency variable

- Test the hypothesis through simple linear regression (contingency approach). Negative and significant regression coefficient are the number sought. The greater the euclidence distance score, the smaller the alignment between variables (the relationship distance between variables is getting closer) so that it will negatively affect the performance. In contrast, the smaller the euclidence distance score, the greater the alignment between variables, so that it will have a positive effect on performance.

8. Research Result

8.1. Respondent Characteristics

The respondents characteristics are grouped based on job positions, gender, age, years of MSMEs established, types of motifs, number of colors in one motifs, and waste management. The majority of the respondents are both owner and manager, men, the MSMEs have established for at least 3 years, the age is more than 40 years old, has motifs and colors more than 5 in one batik cloth, and does not have waste management.

8.2. Hypotheses testing

Table 3 explains the analysis result of euclidence distance regression with two strategy groups: imitation strategy (code 1) and innovation strategy (code 2). Each euclidian distance variable will be tested from the relationship with organizational performance. The statistic test result proves that hypotheses 1, 2, 3, and 4 is accepted because the significance level are less than 0,05.

The test result with moderation regression concluded that Human Capital can strengthen the alignment relationship of imitation strategy between hierarchy organizational culture and benign isomorphism with organizational performance. It means that it supported hypotheses 5 and 6. But, in the innovation strategy consensus, the findings turn out to be weakened, so that it rejected hypotheses 7 and 8. It can be seen from the calculation result of R^2 which decreases from the condition before moderation.

Regression equation model	N	R ²	Constanta	Coeffisients (beta)	t	sign
1. $Y = a + b1 \text{ dist Imit.OB} + e$	104	0.284	6.288	-0.284	-2.995	0.003*
2. $Y = a + b1 \text{ dist Imit.Isom} + e$	104	0.254	6.338	-0.254	-2.647	0.009*
3. $Y = a + b1 \text{ dist Imit.OBZ} + e$	104	0.404	6.090	-0.404	-3.532	0.001*
4. $Y = a + b1 \text{ dist Imit.IsomZ} + e$	104	0,485	6.303	-0.485	-4.440	0.000*
5. $Y = a + b1 \text{ dist Inov.OB} + e$	66	0.375	6.077	-0.375	-3.233	0,002*
6. $Y = a + b1 \text{ dist Inov.Isom} + e$	66	0.489	6.344	-0.489	-4.483	0.000*
7. $Y = a + b1 \text{ dist Inov.OBZ} + e$	66	0.287	6.236	-0.287	-3.022	0.003*
8. $Y = a + b1 \text{ dist Inov.OBZ} + e$	66	0.193	6.295	-0.193	-1.981	0.005*

Note= *sign <0.05

Table 3. The Summary of Regression Test Result

9. Discussion

The research result concluded that there is an alignment of imitation strategy with the contingency of hierarchy organizational culture and benign isomorphism. This means that hypothesis 1 and 2 are supported. Thus, the higher the alignment degree between imitation strategy and hierarchy culture, the higher the organizational performance will be. And also, the higher the alignment degree between innovation strategy and adhocracy culture, the higher the organizational performance will be. This research findings support some prior researches that organizational culture can increase organizational performance (Kotter & Heskett, 1992; Hofstede, 1981). When employees are able to internalize the culture that exists in the organization, it will be manifested in his positive work behavior and at the same time will have an impact on organizational performance. Organizational strategy and organizational culture have a relationship and both can have significant positive impact on organizational performance (Vestal, Fralicx & Spreier, 1997; Zwaan, 2006; Muafi, 2008). The strategy typology relationship from

Valencia et al. (2010), Schnaars (1994) and Lee and Zhou (2012) and organizational culture from Quinn and Cameron (1988) formed an ideal alignment in the typology of imitation-innovation and hierarchy-adhocracy. It means that if the organization tends to choose imitation strategy, then it is more concerned with efficiency, low cost of research and development, low market education, capable to avoid product failure, and mimic the process, method, or marketing of pioneer companies. This condition also needs support of hierarchy-type organizational culture with characteristics as follows: prioritizing coordination and monitoring, emphasizing on efficiency aspects with strict and timely control in order to be efficient and effective, and vice versa. Adhocracy culture will usually motivates employee to be creative and innovative, especially in creating new products and services, more flexible and not rigid, and always be the first (Martins & Terblanche, 2003; Valencia et al., 2010; Quinn & Cameron, 1988; Chen et al., 2018). This findings support the research result from Valencia et al. (2010) and Xu and Qianqian (2015). If Batik MSMEs in Pekalongan adhere to adhocracy organizational culture, it will have an impact on innovation strategy so that it will contribute significantly to improve organizational performance, and vice versa. This research is strengthened by interview result with 4 SMEs (respondent/R) owner in Pekalongan that produce batik printing that is faster and handmade batik that took longer production time.

“We usually see other SMEs in terms of selling their products. We tend to imitate and follow the marketing methods. There are certain classes in the products that we sell. If they sell the product cheaply, then we will do the same thing”. (R 1).

“Before we carry out the production process, we coordinated with the employees and families involved. If we can produce efficiently, why don't we do it? Because it will help us to sell cheap products and meet consumer demand for the lower middle class, although we also continue to produce batik at expensive prices... it usually needs innovation both from the aspects of color and patterns.” (R 3).

“We still need innovation to avoid boredom... because consumers demand that their batik patterns match the current fashion style and change”. (R 4).

“The competition demand that we face is very hard.... If we are lucky, even only a little, we will take it. This applies to our batik printing products, which are a lower-class market... even spreads of profit of IDR 10.000 will be taken. Therefore, we will try hard to find cheap and affordable raw materials.” (R 2)

The relationship of strategy typology from Valencia et al. (2010) and Schnaars (1994) and Lee and Zhou (2012) and isomorphism will form an ideal alignment in the typology of imitation-innovation and benign-hostile isomorphism. Therefore, if the organization tend to choose imitation strategy, it is more emphasizes on low market pressure, support from government regulation, low public and media pressure, and stable politic and safety, and vice versa. Batik MSMEs in Pekalongan tend to imitate strategy, production process, marketing, and other aspects as has been done by other MSMEs. This condition will increasingly have justification if the imitated MSMEs are success from the aspect of market control or sales. This also strengthens the statement and the research result from Gudono (2009) and Jang et al., (2014). However, they even discuss to design and implement policies together from the policy and business practice in field aspects. This strengthens the research findings from Theodoro (2014), De Simone (2017), Liu et al. (2010) and Yang and Hyland (2012) that similar business model will be applied together when companies are faced to the same isomorphism pressure. Even so, Batik MSMEs in Pekalongan still have to observe Batik market competitors from outside Pekalongan because it will disrupt their business stability. They are usually quite innovative and creative in terms of patterns, colors, models, and packaging sold to the market. Therefore, when the company chooses imitation strategy, it should emphasize on benign isomorphism type, and conversely, so that it can improve its performance. It should be noted that this research supports hypotheses 3, 4, 5 and 6 but does not support hypotheses 7 and 8.

Organizational performance will be increase if the condition of hierarchy culture, benign isomorphism, and imitation strategy are supported by the moderation role of human capital that can strengthen the relationship with organizational performance. It also strengthens the result from Katopol (2016) that human resources support is very important and strategic in strengthening the relationship of imitation strategy and contingency variable in improving organizational performance. Conversely, the owners/managers of Batik MSMEs in Pekalongan must be active and proactive in analyzing the condition of external environment that occurs outside the company which is usually difficult to control. Hierarchy organizational culture that is applied must support it so that the company can implement the imitation strategy well and right on target. It seems that the role of human capital in Batik MSMEs in

Pekalongan must be able to be more proactive and agile in dealing with problems, so that the company will be able to compete in both local and foreign market. Do not let failure occur in the future and lose the opportunity to success. The research result concluded that human capital is not able to strengthen the relationship between adhocracy culture, hostile isomorphism, and strategic innovation in the increase of organizational performance. This is reasonable, considering that in general they are more dominant to choose imitation strategy with limited resources and capital owned by each MSME. They still have not considered that it is important to have good human capital. This is also reasonable considering that the latest education of the average MSMEs owners/managers is high school, and they do not consider innovation important because it will take a very high cost.

Human Capital needs to improve its competence both from the aspects of knowledge, skills, and capabilities of employees/company owners. There are some ways that can be done, such as training and mentoring from the government, universities, or self-taught. One of their advantages is having a work ethic, perseverance, tenacity, and very high morale. It is one of the commitment to maintain Pekalongan into a city of batik, which is known not only in Indonesia, but also in the world. This actually makes the capital for Pekalongan to continue to grow and develop in the future while also keep maintaining existing cultural values. They also begun to realized that armed with science and technology, they will have a progress rapidly.

10. Implication

In determining organizational strategy, the owner/manager of MSMEs should be able to focus to pay attention about the alignment of the strategy with the contingency variable such as organizational culture and isomorphism in supporting the achievement of organizational performance to increase.

SMEs owner/managers should regularly attend related training and mentoring carried out by government and universities in managing Batik business, so that they can develop their talents by implementing organizational strategies and policies in achieving organizational goals.

Routinely, it should coordinate all management and staff about organizational strategies that should be implemented and not only imitate all activities starting from the input, process, and output produced.

Increasing the competency of human capital owned by SMEs has to be done, because the aspects of human capital have a very significant strategic role in strengthening organizational performance.

Hierarchy organizational culture and benign isomorphism should have alignment with imitation strategy to be able to increase organizational performance. In contrast, adhocracy organizational culture and hostile isomorphism should have alignment with innovation strategy, so that it can increase organizational performance. This research provides recommendations that companies should not only pay attention to the internal aspects of the organization (organizational culture, organizational structure, HR practices, and other internal variables), but also have to pay attention to the external aspects (isomorphism, market dynamics, politics, inflation, and other extraneous variables). It needs to be known that the owner/manager of MSMEs should be consistent with the strategy consensus that is existed in order to increase organizational performance, and even sustainable competitive advantage.

11. Research Limitation

The sampling technique of this research is done using purposive sampling, so it is feared that it cannot generalize to the existing population. The data collection also uses primary data with measurement approach based on the owner/manager perceptions, which sometimes still requires assistance and good understanding for the respondents. Moreover, the MSMEs performance variable is also used by comparing the company performance with the competing company performance in the last 5 years. Besides, this research uses quantitative approach, so that it is less able to explore the research variable deeply. The data also collected by cross section approach instead of longitudinal. In the future, it is also necessary to consider to use other contingency variables that can be considered in the model, namely variables that represent the internal aspects (such as leadership style, managerial role behavior, time orientation) and external aspects of the organization (environmental uncertainty). Likewise, it is also necessary to consider other aspects of organizational performance (social and religious performance) because Pekalongan is

known to have problems with waste disposal and its religious people. Some of these limitations could also become suggestions for future research by filling in the remaining research gaps.

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