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The Effect of Strategic Relationship on Business Value
Handry Sudiartha Athar*

Abstract
Strategic relationship plays important roles in enhancing business values that create mutual long-term relationship between companies and their customers. This study determined the effect of strategic relationships on business value of the dry tobacco leaf industry in West Nusa Tenggara, Indonesia. The study focused on strategic management perspective and was conducted using quantitative approach. The type of data used in this study is primary data and secondary data. Primary data was obtained directly from questionnaires completed by respondents. Secondary data is a source of research data obtained by searching and collecting material from companies, library books used as a reference for research support and other data needed in research not attempted directly by researchers. Data collection analyzed by using PLS-SEM. The results showed that strategic relationships have a positive and significant effect on business value, meaning that the better the application of strategic relationships, the better the business value of the dry tobacco leaf industry.

Keywords: strategic relationship, business, business value.

I. INTRODUCTION
Today’s plantation products are still a source of non-oil and gas exchange in Indonesia. The exported products are very diverse, ranging from standard types to products with different processing levels. Countries that are Indonesia’s main export destinations are the United States, countries in the European union, Japan and Singapore. The export of plantation agro-industrial products also goes to developing countries in Asia and Latin America (Darwis, 2004).

Tobacco as one of the plantation products plays an important role in the Indonesian national economy, namely as a source of income for tobacco growers, as a relatively high absorbency of the processing of cigarette factories and as a source of income for the country from customs and exports (Rachmat & Aldillah, 2016). However, the main problem of this product is the unstable tobacco price.

Tobacco plants grown in Indonesia include different types of tobacco. From the marketing point of view, they can be divided into two groups: tobacco for domestic consumption and tobacco consumption for abroad. Types of tobacco for export are: tobacco for cigars (Deli besuki & Vorestenlanden), Lumajang pipe tobacco, Boyolali as tobacco. The varieties of household tobacco include Virginia tobacco (Nur & Salim, 2014).

Virginia tobacco is an important commodity in the Indonesian economy, as it provides the state with income from tobacco taxes averaging 43 trillion per year. In the country, Virginia tobacco production reached 59,385 tons per year, with total imports of 20,317 tons per year (Hanadyo et al., 2013). Especially in the Lombok region of West Nusa Tenggara, Virginia tobacco production is 64% of the national production and is the third best international quality after Brazil and America (Nur & Salim, 2014). Therefore, Virginia tobacco is one of the leading raw materials because it can absorb employment in cultivation, production and transportation (Wardhono et al., 2019).

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Related to the development of Virginia tobacco in West Nusa Tenggara, it can be seen that there is a fluctuation in the production amount of Virginia tobacco. The fluctuations in reality are caused by the instability of farmers producing wet tobacco leaves, this is because the company does not produce its own wet leaf, but rather cooperates with farmers to produce wet leaf that the wet leaves are sold to the company.

The reality of the problem is the amount of farmers’ production of wet tobacco leaves and occurs in companies, especially with regard to the strategic relationship of companies that process wet tobacco leaves into dried tobacco leaves. Strategic relationship refers to all marketing activities that aim to form, develop and maintain successful relationships between the company and its customers (Madhavaram et al., 2014). Strategic collaboration as a joint project (collaborative projects) carried out by companies in the same industry (Brown et al., 2020). Strategic cooperation which is a strategy of the dry tobacco leaf industry to cooperate with other parties to develop the company (cooperation). Association with other dry tobacco leaf industries also means sharing the risk.

In reality, the strategic collaboration of the company Virginia tobacco is not yet effective. Clearly, strategic cooperation does not necessarily increase Virginia tobacco production. In addition, there are still difficulties in integrating activities between buyers and suppliers in the dry tobacco leaf industry, resulting in conflicts between buyers and suppliers in the dry tobacco leaf industry caused by the parties not sharing clear resources and responsibilities. Therefore, there should be a distribution of resources and responsibilities between suppliers and customers.

In contrast to collaboration, relationship distribution is a long-term and professional collaboration that is built and developed between clients and distributors. So far, the distribution of dry tobacco leaf industry leads to a collaborative relationship called a win-loss outcome, in the form of a win-loss outcome relationship, only one party will make a big profit while the other party will make losses.

This condition is caused because usually, both parties are companies. In this case, the dry tobacco leaf industry with tobacco growers, so they are more interested in thinking about how to get the maximum profit for themselves than in figuring out how to get the benefits provided by both games can be shared. Thus, interactions between buyers and suppliers tend to lead to characteristics to create manipulation tactics designed so that one party gets it. This strategy's main purpose is to enable a company/group to achieve certain goals that cannot be achieved through its own efforts (Lie, 2015).

In the context of customer relationship management (CRM), a strategic relationship where an approach that views customers as the core of their business and the success of a business depends on how they effectively manage their relationships (Sharda et al., 2014). Customer relationship management is also defined as an integrated sales, marketing and service strategy that relies on coordinated action across the company (Lukitaningsih, 2012).

While in the dry tobacco leaf industry joint venture, there is an agreement between one or more companies to form a separate entity. Joint ventures are inseparable from the results of efforts to create new organizations. Environmental turbulence and rational risk to the business are more than a major skills-resource gap, although both can be pressured.

In the dry tobacco leaf industry, business value plays an important role in creating competitive advantage, so in order to create these benefits it is necessary to consider aspects of business value. This business value is related to the organization’s effectiveness, efficiency of the organization, economic production, business innovation, customer and supplier relationships, improvement of products and services,
interpersonal coordination, marketing support, and competitive dynamics (Shashi et al., 2019).

II. LITERATURE REVIEW

2.1. Strategic Relationship

Strategic relationship is a business strategy that emphasizes the long-term importance of good relationships with consumers and company’s environments. Strategic relationship is a relationship between marketers and buyers who work together to create mutually beneficial values and benefits (Kang & Na, 2020). Strategic relationship is a strategy that focuses on building relationships based on values and marketing networks (Madhavaram et al., 2014). Relationship is the effort of an organization to gain competitive advantage, it is even said that strategy is an important tool for gaining competitive advantage (Kaleka & Morgan, 2017). A strategic relationship is a strategy that focuses on building relationships with customers to gain competitive advantage to create mutually beneficial values and benefits between marketers and buyers.

According to Madhavaram et al. (2014), collaboration, relationship distribution, alliance, customer relationship management (CRM) and joint ventures are included in strategic relationships. Each strategy has similarities with each other. The difference lies in the form of cooperation, the pattern of cooperation and the proximity of each party to the cooperation.

Collaboration, namely, each member together provides his knowledge, experience and ability to contribute to a company’s program, for example product development (Widjajanti, 2015). Collaboration is a company or organization that provides resources and opportunities to meet customer needs (Simatupang & Sridharan, 2008). Strategic collaboration is thus a strategy that is implemented by entering into partnerships or strategic alliances with companies to achieve specific goals.

Relationship distribution is distribution between marketers and buyers who work together to create mutually beneficial values and benefits (Madhavaram et al., 2014). Relationship distribution is a company’s distribution plan that focuses on creating competitive advantage (Shashi et al., 2019). Relationship distribution is thus a distribution or distribution strategy carried out by building long-term cooperative relationships between marketers and buyers to gain competitive advantage.

Strategic Alliance is a form of collaboration between economic operators in different regions. Strategic Alliance is a strategy for sharing resources such as in joint ventures or without sharing resources such as marketing cooperation, distribution, licensing agreements, research and development partnerships (Wahyuni & Postma, 2003). Strategic alliance are two or more companies that work together to achieve a specific goal (Kang & Na, 2020). So, strategic alliance is a strategy that is implemented by forming collaboration between companies to achieve certain goals that cannot be achieved through own efforts.

Customer relationship management is a type of management that specifically discusses theories of how to deal with relationships between companies and their customers with the aim of increasing the value of the company in the eyes of its customers. Customer relationship management is an approach that views customers as the core of their business and the success of a business depends on how they effectively manage their relationships (Sharda et al., 2014). Thus, customer relationship management is a new approach in managing business and customer relationships at the corporate level to maximize communication and marketing by managing different customer contacts.
Strategic joint venture is a form of cooperation between foreign capital and domestic capital. The joint venture collaborates between foreign capital owners and national capital owners based on the agreement, so understanding is more inclined to international joint ventures (Kiyoun & Kim, 2013). Joint ventures are agreements between two or more companies to form a separate entity (Cravens & Piercy, 2009).

2.2. Business Value

Business value is the value in a business activity that can be given to customers. Modern companies today operate on the basis of process-oriented mechanisms (Dau, 2018). Business value is, therefore, the value or benefits of business activities that deliver benefits to customers. Businesses with a business value that offers benefits to customers can create a competitive advantage. Dimensions of customer value and organizational value are the dimensions that are considered most representative among other dimensions when measuring business value (Khan et al., 2013). Business value has three dimensions, namely operational excellence, customer intimacy, and product and service leadership (Saxton, 1997).

III. RESEARCH METHODOLOGY

This study takes an economic approach, particularly management science, with a focus on strategic management areas specifically related to relationship strategies in relation to business impacts. Furthermore, the characteristics to be tested in this research are strategic relationships in business value relationships.

This study was conducted on the dried tobacco leaf industry in West Nusa Tenggara. The tobacco industry partnered with farmers to form a partnership pattern in which both worked together to purchase tobacco from sowing, planting, harvesting to packaging, and shipping to cigarette factories. The variables examined are strategic relationships, including collaboration, distribution, relationship, alliance, customer relationship management (CRM), joint ventures, business value and business performance, and business value, including Operational Excellence, Customer intimacy, Product and service leadership.

Seen from its goal, this research is descriptive and verification, descriptive research that aims to understand the strategic relationship and business value. In comparison, verification research determines the relationship and influence of strategic relationships on the business value. Given this type of research, descriptive and verification has been performed by data collection in the field. Therefore, the type of research (research type) in this study is the type of causality. The unit of analysis in this study is the dry tobacco leaf industry in West Nusa Tenggara. Observations using time horizon are cross-section/single shot, which means that the information or data obtained is the result of research performed at a specific time.

Since the aim of this study is to measure the level of influence of strategic relationships on business value, the approach in modeling and solution techniques used partial least square (PLS) software. The reason for choosing this method is to measure constructs indirectly through indicators and to analyze indicator variables, latent variables, and measurement errors. Via PLS it is possible to analyze how the relationship between indicator variables with their latent variables known as measurement equations, the relationship between a latent variable and another latent variable known as structural equations, which together involve measurement errors. In PLS, the dependent variable is also called an endogenous variable, while the independent variable is also called an exogenous variable (Maruyama, 1998). This PLS analysis will clarify the relationship and magnitude of the influence between research variables, which in this case, is very useful.
to investigate further the various factors that may contribute to the increase in business value.

The type of data used in this study is primary data and secondary data. In this study, primary data was obtained directly from questionnaires completed by respondents/survey samples. In comparison, secondary data is a source of research data obtained by searching and collecting material from companies, library books used as a reference for research support and other data needed in research not attempted directly by researchers.

IV. RESULTS AND DISCUSSIONS

4.1. Partial Least Square Analysis Results (PLS)

Data processing techniques with an SEM approach based on partial least square (PLS) require two steps to assess the Fit Model in a research model. The stages are as follows:

4.1.1. Assess the outer model or measurement model

Data analysis techniques using SmartPLS have three criteria to assess the outer model, namely convergent validity, discriminant validity, and composite reliability. The convergent validity of the measurement model with reflexive indicators is assessed based on the correlation between item scores/component scores estimated with PLS software. Individual reflexive measures will be high if they correlate more than 0.70 with the measured construct. However, for the initial phase of the research, the development of a load scale measurement scale from 0.5 to 0.6 is considered sufficient (Ghozali, 2006).

4.1.2. Outer model or measurement model variable strategic relationship

The variable strategic relationship is explained by five dimensions, consisting of YSC to JV. The outer load test is designed to see the correlation between an item’s score or indicator with the construct score. Indicators are considered reliable if they have a correlation value of more than 0.7, but in the development phase, a correlation of 0.3-0.50 is still acceptable (Ghozali, 2006). The following figure is a summary of data processing using SmartPLS to see more clearly the data processing results in the appendix.

Figure 1
Outer Loadings (Measurement Model) Strategic Relationship Variable

![Figure 1](image)

Figure 1 shows the relationship between indicators with each construct, all these relationships meeting the requirements of convergent validity above 0.30. For more details, the outer load value, together with the t-statistical value of the indicators of the variable strategic relationship, can be seen in the following table:
### Table 1
Value of Outer Loadings (Measurement Model) Variable Strategic Relationship

<table>
<thead>
<tr>
<th>Variable: Strategic Relationship</th>
<th>Original Sample Estimate</th>
<th>Mean of Subsamples</th>
<th>Standard Deviation</th>
<th>t-Statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>CRM</td>
<td>0.928</td>
<td>0.928</td>
<td>0.024</td>
<td>38.569</td>
</tr>
<tr>
<td>JV</td>
<td>0.624</td>
<td>0.583</td>
<td>0.153</td>
<td>4.083</td>
</tr>
<tr>
<td>RD</td>
<td>0.928</td>
<td>0.931</td>
<td>0.023</td>
<td>40.683</td>
</tr>
<tr>
<td>SA</td>
<td>0.911</td>
<td>0.916</td>
<td>0.036</td>
<td>25.035</td>
</tr>
<tr>
<td>SC</td>
<td>0.831</td>
<td>0.829</td>
<td>0.051</td>
<td>16.432</td>
</tr>
</tbody>
</table>

Table 1 shows that each indicator’s t-statistic value is greater than the recommended value greater than 1,658. These results conclude that the strategic relationship variable meets the requirements of the suitability of the model of discriminant validity.

#### 4.1.3. Outer model or measurement model variable business value

The variable business value is explained by three dimensions, consisting of Y1 to Y3. The outer load test is designed to see the correlation between an item’s score or indicator with the construct score. Indicators are considered reliable if they have a correlation value of more than 0.7, but in the development phase a correlation of 0.3-0.50 is still acceptable (Ghozali, 2006). To see more clearly the data processing results in the appendix, the following figure is a summary of data processing using SmartPLS.

**Figure 2**
Outer Loadings (Measurement Model) Business Value Variables

![Diagram showing business value variables Y1, Y2, Y3 with loadings 0.561, 0.724, 0.753]

Figure 2 shows the relationship between indicators with each construct, all these relationships meeting the requirements of convergent validity above 0.30. For more details on the outer load value, along with the t-statistical values of the business value variable indicators, see Table 2.

### Table 2
Value of Outer Loadings (Measurement Model) Business Value Variable

<table>
<thead>
<tr>
<th>Variable: Business Value</th>
<th>Original Sample Estimate</th>
<th>Mean of Subsamples</th>
<th>Standard Deviation</th>
<th>t-Statistic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Y1</td>
<td>0.561</td>
<td>0.568</td>
<td>0.177</td>
<td>3.169</td>
</tr>
<tr>
<td>Y2</td>
<td>0.724</td>
<td>0.712</td>
<td>0.075</td>
<td>9.702</td>
</tr>
<tr>
<td>Y3</td>
<td>0.753</td>
<td>0.767</td>
<td>0.077</td>
<td>9.838</td>
</tr>
</tbody>
</table>

Table 2 shows that each indicator’s t-statistic value is greater than the recommended value, which is greater than 1,658. These results can be concluded that the business value meets the requirements of the model’s adequacy or discriminant validity.

#### 4.1.4. Structural model testing (inner model)

Testing the inner and structural models is done to see the relationship between variables, significance values, and the R-squared of the research model. Structural models are evaluated with R-squared for the dependent variable, Stone-Geisser Q-squared test
for predictive relevance and t-test, as well as the significance of the coefficient of structural path parameters. The PLS assessment starts by looking at the R-square for each latent dependent variable. Changes in R-squared value can be used to assess the effect of certain independent latent variables on the dependent latent variable whether it has a substantive effect. Table 3 below is the result of R-squared estimation using SmartPLS.

**Table 3**

<table>
<thead>
<tr>
<th>Variable</th>
<th>R-squared</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic Relationship → Business Value</td>
<td>0.357</td>
</tr>
</tbody>
</table>

Table 3 shows the R-squared value of the strategic relationship variable of 0.357. The higher the R-squared value, the larger the independent variable can explain the dependent variable, so the better the structural equation. R-squared value of strategic relationship variable is 0.357, meaning 35.7% business value is explained by strategic relationship variable, other variables explain the rest.

**4.2. Effect of Strategic Relationship on Business Value**

The importance of the estimated parameters provides very useful information about the relationship between the research variables. The limit for rejecting and accepting the proposed hypothesis is ±1,658, where if the value of t is in the range of values of -1,658 and 1,658, the hypothesis is rejected or, in other words, accepts the null hypothesis (H₀). Table 4 provides an estimated output for testing structural models.

**Table 4**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Original Sample Estimate</th>
<th>Mean of Subsamples</th>
<th>Standard Deviation</th>
<th>t-Statistic</th>
<th>Hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategic R → Business V</td>
<td>0.802</td>
<td>0.835</td>
<td>0.044</td>
<td>18.087</td>
<td>Supported</td>
</tr>
</tbody>
</table>

Table 4 shows that the strategic relationship’s effect on positive business value is 0.802 with t-value (18.087 > 1.665). The limit for rejecting and accepting hypotheses submitted with a sample size of 33 at a 5% significance level (one tail) is ±1,658, where if the t-value is within the range of -1,658 and 1,658, the hypothesis becomes rejected or in other words, accepts the null hypothesis (H₀). The statistical estimation results can be seen in the results for inner weight table 4. The results of testing in this study can be seen in Figure 3.

**Figure 3**

Hypothesis Analysis Model
Based on Table 4 and Figure 1, it can be seen that the strategic relationship has an estimated value of 0.802 to the business value with a t-value greater than t-standard (18,087 > 1,658). Based on this, it can be concluded that strategic relationships positively and significantly affect the value in use. Strategic relationships are the efforts of organizations to gain competitive advantage, it is even said that strategy is an important tool to gain competitive advantage. Business value is the value that is part of a business activity given to customers. Modern companies now work on the basis of process-oriented mechanisms. This means that the company is already classified as good when implementing a relationship strategy, but a deeper evaluation of the results is needed to perfect the results achieved.

While the measurement of the strategic relationship variable is more dominated by the influence of CRM with a value of 0.643, and in the second series, the Relationship Distribution with a value of 0.536, the third strategic alliance is 0.525, the fourth is Collaborative Cooperation is 0.516, and joint venture is 0.377. CRM is an approach that believes that customers are at the core of their business, and the success of a business depends on how they effectively manage their relationships (Sharda et al., 2014). According to Brown (2000), CRM is not just a concept or project, but a business strategy that aims to understand, anticipate, and manage organizations and potential customers’ needs. With regard to strategic relationships, CRM is a concept of strategy to maintain a good relationship between the company and customers, this is a concept of strategy that exists in strategic relationships, resulting in a good relationship, customers are expected to be more loyal and will not switch to other companies.

One of the most important agricultural products for Indonesia is tobacco. Historically, the tobacco product has received much attention as a commodity (high-quality raw material) since the Dutch east Indies government. The Indonesian government has continued the tobacco plant policy through the state plantation company (PNP). During development, tobacco plants were grown quite extensively by small farmers, both in Java (Central Java, East Java) and outside Java (North Sumatra, South Sulawesi and West Nusa Tenggara).

Small farmers’ trade in tobacco products is mainly intended for export, usually as the first tobacco used as a raw material for cigars and shredded tobacco used as a raw material for cigarettes. Tobacco is generally subject to a fairly high excise duty, which is around 40 percent. This situation is very burdensome and disrupts national tobacco development, even if this commodity is a reasonable prospect, as well as an industry capable of large-scale labor uptake and producing foreign exchange through export activities.

As in other areas, this problem also arises in the tobacco products trade from West Nusa Tenggara, which is more famous for its Virginia tobacco. Virginia tobacco is an important commodity in the Indonesian economy as it generates state revenues from tobacco taxes with an average income of 43 trillion/year.

The phenomenon that occurs in the Virginia tobacco market in West Nusa Tenggara is that tobacco processing entrepreneurs, both regional entrepreneurs in West Nusa Tenggara and national entrepreneurs, compete with each other to get Virginia tobacco products in terms of both quantity and quality from farmers. In reality, competition is less controlled by central/regional government and related services. The lack of oversight is exacerbated by the lack of final regulation and also the lack of coordination that can unite both tobacco processors and Virginia tobacco growers in West Nusa Tenggara.
V. CONCLUSION AND IMPLICATION

5.1. Conclusion

Based on the results of research and discussion, it was concluded that strategic relationships positively and significantly affect the value in use. This means that the better the application of strategic relationships, the better the business value of the dry tobacco leaf industry in West Nusa Tenggara, Indonesia, but in the implementation of strategic relationships, not all aspects that are applied or implemented by the company, so that it has an impact on the sub-optimal results that are achieved.

5.2. Implication

The use of strategic relationships in the form of joint ventures, customer relationship management, strategic alliances, distribution relationships, and strategic collaboration with previously selected partnership patterns has not yet fully developed by tobacco companies. This is known from indications that many tobacco entrepreneurs deal directly with farmers, both farmers and members of partnership patterns and farmers outside members of the partnership pattern. In addition, the relationship strategy in the form of an alliance with a partnership pattern has not been shown to increase the business value of Virginia NTB tobacco, meaning it has not increased business performance to the most optimal level either.

While this study demonstrates the impact of strategic relationships on the dry tobacco leaf industry’s business value in West Nusa Tenggara, Indonesia, further research needs to be done with the same variables, but the instrument used are clearer. In addition, further research needs to be done with a larger number of samples so that the results are optimal.

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