

Effect of Industry Competition and Entrepreneurial Company to Implementation of Differentiation Strategy, SME Performance, and Poverty Alleviation

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Abstract

The purpose of this study was to determine the effect intensity of industry competition and entrepreneurial company to the implementation of differentiation strategy, SME (Small and Medium Enterprise) performance, and poverty alleviation. In this study examined five variables, namely intensity of industry competition, entrepreneurial company, implementation of differentiation strategy, and SME performance, and poverty alleviation. This study took place in the Gianyar regency with target population of the SME industry. Sampling was purposive sampling study. Based on Slovin's formula, the number of samples taken was as many as 100 SME that spread across districts in Gianyar regency. Respondents were managers. Statistical analysis was used to test hypothesis is Structural Equation Model (SEM). The results showed that the intensity of industry competition has positive and significant effect on the implementation of differentiation strategy, and the intensity of industry competition has positive and significant effect on the performance of SME. Entrepreneurial company has positive and not significant effect on the implementation of differentiation strategy, and entrepreneurial company also has positive and not significant effect on the performance of SME, as well as the implementation of differentiation strategy has positive and significant effect on the performance of SME. Furthermore, SME performance improvement can enhance poverty alleviation in the Gianyar regency. And for the future, SME in Gianyar regency should be intensified to implement strategy of differentiation and increase entrepreneurial company in order to improve the performance of SME and their implications for poverty alleviation in Gianyar regency.

Keywords

Intensity of industry competition, entrepreneurial company, implementation of differentiation strategy, SME performance and poverty alleviation

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Introduction

Improvement Indonesian Economy of small businesses role is very important. Even in the future, Small and Medium Enterprises (SME) are expected to be the backbone of the national economy. It is also revealed in the results of research from Tambunan (2011), which shows the results of an industry that SME play economic activity by 99.9% and 96.2% employ workers in Indonesia. Proof of the role of SME in improving the economy of a country in order to solve poverty are also shown in studies conducted by Dollar and Kraay (2002); Odd-Helge et al., (2006); Saravanan et al. (2008), Marlow (2009). Akinboade and Kinack (2012), and Yasa et al. (2013).

This phenomenon shows how strategic role of SME to improve the economy of a region. It also occurs in Bali and its regency, including in Gianyar which has the largest number of SME in Bali. SME have a strategic role, not only to improve the local economy but also helped the government for creating jobs, reducing unemployment, and reducing poverty. Therefore, SME should always be empowered, improved its performance in order to survive and thrive. One way that can be achieved is by implementing a suitable competitive strategy. Considering SME have limited resources, it is suitable to implement competitive strategy, and it is differentiation strategy. Differentiation strategy is the strategy adopted by the company to offer difference with competitors (Prajogo, 2007).

This strategy is suitable to be selected and implemented by SME because of some consideration. As for the consideration of SME to implement the strategy of differentiation is because SME have a high entrepreneurial spirit shown by the desire to innovate, proactive, and

take risks. In addition to having a high enough spirit of entrepreneurship (Lau et al., 2010). SME generally also face tight competition intensity. Phenomena such as that which causes the SME choose to implement competitive strategies (in this case the differentiation strategy) so that performance can be better, and the subsequent impact will certainly be able to reduce the level of poverty that exists (Santos, 2011; Ladzani and Seeletse, 2012). Poverty alleviation will be seen from employment, labor education level, income level of its workforce. In addition, this study also wants to know what kind of differentiation strategy needs to be developed in the future for SME.

Based on the background, this study has the objective to determine the influence of industry competition and entrepreneurial company to the differentiation strategy implementation and performance of SME.

Literature and Hypothesis

This study used the theory of Industrial Competition and Competitive Strategy theory (Porter, 1985). According to the theory of Industrial Competition (Porter), said that the intensity of an industry competition will be intense if the number of companies that come into play in the industry more and more. In that condition, the achievement of corporate performance is not a way that can be taken, but implementation the strategy of differentiation so that each company offers will be different. This can reduce the intensity of the competition tight (Porter, 1990).

The phenomenon of tight intensity in competition in the industry SME also revealed in studies from Metts (2007); Edelman et al. (2002); Santos (2011); and Ladzani and Seeletse (2012). Research from Metts (2007) showed that sharp

pressure of industrial competition has negative impact on the achievement of corporate performance. These negative effects are trying to be eliminated with the strategy-making activities by the leader to make the process of strategy development (environmental monitoring, adaptive decision making, and implementation of manufacturing strategy). Research results from Metts (2007) showed the results of the strategy-making activity has not been able to eliminate the negative influence of the pressure of industrial competition, but only decreases the negative influence. Furthermore, this study offers a solution by applying differentiation strategy which is already implemented by SME for several reasons, among others: (1) differentiation according to Prajogo (2007) has been regarded as one of the company's strategy in the process of creating value through unique product offerings in consumer's eyes; (2) can reduce the pressure of competition (Singh et al., 2009); (3) raise

the value of creativity and innovation; (4) differentiation strategy in this case is able to strengthen the competitiveness of companies by Bennett and Smith (2002). In addition, also incorporate entrepreneurship variable as a variable that drives differentiation strategy in accordance with the study from Ha-Brookshire (2009) which states that entrepreneurship company, influence on competitive strategy and achievement of the company's performance and ultimately to contribute to the alleviation of poverty. It is also appropriate with the results from Santos (2011); Ladzani and Seeletse (2012), which states that SME are able to participate in the alleviation of poverty as a form of its social responsibility (Elkington, 1997).

Based on the concept of framework that describes the structural relationship of each variable, so be prepared a conceptual framework (Figure 1).

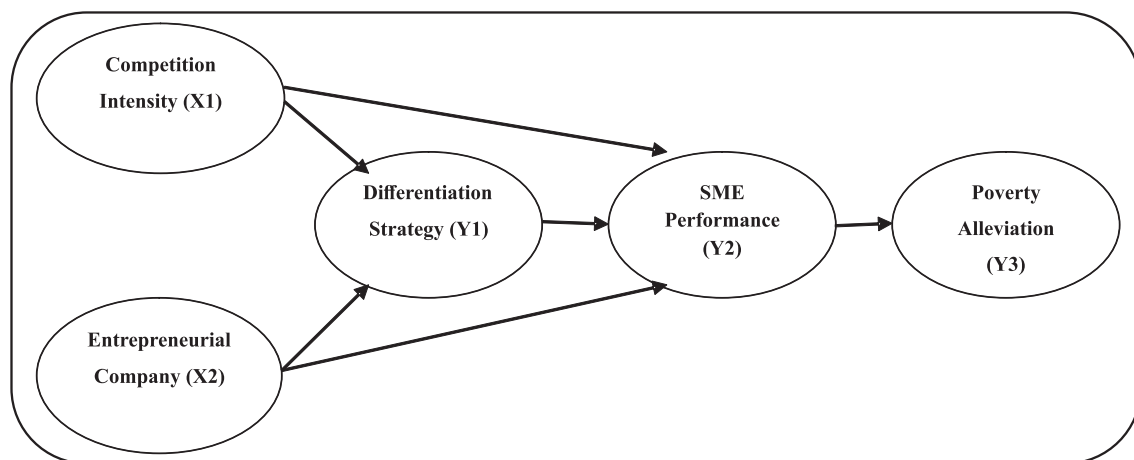


Figure 1. Conceptual Framework

Relations of variables in this study corresponds to model that has been developed are tested statistically so they can evaluate whether implementation of differentiation strategy is driven by competition intensity, and entrepreneurial company can improve the performance of

SME, and finally participate to alleviate poverty. The findings are expected to be able to identify a suitable form of differentiation so that can provide optimal results as sustainable performance improvement of SME in order to participate to alleviate poverty.

Research Hypothesis

This section describes a hypothetical model of testing the effect of the intensity of industry competition and entrepreneurial company on the performance through the implementation of differentiation strategy, which leads to poverty alleviation by identifying relationships into this hypothesis. The selection of these variables developed previous studies, namely Edelman et al. (2002), Metts (2007), Ojeda et al. (2007), Ha-Brookshire (2009), Wang and Chang (2009), Santos (2011); and Ladzani and Seeletse (2012).

- H1 : Intensity of industry competition has positive and significant effect on implementation of differentiation strategy.
- H2 : Intensity of industry competition has negative and significant effect on SME performance.
- H3 : Entrepreneurial company has positive and significant effect on implementation of differentiation strategy.
- H4 : Entrepreneurial company has positive and significant effect on SME performance.
- H5 : Implementation of differentiation strategy has positive and significant effect on SME performance.
- H6 : SME performance has positive and significant effect on poverty alleviation.

Methods

This study will be conducted on the entire region in Gianyar regency. Gianyar regency consists of seven districts, namely: district of Sukawati, Blahbatuh, Gianyar, Sukawati, Ubud, Payangan, and Tegalalang. The population was around the craft sector of SME in Gianyar. Each SME represented by one respondent who has a manager position or owner. The reason for choosing a manager because according to the theory of strategic management and the current reality, which is entitled to make a strategy or various forms of policy is the manager or owner.

The sample size of this study is 100 pieces of SME. Determination of sample size in this study was taking the approach of Slovin (5-10 x numbers of variable). The number of samples selected in proportion to the industrial SME in Gianyar regency, district of Sukawati, Blahbatuh, Gianyar, Sukawati, Ubud, Payangan, and Tegalalang. Thus, the sampling technique is selected by proportionate random sampling method. Steps to be taken are to classify the population by districts, then each district drawn proportionally. In this way, the entire samples are expected to represent SME in each area of work and in the end were able to represent the total population in Gianyar regency.

Variable indicator of variable intensity of industry competition, entrepreneurial SME, implementation of differentiation strategy, and performance of SME, and the alleviation of poverty is measured by perception from managers of SME by using a five-level Likert scale, from strongly disagree = 1, disagree = 2, quite agree = 3, disagree = 4, and strongly agree = 5, and analysis techniques used are Structural Equation Modeling (Hair et al., 1995).

Results and Discussion

Characteristics of Respondents

Table 1. Composition of Some Characteristic Respondents (Manager SME) in Gianyar, Bali

Characteristic Items	Frequency (Person)	Percentage (%)
Age		
≤ 30	10	10,00
31 – 40	50	50,00
41 – 50	35	35,00
> 50	5	5,00
Total	100	100,00
Gender		
Male	75	75,00
Female	25	25,00
Total	100	100,00
Education Level		
Elementary School	10	10,00
Junior High School	10	10,00
Senior High School	55	55,00
Diploma	15	15,00
Scholar	10	10,00
Total	100	100,00
Marital Status		
Married	95	95,00
Not Married	5	5,00
Total	100	100,00
Family Responsibility		
0 – 1	15	15,00
2 – 3	80	80,00
≥ 4	5	5,00
Total	100	100,00

Source: Primary data, processed (2013)

Age may indicate length of employment, experience, productivity, and maturity of respondents' thought. Age of managers of SME in Gianyar varies among the youngest age range from 25 years old to

the oldest age 67 years old. The age range of the respondents can be seen in Table 1.

Based on Table 1 it can be seen that the managers of SME in Gianyar aged up to

30 years old as much as 5.63 percent, 31 year old to 40 years old as much as 36.87 percent, aged 41 years old to 50 years old as much as 40.00 percent, and aged over 50 years old as much as 17.50 percent. From existing distribution, the dominant is aged range 31 years old to 50 years old, as many as 76.87 percent. Aged 31 years old up to 50 years old is the age range of the strong work and suitable for taking office manager because it requires a strong effort and thought.

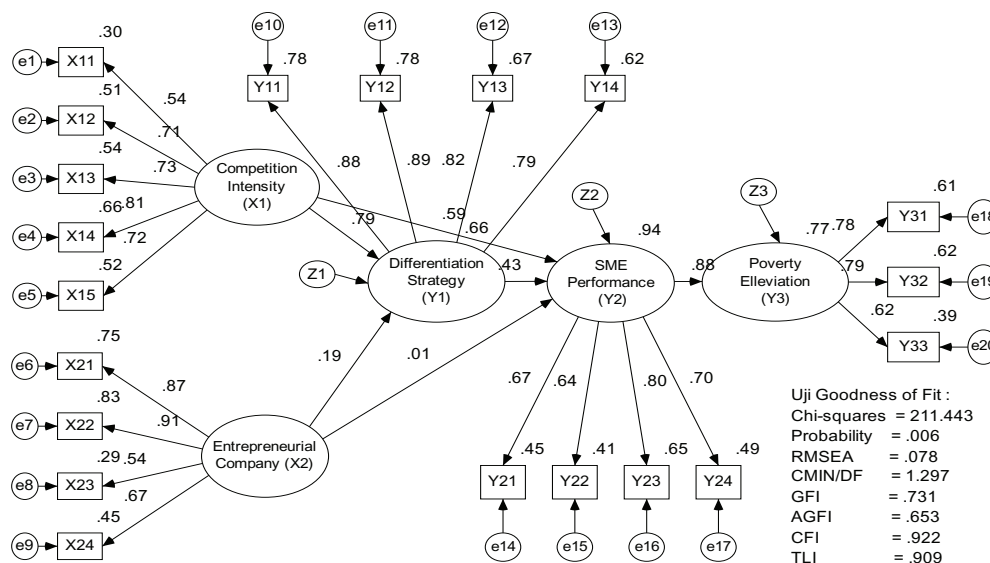
Distribution from managers' gender of SME in Gianyar can be seen in Table 1. About 75% of respondents were male. It shows that men are very suitable to work as managers who need the ability to take risk, innovation and great responsibility. However, it does not mean that women are not suited to the job manager because there are as many as 25% of respondents were female. Although that amount still less than the male respondents, the future is expected to be more women who become managers of SME.

The education levels of SME managers describe level of knowledge, abilities, and skills in taking various policies or strategies. Distributions from educational

level of respondents are presented in Table 1. Most of the managers of SME in Gianyar had senior high school educational background that is equal to 61.25% respondents. These amounts describe quantitatively education level of SME managers have fairly good knowledge. From Table 1 also can be seen dominant status of SME managers in Gianyar was married. Marital status reflects the stability of one's married there in the office manager. Emotional stability will have a positive impact on the performance because people who have emotional stability is generally quieter work than those who did not have emotional stability. Most number of managers' family responsibility of SME in Gianyar was 2 to 3 people, as much as 76.25 percent.

Hypothesis Testing and Discussion

Theoretical model on the conceptual framework is said fit if the research is supported by empirical data. The results of SEM analysis showed that goodness of fit test results to determine whether the overall model of hypothetical model is supported by empirical data contained in Figure 1.



Hypothesis testing is done by t test (t test) on each lane partial direct effect. Table 2

presents the results of hypothesis testing direct influen

Table 2. Direct Impact Hypothesis Testing Results

Independent Variable	Dependent Variable	Path Coefficient	p-value	Explanation
Competition Intensity (X1)	Differentiation Strategy (Y1)	0,791	0,002	Sig
Competition Intensity (X1)	SME Performance (Y2)	0,594	0,035	Sig
Entrepreneurial Company (X2)	Differentiation Strategy (Y1)	0,195	0,201	Non Sig
Entrepreneurial Company (X2)	SME Performance (Y2)	0,010	0,931	Non Sig
Differentiation Strategy (Y1)	SME Performance (Y2)	0,429	0,048	Sig
SME Performance (Y2)	Poverty Alleviation (Y3)	0,875	0,000	Sig

Source: Appendix

Hypothesis 1 : Intensity of Competition Industry (X1) Directly Influence Differentiation Strategy Implementation (Y1)

The result from SEM analysis of intensity of industry competition variable (X1) on the implementation of differentiation strategy (Y1) obtained path coefficients of directly influence is 0.791 and p-value is 0.002. Since the p-value <5%, then the hypothesis “The intensity of industrial competition (X1) directly influence the differentiation strategy implementation (Y1)” is acceptable. Path coefficient is positive (0.791), this means that the relationship between the two variables is positive, so higher the intensity of industry competition (X1), higher the differentiation strategy implementation (Y1).

Hypothesis 2 : Intensity of Competition Industry (X1) Directly Influence the SME Performance (Y2)

The result of SEM analysis of intensity of industry competition variable (X1) on the performance of SME (Y2) shows the direct influence of the path coefficients is 0.594 and p-value of 0.035. Since the p-value <5%, then the hypothesis “The intensity of industrial competition (X1) directly influence the performance of SMEs (Y2) is received. Path coefficient is positive (0.594), this means that the relationship between the two variables is positive, so higher the intensity of industry competition (X1), higher the performance of SMEs (Y2). Conversely, lower the intensity of industry competition (X1), the lower the performance of SMEs (Y2).

Hypothesis 3: Entrepreneurial Company (X2) Directly Influence Implementation of Differentiation Strategy (Y1)

The result from SEM analysis of entrepreneurial company variable (X2) on the implementation of the strategy of differentiation (Y1) obtained path coefficients of directly influence is 0.195 and p-value is 0.201. Since the p-value > 10%, then the hypothesis “Entrepreneurial Company (X2) directly influence the differentiation strategy implementation (Y1)” is rejected. Path coefficient is positive (0.195), this means that the relationship between the two variables is positive, so higher entrepreneurial company (X2), the higher the differentiation strategy implementation (Y1).

Hypothesis 4: Entrepreneurial Company (X2) Directly Influence SME Performance (Y2)

The result from SEM analysis of entrepreneurial company variable (X2) on the SME Performance (Y2) obtained path coefficients of directly influence is 0.010 and p-value is 0.931. Since the p-value > 10%, then the hypothesis “Entrepreneurial Company (X2) directly influence the SME Performance (Y2)” is rejected. Path coefficient is positive (0.010), this means that the relationship between the two variables is positive, so higher entrepreneurial company (X2), the higher SME Performance (Y2).

Hypothesis 5: Implementation of Differentiation Strategy (Y1) Directly Influence the SME Performance (Y2)

The result from SEM analysis of implementation of differentiation strategy variables (Y1) on SME performance (Y2) obtained path coefficient of directly

influences is 0.429 and p-value 0.048. Since the p-value < 5%, then the hypothesis “Implementation of the strategy of differentiation (Y1) directly affect the performance of the company (Y2)” is acceptable. Path coefficient is positive (0.429), this means the relationship between the two variables is positive, so higher the implementation strategy of differentiation (Y1), the higher the SME performance (Y2).

Hypothesis 6: SME Performance (Y2) Direct Effect on Poverty Alleviation (Y3)

The result from SEM analysis of SME performance variable (Y2) on firm performance (Y3) obtained path coefficients of directly influence is 0.875 and p-value of 0.000. Since the p-value < 5%, then the hypothesis “Improving the performance of SMEs (Y2) direct effect on poverty reduction (Y3)” is acceptable. Path coefficient is positive (0.875), this means that the relationship between the two variables is positive, so that the higher the increase in performance of SME (Y2), the higher the poverty alleviation (Y3).

Discussion of Results

From the calculation of validity and reliability can be seen that each indicator has been able to measure the dimensions and concepts and between the concept and the other one is free. By doing confirmatory factor analysis (goodness of fit test and test of significance weighting factor) has been shown that the observed variables may reflect analyzed factors. With the overall test suitability model (goodness of fit test and regression weight causality test) has been proven that the overall model fit and causality is built to be tested.

Effect Intensity of Industry Competition on Implementation of Differentiation Strategy

Table 2 showed that the intensity of industry competition has a significant influence on the implementation of differentiation strategy. This result evidenced by the p-value of 0.002 obtained smaller than 0.05. The relationship between the intensity of industry competition variable with implementation of differentiation strategy variable showed a positive effect characterized by the inner weight of 0.791. These results can be interpreted that higher the intensity of industry competition, implementation of differentiation strategy becomes more intense in industrial SME in Gianyar.

The results of this study in accordance with the conditions on the ground that the competition faced by SME in Gianyar increasingly will encourage SME to conduct differentiation or difference in products, services provided, the image and the distribution was done to solve the increasingly fierce competition intensity (Kotler and Keller, 2009).

In this study, indicators from intensity of competition created by intensity of innovation in new product development, the existence of substitute products, the presence of new entrants, bargaining power of suppliers, and the bargaining power of consumers have an important role to the implementation of differentiation strategy.

Effect Intensity of Industry Competition on SME Performance

Based on Table 2 it can be seen that the intensity of industry competition variable has a significant influence on SME Performance. This result evidenced by the p-value of 0.035 which is less than 0.05.

The relationship between the intensity of competition industry variable with SME performance variable showed a positive effect characterized by the inner weight of 0.594. These results can be interpreted that the higher the intensity of competition industry, has increased the performance of SME in Gianyar.

In this study, indicators of the intensity of competition created by intensity of innovation in new product development, the existence of substitute products, the presence of new entrants, bargaining power of suppliers, and the bargaining power of consumers have an important role on the performance that can be achieved.

These results are not in accordance with the conditions faced by SME in Gianyar. The intensity of competition faced by SMEs becomes tighter, it causes higher performance. These results are not in line with the research conducted by Metts (2007), who said that tighter pressure of industrial competition, the performance can be achieved by a company will decrease.

Effect of Entrepreneurial Company on Implementation of Differentiation Strategy

Table 2 showed that entrepreneurial company has no significant effect on the implementation of differentiation strategy. This result evidenced by the p-value of 0.201 which is greater than 0.10. The relationship between the variables of entrepreneurial company with variable of implementation of differentiation strategy showed positive effect characterized by the inner weight 0.195. These results can be interpreted that the higher entrepreneurial company then intensified implementation of the strategy of differentiation in industrial SME in Gianyar.

In this study, indicators of entrepreneurial company formed by degree of innovation, the level of proactive, development of creative ideas and the courage to take risk have an important role to the implementation of differentiation strategy.

These results are also in accordance with the conditions on the ground that the existing Entrepreneurship in SME in Gianyar pushes to differentiate the products, services, distribution, and its image. Entrepreneurship owned by SME in Gianyar, among others, the ability to innovate, the ability to be proactive, development of creative ideas and the courage to take risk are fairly good. These results are in line with the research conducted by Prajogo and Sohal (2001), Wang and Chang (2009).

Effect of Entrepreneurial Company on SME Performance

Based on Table 2 it can be seen that the entrepreneurial company variable have significant influence on the SME performance. This result evidenced by the p-value of 0.093 which is smaller than 0.10. The relationship between entrepreneurial company variable with SME performance variable indicate a positive effect characterized by the inner weight of 0.010. These results can be interpreted that the higher Entrepreneurship company, it will improve the performance of SME in Gianyar.

In this study, indicators of entrepreneurial company formed by degree of innovation, the level of proactive, development of creative ideas and the courage to take risk have an important role to the achievement of the performance of SMEs.

The results of this study also does not comply with the conditions on the ground, which is relatively well on entrepreneurship that owned by SME,

it will increase performance, but only results of hypothesis testing describe entrepreneurship has significant effect to the achievement of the performance of SME (Lau et al., 2010).

Effect Implementation of Differentiation Strategy on SME Performance

Table 2 showed the implementation of differentiation strategy has a significant influence on SME Performance. This result evidenced by the p-value of 0.048 which is less than 0.05. The relationship between the variables of differentiation strategy implementation with SME performance showed a positive effect characterized by the inner weight of 0.429. These results can be interpreted that the intensified implementation of differentiation strategy, make higher the performance of SME in Gianyar.

In this study, the differentiation strategy implementation indicators established by offering a diversity of products, services, distribution, and the image have an important role to the achievement of the performance of SME (Sharma, 2004 and Prajogo, 2007).

Effect of SME Performance on Poverty Alleviation

Table 2 showed the increase in performance of SME will have a significant impact on poverty alleviation. This result evidenced by the p-value of 0.000 which is less than 0.05. The relationship between the variable performances of SME with poverty alleviation showed a positive effect characterized by the inner weight 0.875. These results can be interpreted that the higher performance of SME, the higher the level of poverty alleviation in Bali. These results are in line with the research conducted by Yasa et al. (2013).

Research Implications

Theoretical Implications

As noted in the analysis and discussion that this research could theoretically find the relationship between the latent variable, there are intensity of industry competition and entrepreneurial company to the implementation of differentiation strategy and SME performance, and poverty alleviation.

Practical Implications

This study can contribute to managers of SME, which it means the implementation of differentiation strategy has a positive impact on the achievement of SME performance and finally be able to participate in the success of the government's poverty alleviation program. Implementation of differentiation strategy only offers differentiated products, services, distribution, and image.

Limitations of Research

Various limitations are also found in this study that mainly due to these following things.

1. This study uses only managers as respondents, so the data collection had a lot of time constraints. Time of data collection becomes longer than target time because managers were very busy and promised time often been imprecise.
2. Implementation of Differentiation strategy is one of the competitive strategies for SME, while there is still some options for other competing strategies, such as innovation strategy, low price strategy, strategic of partnerships. In future, research can be added with other competitive strategy options.

Conclusions and Recommendations

Conclusions

Based on the results of research, discussion and interpretation which has been described in previous chapter with reference to some theories and previous research results then can draw to become some conclusions as follows. 1) The intensity of industry competition increases sharply causes SME to implement its differentiation strategy. Through differentiation strategies such as product differentiation, service, distribution, and image that offered can lead to the creation of competition conditions that are not tight. 2) Improvement of industry competition intensity that increases sharply not result in the achievement of the performance of SME to be down. This is due to the intensity of industry competition is not the only influence for performance, although the intensity of industry competition has been increasing sharply, but in general, SME in Bali still have a degree of differentiation between the SME with other SME. 3) Improvement of entrepreneurial company turned out to encourage SME to intensify the implementation of differentiation strategy. This is encouraged because of the higher entrepreneurship, it will encourage the ability of a company to offer product differentiation, service differentiation, distribution differentiation, and differentiation of the image to their customers. 4) Increased entrepreneurial company makes the achievement of SME performance increases. This condition is caused due to the higher corporate entrepreneurship causing his ability to achieve sales volume, increase market share, and increase in profits. 5) Implementation of intensive differentiation strategy can improve the SME performance. The positive influence of the implementation of differentiation

strategy on the performance of SME is mainly supported by the implementation of strategy differentiation product. Based on existing research findings, SME in Bali should differentiate products so the market always sees the difference between Gianyar SME's products with the products of its competitors. All of it is expected to deliver value to the consumer so that the choice of products offered to consumers gain more and more. That condition will be able to give a positive influence on the achievement of the performance of SME.

6) Improvement of performance of SME are also able to reduce poverty in Gianyar. This happens due to improvement of SME performance that already includes an increase in the income of his labor, an increase in the number of workers hired (the number of unemployed decreased).

Recommendations

1. With the empirical evidence that the implementation of differentiation strategy, particularly the strategy of differentiation product affects the performance, then this implies in the management of SME industry in Gianyar, innovation policy to create product differentiation as a company daily.
2. With the empirical evidence that the increase in performance of SME capable of alleviating poverty in Gianyar, then this implies that government should be to empower SME in Gianyar in order to participate in the success of the government's poverty alleviation program in Gianyar.
3. For subsequent study, should expand respondents who not only managers

of SME, but also with staff who be authorized to take out policy of differentiation.

4. For subsequent researchers should consider other alternative strategies that are suitable to be applied by industry SME, such as innovation strategy, service strategy, competitive strategy as an option strategy to improve the performance of SME.

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