

The Role of Innovation Strategy in Mediating the Influence of Company Resources on Wood Craft Industry Performance in Gianyar Regency

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Abstract: The purpose of this study was to determine the effect of Company Resources on Wood Craft Industry (WCI) Performance, the influence of Company Resources on Innovation Strategy and the effect of Innovation Strategy on WCI Performance as well as analyzing the mediating role of Innovation Strategy in improving WCI Performance in Gianyar. This study used quantitative approach with WCI managers throughout Gianyar as the population as many as 130 people were taken as study sample. Data analysis techniques used were Structural Equation Modeling (SEM) and Sobel test. The study results showed that Innovation Strategy mediates the effect of Company Resources on WCI Performance. The implication of this study is aimed at the development of strategic management theory and also for the development of WCI in Gianyar regency to remain innovative in the form of product innovation, service innovation, production process innovation and innovation of raw materials.

Key words: Company resources, Innovation Strategy and WCI Performance, SEM, regency, Gianyar

INTRODUCTION

Research background: In order to improve Indonesia's economy in general and Bali in particular, the role of Small and Medium Enterprises (SMEs) is essential. Even in the future, SMEs are expected to be the backbone of Bali's economy in addition to tourism and agriculture. It is also mentioned in previous research result (Yasa *et al.*, 2013) that SMEs' improved performance was able to significantly reduce poverty in Bali. Furthermore, previous research (Tambunan, 2011) found that SME is an industry that performs 99.9% of economic activity and employs 96.2% workers in Indonesia. The verification of SMEs role in improving a country economy in order to alleviate poverty is also found in research by Dollar and Kraay (2002), Fjeldstad *et al.* (2006), Saravanan *et al.* (2008), Marlow (2009) and Akinboade and Kinfack (2012).

This phenomenon shows how strategic the role of SMEs is, in improving the economy of a region including in Bali Province and Gianyar regency. Area in Bali which has relatively high number of SMEs is Gianyar regency. SMEs in Gianyar dominated by WCI since this area has strong art background so that WCI is most developed in this area compared to other areas in Bali. WCI development shows good progress. The number of WCI in Gianyar is considerably high reaching 6858 units

(Gianyar dalam Angka Tahun in 2014) and this sector has contributed greatly to the economic growth in Gianyar regency to date. Therefore, the government is very concerned on this industry sustainability. However, WCI is experiencing an adversity recently, indicated by the decline in amount of export realization. This has to be anticipated by the government along with other stakeholders such as the business owner itself. Based on the experience so far, the variables that can improve WCI Performance in Bali is by always implementing Innovation Strategy.

Therefore, business owners are always required to conduct product development in accordance with market needs and desires. Furthermore, since there is great number of players in this industry, each business owner is also required to make their product different with competitors' to win the competition. It was found in research by Subramaniam and Youndt (2005) and Hsu (2011). It will certainly improve WCI Performance.

Innovation Strategy is a strategy that is implemented by a company by developing new products or services to market. Innovation Strategy is usually implemented by the company due to several factors, namely: to improve the quality of its products, to maintain its position in the market as pioneer, to satisfy the consumer and to improve performance while gaining competitive advantage. The

implementation of Innovation Strategy is able to improve the company performance as found in studies by Mole and Worrall (2001), Weerawardena and Coote (2001), Terziowski (2002), Berman and Hagan (2006), Li *et al.* (2010), Govindarajan and Trimble (2012), Yalabik *et al.* (2012) and Krishnan (2012).

Similarly, there are numbers of WCI in Gianyar pursuing Innovation Strategy. Innovation Strategy applied such as: always conduct product design development, develop raw materials used, perform color development and packaging development of the product. All product development is inseparable from the employees's skills which is unique in the form of artistic ability and creativity. It makes WCI products in Gianyar possess innovation compared to competing products.

Based on the issue faced by WCI in Gianyar that experiences a decline in performance, i.e., declining export volume caused by many factors such as increased competition, limited resources owned, changes in market tastes and the purchasing power of the market itself. Although, the issue faced is limited resource, WCI in Gianyar remains survived. It is because almost all of the existing WCI always perform various development (innovation) to provide value to the market.

A similar condition to business issues faced by WCI in Gianyar has been studied by Mole and Worrall (2001). The study hasn't examined the role of Innovation Strategy to achieve WCI competitiveness. The study result (Mole and Worrall, 2001) provides a gap to be analyzed further because previous researchers only examined the role of innovation on WCI Performance. This study aimed to further determine whether product uniqueness-based Innovation Strategy could improve performance and ultimately achieve competitiveness.

Based on the existing background, the purposes of this research are as follows. To determine the influence of Company Resources on Innovation Strategy; to determine the effect of the Company Resources on WCI Performance; to determine the effect of Innovation Strategy on WCI Performance and to determine the role of Innovation Strategy in mediating the influence of resources on WCI Performance.

Research conceptual framework: This study used Resource Based View Theory (RBV). According to RBV theory, resource is a key element to determine competitive advantage (performance improvement). In such condition, WCI Performance is determined by resources owned by the company, in addition, strategic management concept mentioned that company performance is determined by

chosen management strategy and its implementation. In an increasingly fierce competition and WCI characteristic that is limited in nature, a suitable business strategy is Innovation Strategy.

The phenomenon of the very limited WCI characteristic mentioned in the study (Edelman *et al.*, 2002; Santos, 2011; Ladzani and Seeletse, 2012). Study (Edelman *et al.*, 2002) showed results that resource limitation that was overcome by applying Innovation Strategy and service strategy did not significantly affect the company's performance. The results of the study (Edelman *et al.*, 2002) found that the implementation of innovation and service strategy weren't able to eliminate the negative effect of limited resources on the WCI Performance. Furthermore, this study offers a solution by implementing innovative strategy that has been implemented by WCI for several reasons such as innovations by Prajogo (2007) has been considered as one of the company's strategy in the process of creating value through new product offerings to the consumers; raise the value of creativity and novelty; Innovation Strategy in this case is able to strengthen the company competitiveness.

In addition, also include Company Resources as a variable that encourages Innovation Strategy according to research (Edelman *et al.*, 2002) which stated that internal environment which is Company Resource could affect Innovation Strategy and company's performance achievement. Based on the conceptual framework that explains the structural relationship of each variable, a conceptual framework was then constructed (Fig. 1).

Research hypothesis

The influence of Company Resources on Innovation Strategy: According to study (Edelman *et al.*, 2002), found that Company Resources consist of human resources and organizational resources have positive and significant impact on Innovation Strategy implementation. Furthermore, Hult *et al.* (2004) showed that the application of company capability is able to improve company's innovation ability significantly. There

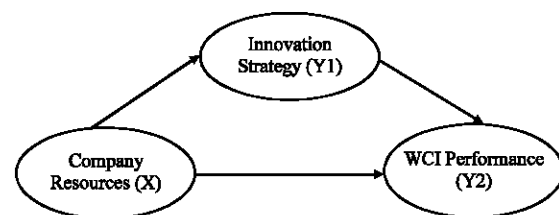


Fig. 1: Research conceptual framework

are other researchers (Atuahene-Gima, 2005) stated that the Company Resources have significant and positive effect on company performance. In addition, the influence of company capability on company's innovation capability was also supported by the results of the study (Subramaniam and Youndt, 2005). From some of these empirical studies, can be concluded hypothesis as follow:

- H₁: Company Resources Influence Innovation Strategy positively and significantly

The influence of Company Resources on WCI Performance: Study (Edelman *et al.*, 2002) found that Company Resources affect SMEs performance achievement. Results of research conducted by O'Cass and Jay (2009) also showed that Company Resources indicated by entrepreneurial orientation can improve international market performance. Furthermore, Tuanmat and Smith (2011) found technology resources improve business performance achievement. Based on several empirical studies, the following hypothesis is developed:

- H₂: Company Resources influence WCI Performance positively and significantly

The influence of Innovation Strategy on WCI Performance: The results of the study (Terizlovski, 2002) showed that Innovation Strategy improves company performance. Several other researchers such as Berman and Hagan (2006), Li *et al.* (2010), Govindarajan and Trimble (2012), Yalabik *et al.* (2012) and Krishnan (2012) found similar finding that there was a positive relationship between Innovation Strategy and company performance. Of the few studies that have been conducted, can be concluded hypothesis as follows:

- H₃: Innovation Strategy influences WCI Performance positively and significantly.

The role of Innovation Strategy in mediating the influence of Company Resources on WCI Performance: Research result conducted by Hult *et al.* (2004) showed that innovation is able to mediate the influence of Company Resources on performance improvement. Furthermore, research conducted by Medina and Rufin (2009), found that Innovation Strategy implemented by company manager mediates the influence of Company Resources (in this case demonstrated the strategic orientation of the manager) on the company performance improvement. Based on several empirical studies above, this study hypothesis is:

- H₄: Innovation Strategy mediates the influence of company resources on WCI Performance

MATERIALS AND METHODS

This study will be conducted in the entire region in Gianyar regency. Gianyar regency consists of seven districts, namely: sub-district of Sukawati, Blahbatuh, Gianyar, Sukawati, Ubud, Payangan and Tegallalang.

Research population is all WCI in Gianyar. Each WCI represented by one respondent who is in manager position. The reason for choosing a manager is based on strategic management theory and existing reality that the one who is entitled to plan a strategy or various forms of policy is the manager or owner. Research sample size is as many as 130 WCI. The sample size was determined using Slovin approach ($5-10 \times \text{number of variables}$). The number of sample selected proportionally to reflect WCI industry in Gianyar, taken from sub-district of Sukawati, Blahbatuh, Gianyar, Sukawati, Ubud, Payangan and Tegallalang. Thus, the sampling technique used is proportional random sampling method. Steps taken were first to classify the population by districts, then each sub-district drawn proportionally. In this way, the entire samples were expected to represent WCI in each area and in the end were able to represent total population in Gianyar regency.

Indicator of WCI resources, Innovation Strategy and WCI Performance was measured by the perception of WCI manager using 5-level Likert scale, from strongly disagree = 1, disagree = 2, quite agree = 3, disagree = 4, and strongly agree = 5. This study uses two types of data, as follows. Primary data, obtained from the questionnaire filled by top level management in this case WCI managers in Gianyar. WCI's top level management is a person who has the authority and ability in strategy formulation and implementation. Secondary data obtained from other sources that support the research. Secondary data was obtained from Department of Cooperatives and SMEs Gianyar and Statistics Center Gianyar.

Data was collected in two ways as given: questionnaire, conducted by distributing questionnaires to the respondents to answer and give their perception of questions related to this research. Interview, conducted to WCI managers, WCI academis observers and other stakeholders such as government authorities in order to obtain information to broaden the object of study, identify problems and confirm the analysis/discussion result.

Basically conducting research is measuring research phenomenon. Tools to measure the phenomenon called research instrument. Indicators of this research instrument were taken from measurements that have been used by

Metts (2007), Edelman *et al.* (2002), Santos (2011) and Ladzani and Seeletse (2012) with some modifications. The shape of the instrument used is a list of questions or questionnaires since of the nature of this research is a survey research that requires primary data. The questionnaire used was tested prior to research with a total sample of thirty people to represent each district in Gianyar regency.

The instruments used were tested for validity and reliability in order to measure what it wants to measure and determine response consistency provided by respondents. Instrument validity testing using product moment correlation technique based on Pearson with r minimum limit = 0.3. Instrument reliability testing performed by calculating reliability coefficient of Cronbach's alpha with a minimum limit of alpha coefficient > 0.6 (Sekaran, 2003; Malhotra, 1999). Both of these tests using SPSS. This study uses quantitative analysis of Structural Equation Modeling (SEM) and Sobel test.

RESULTS AND DISCUSSION

Respondent characteristics: Respondents participated in this study were 130 people in line with the sample size. Respondents described by presenting their characteristics based on demographic variables, namely: age, gender, education level, marital status and dependents.

Respondent ages which are WCI managers varies from the youngest at 25 to the oldest at 67 years. Based on data collection, WCI managers in Gianyar aged up to 30 years as many as 7.69%, 31-40 years as many as 38.46%, aged 41-50 years as many as 50.00% and aged over 50 years as many as 3.85%. Of the existing distribution, age ranges from 31-50 years has the most percentage as many as 88.46%. Age 31 up to 50 years old

is the age where people can still work productively and is suitable to be innovative business player since it requires strong effort and thought. Respondents consist of 80.77% male respondents. It shows that men are very suitable to work as managers that are risk takers, innovative and require great responsibility. However, it does not mean that women are not suitable to work as a business woman in WCI as there are as many as 19.23% female respondents. This amount, although less than male respondent, in the future it is expected to be more and more women becoming WCI business player. WCI manager's education level describes knowledge level, abilities and skills in innovation. Most WCI business players in Gianyar have high school education background, as many as 50.00% of the respondents. This number shows that quantitatively, WCI managers' education level have fairly good knowledge. WCI managers' in Gianyar status is predominantly married. Status reflects one's stability in holding business position. Emotional stability will have a positive impact on WCI Performance because those who have emotional stability generally could work calmly than those who do not have emotional stability. Number of family dependents of Gianyar WCI managers is as many as 2-3 people, amounting to 76.92%.

SEM analysis result

Hypothesis testing result: Theoretical model in conceptual framework is fit as it is supported by empirical data. The result of SEM analysis showed overall model goodness of fit to determine whether the hypothetical model is supported by empirical data contained in Fig. 2.

Hypothesis testing is conducted by t-test on each direct effect path. Table 1 presents the results of direct influence hypothesis testing.

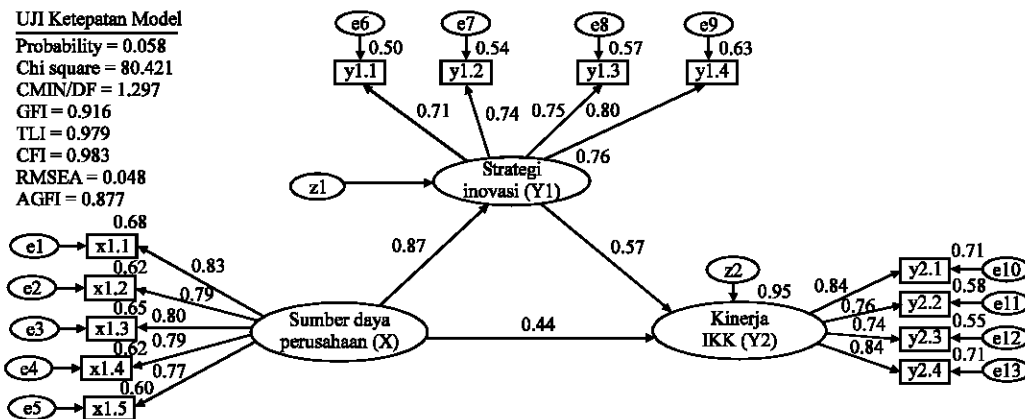


Fig. 2: SEM Model

Tabel 1: Direct influence hypothesis testing result

Independent variables	Dependent variables	Path coefficient	p-values	Annotation
Company Resource (X)	Innovation Strategy (Y1)	0.871	0.000	Significant
Company Resource (X)	WCI Performance (Y2)	0.440	0.002	Significant
Innovation Strategy (Y1)	WCI Performance (Y2)	0.567	0.000	Significant

Lampiran

Tabel 2: Sobel test result

z-value	Sig.
3.082	0.000

Sobel test: Sobel test is an analysis tool to test the significance of indirect relationship between dependent and independent variables mediated by mediator variable.

Based on Sobel test results in Table 2, results show tabulated $Z = 3.082 > 1.96$ with significance level of $0.000 < 0.05$, means that the mediator variable Strategy Innovation is significantly mediates the effect of Company Resources on WCI Performance:

$$S_{ab} = \sqrt{b^2 S_a^2 + a^2 S_b^2 + S_a^2 S_b^2}$$

Annotation: $a = 0.871$, $S_a = 0.123$, $b = 0.567$, $S_b = 0.164$.
Based on above S_{ab} , obtained S_{ab} value = 0.160:

$$Z = ab = (0.871)(0.567) = 3.082$$

$$S_{ab} = 0.160$$

$$Z_{tabel} = 1.96(5\%)$$

The influence of Company Resources on Innovation Strategy: From the results of SEM analysis, the effect of Company Resources (X) on Innovation Strategy (Y1), obtained direct influence path coefficient at 0.871 and p-value is 0.000. Since $p < 10\%$, therefore, the hypothesis “Company Resource (X) directly influences Innovation Strategy (Y1)” is accepted. Since, path coefficient is positive (0.871), means that the relationship between the two variables is positive, the higher the Company Resource (X), the more intensive the implementation of Innovation Strategy (Y1). Table 2 also shows that Company Resource has significant influence on Innovation Strategy. This result is verified by the p-value of 0.000 lower than 0.10. The relationship between Company Resource and Innovation Strategy showed positive influence indicated by inner weight of 0.871. These results can be interpreted that the higher the Company Resource, the more intensive the implementation of WCI Innovation Strategy in the form of product innovation (design innovation, product color and quality), service innovation (innovation in ordering, payment and delivery), production process innovation

(innovation implemented to accelerate the production of finished product) and raw materials innovation (search for more varied alternative raw materials). This study results is in line with reality that the higher the Company Resources could make the implementation of Innovation Strategy more intensive.

This study results is in line with reality that the higher the Company Resources could make the implementation of Innovation Strategy more intensive. In this study, Company Resources indicators are creative ability, IT mastery, HR skill, capital power, equipment capabilities and the availability of raw materials have an important role to the implementation of more intensive Innovation Strategy. The result is consistent with research result (Edelman *et al.*, 2002; Tuanmat and Smith, 2011).

The influence of Company Resources on WCI Performance: The results of SEM analysis on the influence of Company Resource (X) on WCI Performance (Y2) shows direct influence path coefficients of 0.440 and p-value of 0.002. Since $p < 10\%$, therefore, the hypothesis “Company Resources (X) directly influence WCI Performance (Y2)” is accepted. Given the path coefficient is positive (0.440), it means that the relationship between the two variables is positive that the higher the Company Resources (X), the higher the WCI Performance (Y2). Conversely, the lower the Company Resources (X), the lower the WCI Performance (Y2). Based on Table 2, it can be explained that Company Resources has a significant effect on WCI Performance. This result is verified by the p-value of 0.002 which is lower than 0.10. The relationship between Company Resource and WCI Performance shows a positive effect indicated inner weight of 0.440. These results can be interpreted that the higher the Company Resource, WCI Performance is improved.

In this study, Company Resources indicators formed by creative ability, IT mastery, HR skill, capital power, equipment capabilities and the availability of raw materials have an important role to increase WCI Performance in Gianyar which is measured by product performance, innovation performance, market share performance and profit performance. The result of this study is in line with the conditions faced by WCI in Gianyar, the stronger the Company Resource the higher WCI Performance. In addition, this study result is also in line with the research results (Edelman *et al.*, 2002; Atuahene-Gima, 2005; Medina and Rufin, 2009; O’Cass and Jay, 2009).

The influence of Innovation Strategy on WCI Performance: From the results of SEM analysis on the relationship between Innovation Strategy (Y1) and WCI Performance (Y2), obtained direct influence path coefficients of 0.567 and p-value is 0.000. Since, the $p < 10\%$, therefore the hypothesis “Innovation Strategy (Y1) directly influences WCI Performance (Y2)” is accepted. Given the path coefficient is positive (0.567), it means that the relationship between the two variables is positive, meaning that the higher Innovation Strategy implementation (Y1), the higher the WCI Performance (Y2) and vice versa. Table 2 shows that Innovation Strategy has no significant effect on WCI Performance. This result is verified by the p-value of 0.000 which is < 0.10 . The relationship between Innovation Strategy and WCI Performance shows a positive effect indicated by the inner weight of 0.567. These results can be interpreted that the more intensive the implementation of Innovation Strategy, the higher the WCI Performance. In this study, Innovation Strategy indicators formed by product innovation, service innovation, production process innovation and raw material innovation play an important role on WCI Performance. This study result is not consistent with empirical research conducted by Edelman *et al.* (2002), O’Cass and Jay (2009) and Tuanmat and Smith (2011).

The role of Innovation Strategy in mediating the influence of Company Resources on WCI Performance: Analysis technique used in testing mediating role is Sobel test. Sobel test is an analysis tool to test the significance of indirect relationship between dependent and independent variables mediated by mediator variable. When the calculation result $Z > 1.96$ then the mediator variable significantly mediates the relationship between the dependent variable and independent variables. Sobel test results show that the calculation results of $Z = 3.082$. The results of calculation $Z = 3.082 > 1.96$ means that Innovation Strategy significantly mediates the influence of Company’s Resources on WCI Performance. It means that the hypothesis: Innovation Strategy Mediates the Influence of Company Resources on WCI Performance is accepted.

Testing hypothesis of the role of Innovation Strategy in mediating the influence of Company Resources on WCI Performance using Sobel test found that Innovation Strategy significantly mediates the influence of Company Resources on WCI Performance with tabulated results $Z = 3.082 > 1.96$ with significance level of $0.000 < 0.05$. It means that Innovation Strategy implementation is able to strengthen or increase the influence of Company

Resources on WCI Performance. This is consistent with previous research results by Hult *et al.* (2004), O’Cass and Jay (2009) and Tuanmat and Smith (2011).

CONCLUSION

Based on the research results, discussion and interpretations that have been described, then some conclusions can be drawn as follows:

- High Company Resource improves the implementation of Innovation Strategi intensively
- High Company Resource is able to improve WCI Performance in Gianyar
- Intensive Implementation of Innovation Strategy improves WCI Performance in Gianyar
- The Implementation of Innovation Strategy mediates the influence of Company Resources on WCI Performance in Gianyar.

LIMITATIONS

Various limitations are also found in this study, mainly due to the following things. This study used only respondents who are WCI managers in Gianyar, therefore the results can not be generalized thoroughly for WCI in other regions. Mediating variable analyzed was Innovation Strategy which turns out to significantly affect WCI Performance, therefore in future studies, the use of other mediating variables should be considered such as other business strategies, namely: Differentiation Strategy, Cost Leadership Strategy, Service Strategy, Blue Ocean Strategy (BOS) as well as using more than one mediating variable.

IMPLICATIONS

As described in the results and discussion study that this research could theoretically find the relationship between the latent variable Company Resources on Innovation Strategy and WCI Performance. This study can give contribution to WCI in Gianyar. The contribution is that WCI should always maintain and strengthen the implementation of Innovation Strategy through a variety of innovation programs related to raw materials, production processes, services and product innovation that have positive influence on performance improvement.

RECOMMENDATIONS

Based on these results, the following suggestions are recommended. With the empirical evidence that

Company Resource is able to increase Innovation Strategy, therefore, WCI managers should always pay attention and enhance factors such as creativity, IT mastery, HR skills, capital, equipment and raw materials availability to improve the implementation of Innovation Strategy. With the empirical evidence that an increase in the implementation of Innovation Strategy improves WCI Performance, WCI managers must constantly do product innovation, services innovation, production process innovation and raw materials innovation to enhance performance. In future studies, respondents could be expanded to not only include WCI managers but also the authorities (Department of Cooperatives and SMEs) who possess the authority to develop policies to increase WCI Performance. Future, researchers can conduct a study from a different perspective that is from consumer perspective.

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