

The Effect of Entrepreneurial Orientation to Low Cost Strategy, Differentiation Strategy, Sustainable Innovation and Performance of Small and Medium Enterprises (Studies at Batik Small and Medium Enterprises in East Java Province, Indonesia)

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Abstract

This study aims to examine, analyze and explain the Effect of Entrepreneurial Orientation to Low Cost Strategy, Differentiation Strategies, Sustainable Innovation and Performance of Batik Small and Medium Enterprises in East Java Province, Indonesia. This research is explanatory research and sampling was done by using multi-stage area sampling, which is done through three stages, first, the determination of purposive sampling area, with a population of 2685 business units. Second, the sample set that batik Small Medium Enterprises owners are determined based on Slovin formula by 190 people. Third, calculate the proportion of samples in the four study areas with proportional random sampling. Data collection done through questionnaires which distributed through enumerators services, email and sent through the post. In addition, the researchers also conducted interviews with respondents directly. Furthermore, the data collected were processed using analysis of variance -based SEM with PLS software. The findings of this study is the first, entrepreneurial orientation significantly influence low cost strategy and differentiation strategy, but the effect is not significant to the sustainable innovation. Second, low cost strategies significantly influence the sustainable innovation. Third, differentiation strategy significantly influence to the sustainable innovation. Fourth, sustainable innovation significantly influence the performance of Small Medium Enterprises. Dominant variable that affecting the sustainable innovation is differentiation strategy, thus it can be said that in implementing sustainable innovation and improve the performance of Small Medium Enterprises, especially in batik industry is more suitable with differentiation strategy, because batik is an Indonesian cultural heritage artworks that highlight characteristic area of origin. However, for batik industry, batik Small Medium Enterprises can implement a hybrid strategy which is differentiation strategy and low cost strategies. Contribution of this study to scientific development is enriched theory of strategic management in based resources perspective, market-based and knowledge-based. Sustainable innovation is part of the evolution to be executed by the company's organization. Innovation come from creativity which is a collection of good ideas of knowledge, and experience that are in the human mind and then mixed into useful innovations on an ongoing basis. But innovation also identify customer needs of the present, and the future as well as develop new solutions to customer needs. In order to make the sustainable innovation more complete, it is recommended for further researcher, to add a field of study related to market-based and knowledge-based view.

Keywords: Entrepreneurial Orientation, Low Cost Strategy, Differentiation Strategies, Sustainable Innovation, Performance Batik Small and Medium Enterprises

1. Introduction

In the era towards globalization and free trade, Small and Medium Enterprises (SMEs) not only has a strategic role in the economy of a country, but should have a more important role again, that as a factor in the development and growth of non-oil exports and as supporting industries which provides supply to large industries as well as being able to walk in a competitive business environment that is very tight due to the advancement of technology, law or government policy continues to change rapidly, so the company is expected to remain viable.

Problems faced by SMEs in this study, more emphasis on internal factors. In accordance with the statement of David (2006) that the internal resource more important to companies than external factors in achieving and maintaining a competitive advantage. In the view of Resource Based View (RBV), that the company has a fundamental difference, as it has a set of resources that different (Grant, 2006). Resources is one of the factors that can be controlled by the company, while the ability to be understood as an ability to use the resources in the combination process to achieve the desired performance. As for competence is a special skill to use a resource owned by the organization in a way that is very effective.

In addition, the enactment of batik as an Indonesian cultural heritage whose existence has been recognized worldwide, should have the potential of batik industry is getting better. According to the chairman of the association of woven batik and embroidery Sosrokusumo (2011), the potential of batik in East Java is much larger than other regions in Indonesia, because of the 38 districts / cities in East Java, almost all of them have a

batik to the particularities of region characteristics, and even said also that about 70% of Indonesian society like batik of East Java. But in reality the growth of SMEs in East Java batik slow (beritajatim.com, May 3, 2011). Besides the lack of creativity, another problem in Java batik SMEs is the lack of supporting industries such as industrial raw materials cloth, dye and night (wax) that still have to import from other regions and even from other countries. From the description researchers interested in lifting the title of the study: " The Effect of Entrepreneurial Orientation To Low Cost Strategy, Differentiation Strategy, Sustainable Innovation and performance of SMEs ".

2.Literature Review

Entrepreneurial orientation become important variables in improving corporate performance. Proposition underlying the importance of entrepreneurial orientation is that companies with a level of higher characteristics of the entrepreneur will have a level of performance and higher growth, being able to deal with the dynamics of the environment is more successful (James and Pett, 2006). In research studies Baum (2001) found that the entrepreneurial orientation and entrepreneurial competence has an effect on business success. Entrepreneurial orientation can be a value for the company and the system will then determine the motion or the company's strategy (Hisrich, 2005). Strategy divided into three levels, namely (1). Corporate (2). Business and (3). Functional (Giglierano, 1987). Business strategy is a strategy that outlines how to seize the market to gain a competitive advantage. According to Porter (2000), to gain a competitive advantage business units can concentrate on generic strategy that includes cost advantage, differentiation strategy and focus strategy. On Suci research (2009) found that the entrepreneurial orientation and significant positive effect on the ability of management and business strategies of SMEs. In line with these findings, the study Adnan (2010), also concluded that the entrepreneurial characteristics of a manager has a positive influence on business strategy and business performance.

In smaller companies are also basically there are three levels of strategy is the company's strategy, functional and operational. In this case the owner of the company is responsible for the conduct of effective strategies at various levels of strategy (Giglierano, 1987). According to Porter (2000) there are three generic strategies that can be used either alone or in combination in order to create a secure position in the long term and to outperform its competitors, namely: differentiation (differentiation), the cost advantage (cost leadership) and focus , Declared by Pearce II & Robinson (2009), that's looking for a basic competitive advantage of generic strategies, is pursuing the achievement of lower costs in the industry, creating unique products for customers a varied and serves special request on one or several consumer groups.

Innovation strategy is the most important factor in the large industrial or SMEs, in particular to improve the operational reliability. Innovative activity reflects the entrepreneurial orientation associated with a willingness to face risks and proactively to competitors (Lumpkin & Dess, 1996). Incremental innovation strategies or developing constantly conducted from the viewpoint of what is expected by the customer in the future (Hamel and Prahalad, 1995). In this context of sustainable innovation has the potential to support a sustainable competitive advantage that resulted in increased performance of the company. Consideration of continuous innovation variable selection is also based on the reality that happened in the Small and Medium Enterprises (SMEs) in East Java Batik, namely the slow growth of sales (beritajatim.com, May 3, 2011). According Sosrokusumo (2011) the trend of slow growth in East Java batik sales occur because of a lack of creativity from the design to blend colors seem monotonous, making batik is crushed by East Java batik from other regions. Creativity in this case can be positioned as a determinant factor of innovation, because without creativity there is no innovation.

3. Hypothesis

Model hypothesis of this study are as follows:

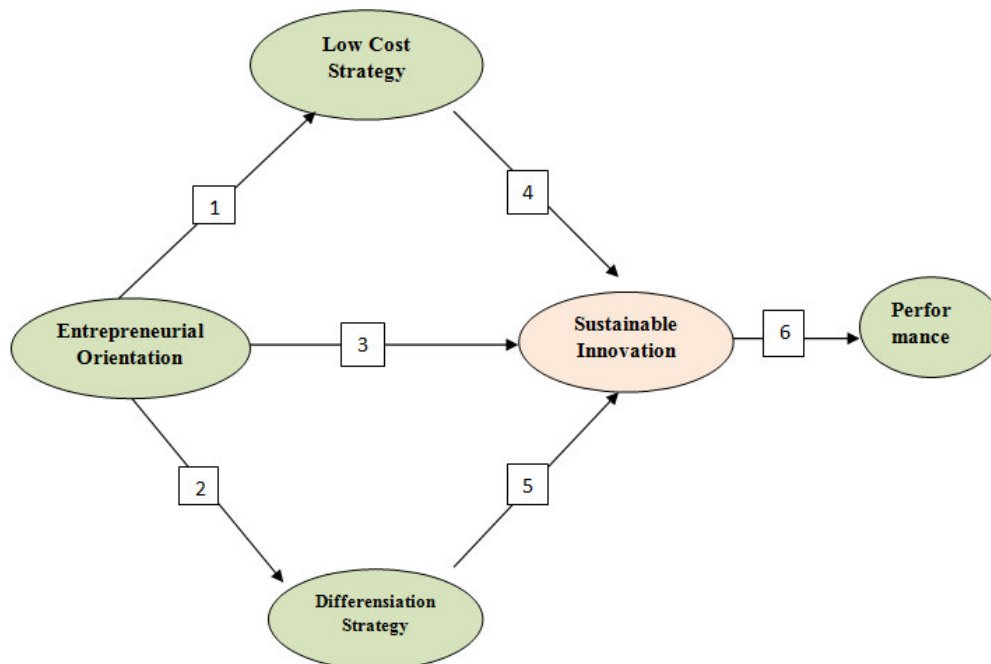


Figure 1. Model Research Hypothesis.

Based on theoretical and empirical studies on the above, it can set the research hypothesis as follows:

- H1 : "Entrepreneurial orientation has a significant influence on the low cost strategy"
- H2 : "Entrepreneurial orientation has a significant influence on the differentiation strategy "
- H3 : "Entrepreneurial orientation has a significant influence towards sustainable innovation "
- H4 : "There is a significant relationship between low cost strategy towards sustainable innovation"
- H5 : "There is a significant effect between the differentiation strategy towards sustainable innovation "
- H6 : "There is a significant effect between sustainable innovation towards the performance of SMEs"

4. Research Methods

4.1. Population and Sample

This research was carried out on the sector of small and medium enterprises (SMEs) in the province of East Java Batik, which has 119 batik industrial center and spread in 19 districts / cities, with restrictions based on the criteria: a) sales volume <USD 1 billion / years; b). Assets excluding land and buildings of Rp 200 million; c). independent.

Sampling was conducted in several stages First, Determination of research areas is based on purposive sampling technique, where the area of selection criteria is based on the criteria of urban areas or districts that have a center of batik in the top six centers of industry. Second, determine the number of samples, based on a formula Slovin with a precision of 7% so that it can set a sample of 190 SME units. Third, calculate the proportion of samples in four areas of study area proportional random sampling.

4.2. Data analysis method

Data analysis method used is Partial Least Square (PLS) with PLS smart software. Validity and reliability of research instrument measured by Convergent validity and Cronbach alpha values > 0.60

4.3. Research Variable

4.3.1. Entrepreneurial Orientation (X)

This variable consists of: Proactive (X1); Aggressive (X2); Dare risk (X3); Innovative (X4) and Autonomy (X5).

4.3.2. Low Cost Strategy (Y1)

These variables include: competitive prices (Y1.1); the efficiency of the production process (Y1.2); optimization of production technology (Y1.3); optimization of production facilities (Y1.4); the efficiency of product distribution (Y1.5); continuity of raw material (Y1.6) and supervision of the production costs (Y1.7).

4.3.3. Differentiation Strategy (Y2)

This variable distinguished: product differentiation (Y2.1); differentiation of product quality (Y2.2); service differentiation (Y2.3); market differentiation (Y2.4) and differentiation processes (Y2.5)

4.3.4. Sustainable Innovation (Y3)

Indicators of this variable are: product development (Y3.1); the development of raw material (Y3.2); development of marketing techniques (Y3.3); the development of production techniques (Y3.4) and the development of staining techniques (Y3.5).

4.3.5. Performance of SMEs (Y4)

Performance measures used include: Sales growth (Y4.1); employment growth (Y4.2); profit growth (Y4.3); Asset growth (Y4.4); market growth (Y4.5) and production growth (Y4.6).

5. Test Result Hypothesis

Based on the results of hypothesis testing can be known variables showed a relationship between one path that entrepreneurial orientation to sustainable innovation is not significant, while five other lines is significant. Results of empirical studies that have been done in this study, can be described as follows.

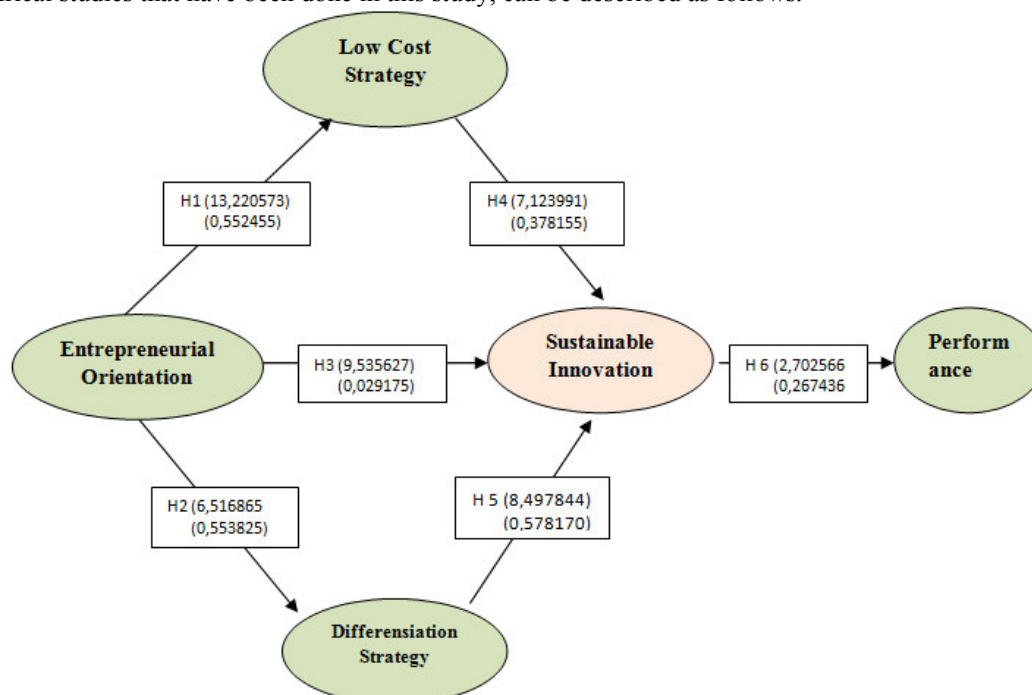


Figure 2. Research Model Tested

6. Discussion

6.1. Effect of Entrepreneurial Orientation towards Low Cost Strategy

Hypothesis testing results shown in Figure 2 stated that "Entrepreneurial orientation significantly influence Low Cost Strategies". The results of this study support the notion Knight (2000) which states that the entrepreneurial orientation with regard to the search of opportunities, the courage to take risks and the decision to act on the leadership of the organization. This entrepreneurial orientation will be the system value for the company and will determine motion or corporate strategy (Hisrich, 2005). Companies that have a value system will continue to look for opportunities, to move on to try to enter new markets in order to take advantage of opportunities that exist. Courage to take risks and the decision of the acting head of the company, indicated that they would dare to try new strategies or new business that is likely to improve the company's performance. In this case Porter (2000) suggests that entrepreneurs must develop a strong strategy taking into account the company's core competencies and strengths to achieve success.

This empirical study supports the results of the study Adnan (2010), which concluded that the entrepreneurial characteristics possessed by a manager to have a significant positive effect on the company's business strategy and performance. Baum (2001) also found that the dimensions of the nature of the entrepreneur has a positive impact directly towards the implementation of competitive strategies.

6.2. Effect Entrepreneurial Orientation towards Differentiation Strategy

Hypothesis test results can be seen that the " Entrepreneurial orientation significant positive effect on

Differentiation Strategy". The results of this study enrich Hisrich opinion (2000), who argued that the company's survival depends on the ability of entrepreneurs to survive and excel in competition. To achieve excellence, Jalaluddin (2012) argues that the differentiation strategy is one type of competitive strategy, in which the organization seeks to make products or services offered by different competitors. Many ways that can be taken to create a differentiation strategy, but the main concept is to be a special and important for customers (Zimmerer & Scarborough, 2008).

Empirical studies that support this research is Ferdinand (2003), which states that companies should create a point of differentiation for the customer is always positioned as a person who tends to look for something different.

6.3. Effect on the Entrepreneurial Orientation towards Sustainable Innovation

Hypothesis test results in this study, it is known that "Entrepreneurial orientation not significant effect on Sustainable Innovation", but relations between the two variables are positive. This may imply that the stronger character entrepreneurial orientation owned by the owners of SMEs, the higher the sustainable innovation. The results of this study do not support the opinion Knight (2000). Entrepreneurial orientation reflects the tendency of business owners (entrepreneurs) to engage in innovative behavior, dare to take risks and be proactive to beat the competition. In a world that is changing faster, creativity and innovation is critical to the success and sustainability of the company. Creative thinking is the core business skills being an entrepreneur become a leader in the effort to develop and apply these skills (Zimmerer et al, 2008). An entrepreneur is an innovator, but not always as inventor (Suhariyadi et al, 2007). In this case, he acts as a regulator of resource allocation in an effort to carry out the exploitation of the invention or innovation.

Entrepreneurial orientation will have an impact on sustainable innovation if entrepreneurs set the right business strategy by taking into account the strength of internal and external environment. The business strategy is the ability of entrepreneurs in the external and internal environment analysis, strategy formulation and implementation plan designed to achieve the company's goals as well as an evaluation to obtain feedback in order to formulate a strategy to come. Thus continuous innovation is the implementation of appropriate strategies to the changing environment.

These empirical studies do not support research conducted by Ireland et al (2007), which states that entrepreneurial orientation has a direct effect on product innovation and process innovation. Other empirical studies are being conducted in SMEs in Iran by Madhoushi et al (2011), it was found that the entrepreneurial orientation either directly or indirectly, a significant positive effect on innovation performance. In their study mentioned that knowledge management as a mediator to improve the positive relationship between entrepreneurial orientation with innovation performance, being in this study entrepreneurial orientation does not directly affect the sustainable innovation but should be followed by the low-cost strategy and differentiation strategy.

The results of this study also ensuring that the opinion Suhariyadi in Kotler et al (2007), which warned that without innovation the company will be old, ancient, fragile and unsustainable. Moreover, after the opening of globalization and information flows, cause every company is in a very tight competition. Swink (1999) stated that the market changes very quickly led to the shortening of the cycle of the goods and services that encourage the industry to develop products on an ongoing basis. An important key to win the competition according to the company Qian (2009) is the continuous innovation that is supported by a reliable strategy. It can be concluded that a sustainable innovation will be implemented properly if the owners of SMEs have the ability to plan the right business strategy.

6.4. Effect of Low Cost Strategy towards Sustainable Innovation.

The results of hypothesis testing 4, "Low Cost Strategy positive significant effect on the Sustainable Innovation". The results support the theory Kim et al (2005) who argued that in the increasingly fierce competition, has a strategy alone is not sufficient but necessary application of innovation. Medium according Lowrence (1994), changes in the environment can be a threat to the company, but for innovative companies, changes in the environment it is a profitable opportunity. Thus the strategy is not enough, without being followed by innovations in accordance with changes in the environment (Kim & Mauborgne, 2006). Further Terziowski (2007) states that there is a relationship between business strategy to the implementation of innovations. Companies with business strategy minimation cost will focus on the development of the innovation process. Low cost position usually puts the company in a favorable position to protect themselves from price wars, but also can use his strength to attack competitors by providing the lowest prices in the industry. According Zimmerer & Scarborough (2008), the cost leadership strategy implemented properly can be very great strategic weapon to gain a competitive advantage.

6.5. Effect of Differentiation Strategy Toward Sustainable Innovation.

Hypothesis test results 5 is: "differentiation strategy is positive and significant impact on sustainable innovation" This study supports the opinion. Jalaluddin (2012) who argued that a differentiation strategy is one type of competitive strategy in which an organization seeks to make products or services offered by different competitors, Furthermore, Ferdinand (2003) suggests that companies should create and develop a point of differentiation for the customer is always positioned as a person who tends to look for something different. Companies oriented towards sustainable innovation to create products that are unique and not easily imitated so as to improve company performance. Sustainable innovation is based on the reliable strategy is key to winning the competition (Qian, 2009).

6.6. Effect on the Performance of SME to Sustainable Innovation.

Results of testing the hypothesis 6 is: "Sustainable Innovation significant effect on the performance of SMEs". The theory behind this study is that Suhariyadi in Kotler et al (2007) which states that innovation in the enterprise becomes an important issue to be discussed, because many companies failed to survive in the modern industrial world is caused by a lack of innovation. In order to be sustainable innovation and support the company's performance is required innovation strategy (Terziovski, 2002). Innovation is considered as a fundamental component of entrepreneurship and a key element of business success. In line with these opinions Hammel et al (1999) states that a successful business is determined by the millennium century innovation. Similarly, Qian (2009) states that sustainable innovation is backed by a reliable strategy is key companies to win the competition. Furthermore, Cooper & Kleinsemidt (1987) states that sustainable innovation is the advantages of the company to create new products or services that are not easily imitated by other companies, so as to compete and improve company performance.

The results of this study also enrich previous empirical studies, as proposed by Munaf (2006) which concluded that the sustainable innovation significantly influence marketing performance. From the analysis of the data can be explained that companies that perform sustainable innovation has influence on marketing performance above industry average. Further Hilmi et al (2010) in his research concluded that the innovation process significant positive effect on the performance of SMEs in Malaysia, but instead of product innovation significantly negatively associated with non-performance. This significant negative relationship does not happen, because the respondents in the study were passive accidental entrepreneur. Empirical studies conducted by Apaydin (2011) concluded that companies that innovate, to have a better performance than before innovate.

7. Conclusions and Recommendations

7.1. Conclusion

This empirical study can produce a good contribution to the development of science and practical contributions. Research contribution to the development of science in the form of the findings of the test results and clarifying the theories developed on the model and the consistency of the findings generated by previous researchers. The contribution of this study can be described as follows:

1. SME performance is influenced by the orientation of Entrepreneurship, low cost strategy, differentiation strategy and ongoing innovation. These findings enrich the science of management strategies related to resource-based strategy model or resource-based view (RBV) is expressed Christensen (2003), Barney (2002) and Pearce & Robinson (2009), where the company's performance is influenced by internal resources. This research study is focused on the intangible asset that is character-oriented SME owners entrepreneurship and innovation resources in the form of ideas and the capacity for innovation. Intangible assets is a resource that can not be touched or seen, but this asset is very important to create a competitive advantage.
2. Low cost and differentiation strategy significant positive effect on sustainable innovation. The findings of this study enrich the concept of management strategies that reflect the power of innovation undertaken by the company, of Zadek (2004), Starik, Sharma et al (2005) and Pearce & Robinson (2009). Sustainable innovation as part of the evolution that must be executed within the company, as many companies failed to survive in the modern industrial world is caused by a lack of innovation (Zadek, 2004). This finding supports the idea Terziovski (2007) who argued that there is a relationship between the implementation of innovation with a business strategy that is designed to improve company performance. Furthermore Lawrence (1994) and Qian (2009) states that sustainable innovation is backed by a reliable strategy is key companies to win the competition.
3. Entrepreneurial orientation not significant effect on sustainable innovation, but relations between the two variables is positive, which means that the stronger the attitude of entrepreneurial orientation which is owned by the owner of batik SMEs, the higher the level of innovation undertaken. Basically, entrepreneurial orientation with regard to the search of opportunities, the courage to take risks (Knight, 2000). Creative thinking and innovation is at the core of business skills, being an entrepreneur become a

leader in the effort to develop and apply these skills (Zimmerer, et al, 2008). Thus it can be said that an entrepreneur is an innovator, but not always as inventor (Suhariyadi et al, 2007).

4. This empirical study also produced findings that a low-cost strategy of significant positive effect on sustainable innovation. The findings are similar to research is still hard to find, because it can be used as a reference for researchers next. Some of the factors that can reduce the cost of production of batik is the continuity of raw materials, control operating costs, optimization of production facilities, the efficiency of the distribution of products and production processes, optimization of production technology and competitive pricing. This low cost strategy in practice is preferred on the innovation process including development of production technology, batik dyeing techniques, marketing techniques and the selection of raw materials.

These findings enrich the theory advanced by Kim (2005), Kim and Mauborgne (2005) and Terziovski (2007) who argued that to improve the performance of a company should have the right strategy that can be implemented in innovation. Another theory related to these findings is Zimmerer & Scarborough (2008). They say that the cost leadership strategy is a powerful weapon to gain a competitive advantage, which can determine the level of performance of the company.

5. Differentiation strategy significant positive effect on sustainable innovation. Some of the factors that determine the differentiation strategy is differentiation on product development, product quality, process, service and market differentiation. The implementation of this differentiation strategy, more focused on product innovation, particularly the development of product motive, the basic ingredients of the product, and coloring in the availability of raw materials respective areas.

These findings to develop the theory of Ferdinand (2003) who argued that the company should develop a point of differentiation, because the customer is positioned as a person who tends to want something different or unique. Similar theories are Jalaluddin (2012), states that the differentiation strategy is the competitive strategy in which the number of goods to help different products or services to competitors. Practical contribution of this research study proves that the strategy of differentiation is the dominant factor in influencing sustainable innovation. A fact which can be found, that the batik industry is a legacy of Indonesian art and culture that has been recognized worldwide and has a culture that values high. This effort developed by the peculiarities of the area that became the location of batik SMEs. This is also supported by the tastes of consumers who want batik have different features according to the hallmark of regionalism. The development of batik is usually done without removing characteristics, therefore a business strategy that fits on the batik industry is differentiation strategy.

Sustainable innovation in the conduct to be followed by a low cost and differentiation strategies. Average sustainable innovation is not a major factor that can affect the performance of SMEs, but another factor is the support needed entrepreneurial orientation and business strategies (low cost and differentiation strategy). In this case the entrepreneurial orientation can not directly affect the sustainable innovation. This fact can be interpreted that an entrepreneur is not enough just to have a character-oriented or entrepreneurial attitude, but also needs to have the right business strategy to create sustainable innovation.

7.2. Recommendations

1. Advice for Researchers Next

- a. Further research is necessary to expand the research area and the sample size, given that SMEs batik has spread almost throughout the city or district in East Java.
- b. The next research study of SMEs can add other sectors, so that the findings can be generalized to all sectors of SMEs

2. Suggestions for SME owners Batik

- a. To maintain the existence of batik SMEs amid the emergence of new competitors, the need to innovate on an ongoing basis, especially on the development cirikhas motif without leaving their respective areas and the development of production techniques, in order to reduce production cost. In order motif generated is not imitated by competitors, especially the textile industry to bring down the price of batik cloth, preferably every new type produced by batik SMEs need to be taken care of to obtain a patent.
- b. SME owners should regenerate batik techniques through training in the local community, so that regeneration of batik was not until disconnected.
- c. In addition to producing batik, SME owners should try to increase productivity by improving or increasing the production of batik. With this technique besides increasing productivity levels but also can improve the quality of batik and reach a wider market without reducing the value inherent in the art of batik cloth.

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