

# THE DEVELOPMENT OF THE HYBRID BUSINESS STRATEGY MODEL FOR SMALL AND MEDIUM ENTREPRISES (SME) IN BALI PROVINCE

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**Abstract:** This research aims to develop hybrid business strategies for small and medium enterprises in Bali. The population in this research are the SMEs in Bali. There are 135 people who are the sample of this research and they are SME managers that design the business strategy used by the SME. The data analysis technique used is the Exploratory Factor Analysis. The research results show that there are four hybrid business strategies formed, namely: partnership and service strategy; innovation and promotion strategy; promotion strategy; and differentiation and innovation strategy. This shows that SMEs in general can combine several business strategies. This is done by SMEs in order to increase their business performance. The theoretical implication of this research is the revelation of new hybrid business strategies in which are the combination of several business strategies applied by SMEs. Meanwhile, the practical implication and recommendation from this research is for SMEs in Bali to maintain and develop their business by combining available business strategies in the hope that this can improve customer satisfaction and result in the increase in SME performance.

**Keywords:** innovation strategy, differentiation strategy, service strategy, partnership strategy, promotion strategy, hybrid business strategy.

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## 1. INTRODUCTION

Among the economic pillars of Bali is the development of Small and Medium Enterprises (SME). The existence, development, and continuity of SMEs are deemed to be very strategic and crucial matters. To maintain the continuity of SMEs, the need to design empowerment and development strategies arises. To date, business strategies used by SMEs to maintain and develop themselves are: innovation strategy (Hung Tsai et al., 2008; Guijarro et al., 2016, Jajja et al., 2017; Dorson, 2017; Huang & Li, 2018; Kim et al., 2018), differentiation strategy (Davicik & Sharma, 2015; Parnell et al., 2015); service strategy (Valtakoski & Witell., 2018), partnership strategy (Harrington et al., 2016; Rezaei, 2018) and promotion strategy (Haddoud et al., 2017; Coudounaris, 2018).

Innovation strategy becomes an absolute must to be applied due to the tight competition and the demand of the market. Without innovation strategy, SMEs will be left behind by their competitors. As a result, many businesses use the innovation strategy to increase their performance (O'cass & Weerawardena, 2009; Lofsten, 2014; Crema et al., 2014; Saunila, 2016; Nyuur et al., 2018). Additionally, SMEs also need to create distinctions from other businesses to be easily recognized in the market (Parnell et al., 2012; Hutchinson et al., 2015; Davcik & Sharma, 2015). This business strategy must be complemented with providing their best service to the market in order to satisfy the market or consumers, with the aim to attain their loyalty (Bennett, 2007; Valtakoski & Witell, 2018). Considering the limitations of SMEs in the global era, SMEs need to develop partnerships with other SMEs, with consumers, and suppliers in order to strengthen their capabilities. (Howarth & Fredericks, 2012; McAdam et al., 2014; Gao et al., 2016). All of this needs to be communicated to the market so that the market recognizes and has more trust towards the SME which eventually would

result in the increase in performance, such as the increase in sales volume, increase in market share, and the increase in net income (Prabhudesai & Prasad, 2017; Larsson et al., 2017; Muhonen et al., 2017; Neneh, 2018).

Businesses can select one or more business strategies. Considering the increasing expectation of the market regarding the products offered, a new or a combined business strategy is required. This is the motivation to develop the existing business strategies by combining business strategies to become a hybrid strategy. Through hybrid strategies, the performance level of SMEs can increase (Salavau, 2013; Rehman et al., 2017)

Based on the issues of SMEs in Bali and the unavailability of previous studies that review the development of hybrid business strategies, or in other words the combination of existing business strategies, complemented with other empirical review results related to the existing issues, the motivations in this study are : 1) review available business issues; 2) develop previous studies by integrating several business strategies that has been implemented by SMEs into a hybrid business strategy.

Thus, the aim of this research is develop a hybrid business strategy model for the SMEs in Bali.

## **2. THEORETICAL REVIEW**

Innovation is among the business strategy choice frequently chosen by SME managers or owners. Innovation strategy has been the focus of attention of researchers and business practitioners in the current competitive environment (Berghman et al., 2013; Alshammari et al., 2014) because innovation is a key factor in the world economic growth (Boult et al., 2009; Babkin et al., 2015) and company growth (Back et al., 2014). In this condition, researchers and businesses attempt to develop strategies and resources in making innovations in order to maintain the continuity of their competitiveness (Bernardo, 2014) and increase their long term income and profit growth (Berghman et al., 2013). The great attention given by researchers and practitioners on innovation has lead to the emergence of variability in the definition of innovation. Nevertheless, in the industry context, nearly all researchers have similarities regarding innovation, that is to say a process to transform knowledge and ideas into new products and services that have value to customers and the market, as well as to provide profit and added values for the company (Feeny and Rogers, 2003; Jaskyte, 2011; Acar and Acar, 2012; Al-Hakim and Hassan, 2013; Prajogo, 2016). Innovation strategy is the attempt to change knowledge and ideas into products, processes, services, and new systems to increase the profit of the company and stakeholders (Perdomo-Ortiz et al., 2006; Perdomo-Ortiz et al., 2009; Jaskyte, 2011) or to transform knowledge into money (Boult et al., 2009).

Differentiation strategy is among the strategies that is included in porters generic strategy. Companies that want to maintain their competitiveness need to adopt differentiation strategy. Differentiation can be implemented on the products or service. Differentiation is the perception of customers regarding companies that constantly offer distinguishable and qualified service compared to other services offered by their competitors (Chenet et al., 2010). Douglas et al. (2010) defined differentiation strategy as the strategy to develop products, services, warranties, brand image, shape, quality and value that is unique to customers and difficult to be imitated by their competitors (Baroto et al., 2012).

Service strategy is among the ways a company can achieve their competitive advantage. Through good service, a company can provide satisfaction to their consumers, and this will have an impact on the improvement of consumer satisfaction, increase in consumer loyalty and finally becomes a free promotional media for the company because consumers will always share positive stories about the company's products. This will be able to make the company perform better than their competitors. Such phenomena has been studied by Edelman et al. (2002) and the results have shown that by controlling their quality, fulfilling consumer demands, providing products of the best quality and great services, the company would be able to improve their performance. This is consistent with the research results shown by Bell et al. (2005) and Ng Sandy et al. (2011).

The term business partnership has long become a public discussion, in which it fundamentally refers to the definition of a cooperative relationship between businessmen. Brennan (1997) viewed partnership as a form of interdependency between two participants. As an example, Scott and Westbrook (1991) viewed partnership as an agreement, interdependency, and trust; Webster (1992) viewed partnership as interdependency and trust; Stuart (1993) viewed partnership as an interdependency with a long term characteristic; Graham et al. (1994) viewed partnership as a commitment, long term vision, the sharing of information, sharing of risk and return, and voluntary; Ellram and Hendrick (1995) viewed partnership as a commitment, sharing of information, sharing of risk and return; Gentry (1996) viewed partnership as a commitment, focus on continuous improvement, long term vision, sharing of information, sharing of risk and return; Brennan (1997) viewed partnership as a form of interdependency; and Saxton (1997) viewed partnership as the exchange

of resources and value from access to resources. The partnership with supplier strategy has been studied by Ojeda-Gomez et al. (2007) and partnership with consumer has been studied by Du (2007) and Hua et al. (2011). With this formulation, even when business practitioners are in an equal positions and economically equal partners, they work on different scales (Peng, 2011). This is in line with the statement in a research conducted by Huang and Chang (2008) and Joia and Malheiros (2009).

Promotion is the attempt of a company to influence potential buyers through the utilization of all elements and mixture of marketing. Meanwhile, according to Risvi et al. (2012), promotion is the communication of information between sellers and buyers with a purpose to influence the attitude and actions of buyers, starting to know the product until the customers remember the product. Kharis (2011) explained that sales promotion is a form of direct persuasion through the utilization of incentives that can be adjusted to stimulate the purchase of the product immediately and/ or increase the amount of goods purchased by customers. Promotion can be in a monetary and non-monetary form. These types provide good utilitarian and hedonism benefit to consumers. the utilitarian benefit refers to the benefit such as quality, comfortability in shopping, saving time, effort and cost (Omotayo, 2011). On the other hand, the hedonism benefit refers to the expression of value, exploration, entertainment, intrinsic stimulation and pride (Omotayo, 2011). Effective promotional activities would certainly have a positive effect on the improvement of total sales.

Hybrid business strategy is the combination of currently available business strategies. This combination may consist of a mixture of several strategy choices such as innovation with service, combination of innovation with promotion, and other combinations.

### 3. RESEARCH METHOD

The population in this research are all the SME managers in Bali. The sampling method in this research is determined by the analysis tool used. The analysis tool utilized is the factor analysis, in which according to Malhotra (2012:46) the number of sample/ respondents are determined to be 5-10 times the number of variables. There are 16 variables used in this research, and the number of samples is determined to be 160 (10 x variables). The 160 SME managers are selected proportionally from each SME sector.

In this research, the total number of sample is 135 people because in the data collection process of 160 sample, only 135 samples provided complete data.

The data analysis is conducted by using the Factor Analysis. This method is used because it is in line with the aim to determine the hybrid business strategies utilized by SME managers in Bali. (Malhotra,2012:645) stated that factor analysis is among a multivariate statistic analysis form with the general purpose to determine one or more concepts that are allegedly the source that underlies a set of real variables. Thus, if there are a set of correlated data, with factor analysis, it can be summarized and the number of variables can be reduced. Mathematically, the factor analysis model is as follows:

$$X_i = A_{i1}F_1 + A_{i2}F_2 + A_{i3}F_3 + \dots + A_{im}F_m + V_iU_i$$

Annotation:

$X_i$  : standard variable - i

$A_{ij}$  : multiple regression coefficient of variable i on factor j (common factor)

F : general factor

$V_i$  : standard regression coefficient of variable i on unique factor i

$U_i$  : unique factor of variable i

M : the number of general factors

General factors that can be expressed as linier combination of variables that can be calculated with the following formula :

$$F_i = W_{i1} X_1 + W_{i2} X_2 + W_{i3} X_3 + \dots + W_{ik} X_k$$

Annotation:

$F_i$  : estimation of factor i

$W_i$  : weight or factor value coefficient

$k$  : number of variables

#### 4. RESULTS AND DISCUSSION

The research data are attained from questionnaires that have been distributed to 160 people and the valid data attained are from 135 respondents. Based on the data attained through questionnaire, the distribution of respondents are displayed as follows.

##### The Hybrid Business Strategy Used by SMEs in Bali

This research studies several strategy variables that have been implemented by SMEs in Bali. The variables observed are innovation strategy, differentiation strategy, service strategy, partnership strategy, and promotion strategy. Before the analysis and discussion of research results, the explanation and description of the observed variables are displayed first.

##### Analysis Procedures

To determine the variables of hybrid strategy implemented by SMEs in Bali, there are some steps that must be conducted in this analysis, which is explained as follows:

##### Determining or formulating the problem

Related to this matter, the purpose of utilizing the factor analysis has been formulated. The purpose of the factor analysis is to simplify and determine one or more hypothetical variables that are perceived to be the elements that underlie or represent a set of real variables of the hybrid business strategy. To answer this problem, based on several reviews and considerations, there are 16 variables which will be studied. The measurement of variables utilize an ordinal scale, namely the Likert Scale with a value from 1 to 5. The total number of respondents is 135 people. The sample are selected from SME managers in Bali and are selected proportionally based on the SME sectors. These sectors are the retail sector, agricultural sector, non-agricultural sector, and other sectors. Additionally when the interviews were conducted, the SME managers claimed that they have implemented several business strategies simultaneously.

##### Formulating the Correlation Matrix

By using the calculated data results from SPSS Release 10.0, correlated variables among the 16 variables studied can be identified. The unrelated variables are then excluded from the analysis. The Barlett Test of Sphericity is utilized to measure the significance between the variables.

Table 1: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		0,763
Bartlett's Test of Sphericity	Approx. Chi-Square	1106,727
	Df	120
	Sig.	0,000

From the Barlett Test of Sphericity, a statistic value 1106,727 was attained, with a significance value of 0. This result shows that there is a correlation between variables, and the probability of error on the statement that the variables are correlated or are not independent has a value of 0 percent. Afterwards, the Keiser-Mayer-Oilskin (KMO) test is conducted to determine the adequacy of sample used in the analysis. The KMO calculated value is 0,763, which means that the adequacy of the sample used is categorized as good. Considering the magnitude of both values above, the analysis factor can be continued.

##### Determining the number of factors

The determination of the number of factors, in which each factor is a combination of several correlated variables, is done based on the eigenvalue. Eigenvalue is the summation of the variance of each factor's correlated values on each variable that forms the related factor. The greater the eigenvalue of one factor, the more representative the factor is in representing their variable group.

Nevertheless, the factors chosen for further analysis (in the model) are limited to the factors with eigenvalue of greater or equal to 1 (eigenvalue  $\geq 1$ ). With this limitation, the values are displayed in Table 2.

**Table 2: The Forming of Factors**

Factor	Eigenvalues	% of Variance	% of Cummulative
1	5.424	33,897	33,897
2	2.260	14,126	48,023
3	1.894	11,839	59,853
4	1.050	6,559	66,422

From the 16 variables, 4 factors are formed which have eigenvalues above 1 and show a cumulative percentage value of greater than 66,422 percent. This means that the four factors have the ability to explain more than 66,422 percent of the cumulative total variety.

Afterwards, an analysis on the 4 factors through extraction is conducted by selecting 4 factors which to attain the formation of factors. This is displayed in Table 3.

**Table 3: The Forming of Factors**

Factor	Eigenvalues	% of Variance	% of Cummulative
1	5.424	33,897	33,897
2	2.260	14,126	48,023
3	1.894	11,839	59,853
4	1.050	6,559	66,422

#### Factor rotation

The factor matrix before the rotation shows a complex result which makes it difficult to be interpreted. Thus, there is a need to simplify the structure by conducting a factor rotation which will make it easier to explain all the factors being analyzed in the model. In this research, the varimax rotation is utilized because the varimax rotation provides better results compared to other rotation techniques and it is easier to be analyzed from the theoretical perspective. With the utilization of a varimax factor rotation method, namely the orthogonal rotation method (not correlated) which is able to reduce the number of variables that have high loadings on one factor. As a result, a more simple and easily interpreted factor matrix will be attained.

In Table 4, it can be seen that the 16 variables are distributed into 4 factors and are selected variables of the hybrid business strategy implemented by SMEs in Bali. The four hybrid business strategy variables implemented by SMEs in Bali are displayed in Table 4 :

**Table 4: Factor Matrix with the Varimax Rotation**

Variable	Factor 1	Factor 2	Factor 3	Factor 4
Y1.1	0.286	0.546	0.338	-0.327
Y1.2	0.397	0.467	0.131	-0.519
Y1.3	0.219	0.571	0.462	0.046
Y1.4	0.139	0.293	0.661	-0.175
Y1.5	0.320	0.283	0.662	0.045
Y1.6	0.396	0.110	0.619	0.151
Y1.7	0.792	0.245	0.200	0.057
Y1.8	0.737	0.138	0.252	-0.015
Y1.9	0.821	0.129	0.155	0.150
Y1.10	0.784	-0.087	0.003	0.064
Y1.11	0.764	-0.040	0.123	0.205
Y1.12	0.322	0.417	-0.538	0.072
Y1.13	0.030	0.839	0.100	0.203
Y1.14	0.321	0.342	0.030	0.722
Y1.15	0.277	0.142	-0.070	0.842
Y1.16	-0.141	0.827	0.143	0.188

**Providing factor names**

The next step is to formulate a name for each factor that has been formed. The names can be seen in Table 5.

**Table 5: Names of Factors formed from the hybrid business strategies implemented by SMEs in Bali**

No	Factor Name	Variable	Variable Name	Factor Loading	% Variance	% Cumulative
1	Hybrid Business Strategy I –Service and Partnership	Y1.7	Service in line with needs	0.792	33,897	33,897
		Y1.8	Post-sale service	0.737		
		Y1.9	Satisfying service	0.821		
		Y1.10	Partnership with supplier	0.784		
		Y1.11	Partnership with consumers	0.764		
2	Hybrid Business Strategy II –Innovation and Promotion	Y1.1	Product Innovation	0.546	14,126	48,023
		Y1.3	Marketing Innovation	0.571		
		Y1.13	Advertisement	0.839		
		Y1.16	Social media	0.827		
3	Hybrid Business Strategy III –Differentiation	Y1.4	Personnel Differentiation	0.661	11,839	59,853
		Y1.5	Distribution Differentiation	0.662		
		Y1.6	Image Differentiation	0.619		
4	Hybrid Business Strategy IV –Promotion	Y1.14	Sales promotion	0.722	6,559	66,422
		Y1.15	Direct sales	0.842		

**The Grounds for the Provided Factor Names :**

**1). Factor 1 (Service and Partnership Strategy)**

The service and partnership strategy factor is formed by the variables of service that are in line with the needs of consumers, post purchase service, satisfying service, partnership with suppliers, and partnership with consumers. This reflects the business strategy that is usually combined by SMEs in Bali.

**2). Factor 2 (Innovation and Promotion Strategy)**

The innovation and promotion strategy factor is formed by variables that reflect the innovation and promotion strategy implemented by SMEs in Bali such as product innovation, marketing innovation, advertisement activities, and communicating through social media.

**3). Factor 3 (Differentiation Strategy)**

The differentiation strategy factor of SMEs in Bali is formed by the variables of personnel differentiation, distribution differentiation, and image differentiation.

**4). Factor 4 (Promotion Strategy)**

The promotion strategy factor is formed by the sales promotion and direct sales variable.

**Factor Interpretation**

Fundamentally, the factor loading identifies the correlation between the variable and its factors. The higher the factor loading value, the greater the relationship between the variable and the factor.

The minimum level of factor loading in factor analysis is determined in a relative manner and there are no standardized terms.

Factor interpretation is conducted by keeping the variables with a minimum factor loading (correlation) of 0,5, while excluding the variables with factor loadings lower than 0,5 from the model. With this term, 2 variables must be excluded

from the analysis, because the factor loading value is lower than 0,50. These variables are Y1.2 (production process innovation) with a factor loading of 0,467 and Y1.12 (partnership with competitors) with a factor loading value of 0,417. With the exclusion of these two variables, there are 14 variables to be considered as business strategy choices of SMEs.

Table 3 shows that the 14 variables are distributed into 4 core factors. The total variance is 66,422%, which means that the 14 variables are able to explain the business strategies implemented by SMEs in Bali. This also means that 66,422% of the business strategy factors are implemented by SMEs in Bali.

The four factors are given names in line with the measureable variables in the factor. The factor analysis does not determine the names and concepts of the resulted factors. The name and concept (meaning) of each factor is determined by the researcher based on the general meaning of the variables included in the factor.

The explanations of each factor are as follows:

### **1). Factor 1 (Partnership and Service Strategy):**

The first factor consists of:

Y1.7 Service in line with needs

Y1.8 Post purchase service

Y1.9 Satisfying service

Y1.10 Partnership with supplier

Y1.11 partnership with consumers

This first factor is the business strategy most frequently implemented by SMEs in Bali in the attempt to increase their performance. This is because this factor has a high eigenvalue, which is 5,424 and is able to explain 33,897% of the variances in the variable's data with a factor loading as shown in Table 3.

In the first factor, the variable with the highest factor loading is Y1.9 (satisfying service), while the variable with the lowest factor loading is Y1.8 (post purchase service). A higher factor loading shows that the related variable can be used as a surrogate variable (representative of the factor).

Factor 1 which is the hybrid business strategy model implemented by SMEs in Bali shows that the satisfying service strategy must be implemented in order to increase their performance.

### **2). Factor 2 (Innovation and Promotion Strategy)**

The second factor of a hybrid business strategy implemented by SMEs in Bali is formed by the following variables:

Y1.1 Product innovation

Y1.3 Marketing innovation

Y1.13 Advertisement

Y1.16 Social Media

The second factor has an eigenvalue of 2,260 and is able to explain 14,126% of the variance in the variable (total variance). In the second factor, the highest loading factor is from the Y1.13 (advertisement) variable, while the lowest factor loading is from Y1.1 (product innovation). A high factor loading value shows that the variable can be used as a surrogate variable (representative of the factor).

The second factor becomes the hybrid business strategy choice to be implemented by SMEs in Bali because of the advertisement activities.

### **3). Factor 3 (Differentiation)**

The third factor regarding the hybrid business strategy most frequently used by SMEs in Bali is the differentiation business strategy. This factor is formed by three variables, namely:

Y1.4 Personnel differentiation

Y1.5 Distribution differentiation

Y1.6 Image differentiation

This factor has an eigenvalue of 1,894 and this factor is able to explain the variance in the variables with a total variance of 11,839%. Among the variables which form the third factor, the one with the greatest influence is the variable with the highest factor loading.

In the third variable, the variable with the highest factor loading is Y1.5 (distribution differentiation), while Y1.6 (image differentiation) has the lowest factor loading. The variable with the highest factor loading can be selected to be the surrogate variable (representative of the factor).

The third factor which formed the hybrid business strategy model of SMEs in Bali is distribution differentiation. Thus, designing a differentiation in distribution can highly influence the performance of the SME.

#### **4). Factor 4 (Promotion Strategy)**

The fourth factor which forms the hybrid business strategy of SMEs in Bali is formed by the following variables :

Y1.14 Sales Promotion

Y1.15 Direct Sales

The most influential variable in the fourth factor is also based on the highest factor loading, and this variable is direct sales, as shown in Table 3. The fourth factor has an eigenvalue of 1,050 with a total variance of 6,559% which means that this factor explains the variance in the variables with a total variance of 6,559%.

#### **Model Accuracy**

The accuracy of the model can be determined from the magnitude of the residual. Residual is the difference between correlation and the correlation which is produced based on the factor matrix estimation. The analysis results show that the percentage of the residual is 20% or 78 residuals have a basic absolute value of  $>0,05$ . This reveals that the model has an accuracy of 80% with a level of significance at 5% or the model can be accepted with a model accuracy of 80%.

#### **Managerial Implications with the Development of the Hybrid Business Strategy Model of SMEs in Bali**

Based on the research results, there are some managerial implications that can be used by the SMEs in Bali in choosing and implementing the right business strategy in the attempt to increase their performance. From the research results, there are 4 factors that form the hybrid business strategy, and the four hybrid business strategy of SMEs in Bali are:

##### **1). Service and Partnership Strategy Factor**

Based on the research result , the service and partnership factor are the strategies most frequently implemented by SMEs in Bali. Thus, managers of SMEs in Bali are advised to continuously provide the best service which can satisfy consumers and also develop partnerships with suppliers and consumers in order to strengthen their capabilities. This phenomena strengthens previous studies, such as the research conducted by Valtakoski & Witell (2018), in which the results showed that by providing their best service, consumers will be satisfied and loyal. The loyalty of consumers would surely have implications in the form of an increase in sales. Likewise, in providing their best service, SMEs need to develop partnership with customers. This is in consistent with the research result by Rezaei et al. (2018) and Jafar et al. (2018).

##### **2). Innovation and Promotion Strategy Factor**

The second factor which forms the business strategy choice of SMEs in Bali is innovation and promotion. Thus, SME managers are expected to continuously conduct product innovation and promotions through advertisement activities and social media. SMEs must also be sure to communicate any innovations that they have done to consumers so that consumers realize the improvements made on the products or any other aspects. This is in line with the research conducted by Jajja et al. (2017).

##### **3). Differentiation Strategy Factor**

The third factor that becomes the business strategy choice of SME is the differentiation strategy. Continuously creating differentiations in the form of distribution differentiation and image differentiation is a managerial implication that must



be implemented by SMEs in Bali. Studies on the differentiation strategies of SMEs in Bali have also been conducted by Nebojsa & Sharma (2015) and they have shown that differentiation strategy is able to improve business performance.

#### **4). Promotion Strategy Factor**

The fourth factor which becomes a hybrid business strategy choice for SMEs is promotion. This strategy can be performed by direct sales or sales promotion. A strategic implication which must be implemented by the SMEs in Bali is by making direct contact with the market and by holding sales promotion such as through brochures, discounts, and giveaways for purchases in a certain amount. These promotion programs are able to strengthen the brand image which would eventually increase the sales level of the SME.

#### **Research Limitation**

This research has several limitations. Firstly, it has not combined other alternative business strategies, such as customer relationship strategy, and cost leadership strategy. Furthermore, the groupings of the SMEs has only be done based on four sectors, consistent with the groupings done by the Board of Cooperatives and SME in Indonesia.

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