

Partnership Strategy in SMEs Industry to develop Competitiveness and the Implication to the Corporate Performance : A Study on SMEs development in West Java Indonesia

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Abstract- *It has been commonly acknowledged that the micro, small and medium enterprises (SMEs) play a very important and strategic role in the national economic especially in the GDP, the regional GDP, employment, income distribution and the poverty reduction. The population of SMEs in Indonesia has reached up to 53,823,732 units or 99.9% which are distributed throughout the Indonesian regions (The Ministry of Cooperatives and SMEs, 2012), and in the West Java Province itself there are 8,731,790 business units. This shows that through optimum capitalizing, it would bring significant contribution to the people's welfare (BPS, 2011).*

Keywords: *SME; Corporate Performance; Decision-making; GDP*

1. INTRODUCTION

Under the national development program aiming at pro poor, pro growth and pro rural, the counseling program to develop the SMEs should be prioritized. According to Zuhail (2010) the employment rate of 99.5% is the basic foundation and that the counseling and guiding in technological support to increase the productivity has been needed. However, the problem arising is that the competitiveness is pretty low which is due to the financing and marketing (BPS, 2011). Thus the mortality and frequency of shifting in types of business operation has become the common phenomena. The mission as prescribed in the Law number 20 regarding SMEs is to uplift the competitiveness and develop the business climate through a policy regarding partnership. One of the partnership aspects is the mutually beneficial relation between SMEs and the large scale business facilitated by both the Central and Regional Government to stimulate the partnership (Law number 20 of 2008 Chapter V articles 11 and 25). Partnership is not a new strategy but it has come up as an important issue due to the complexity and risks both in the national and international economic environment as well as the limited capability and resources in a business unit. Therefore the strategic partnership is sought to enhance the relation between the demand and supply in the form of cooperation between independent business organizations. Striving for the sales in the high competition requires collaborative venture to face technology, extend the resources, increase

productivity and quality, and penetrate new markets (Cravens, 2013). Thus, this research attempts to find out to what extent the effect of the strategic partnership can increase the competitiveness and the implication to the performance of SMEs in West Java.

1.1 Hypotheses:

1. The partnership strategy applied by the SMEs is effective in increasing the competitiveness in West Java.
2. The partnership strategy gives effect on the performance of SMEs in the competitiveness capability.
3. The strategy and the business performance capability, both simultaneously and partially, give effect on the performance.

2. LITERATURE REVIEW

There are a range of different definitions on the partnership strategy. Craven and Piercy (2013) define this as the strategic relationships and Pierce dan Robinson (2013) strategic alliance. Nevertheless, basically partnership can be said as cooperation between small business and large-scale business organizations or other parties on the basis of mutual interest, strengthening and profitability (as implied in the Law number 20 and Micro & SMEs, 2008). As stated by Thompson, Strickland and Gamble (2010), partnership is indeed an alliance of corporates to combine resources, capability and competence to reach the goal. Operationally, Pierce dan

Robinson (2013) state that partnership refer to aliances with supplier, partners, contractors, and other providers that allow partners in the alliance to focus on what they do best, farm out everything else, and quickly provide value to the customer. In the Partnership strategy, different elements will develop comprehensively as it involves the stakeholders. This has been applied by corporates in the world competitions. (Cravens dan Piercy, 2013). For example, a number of Japanese and Korean corporates have built alliances to face the Asian market. Even the supporting components are supplied by the local producers of SMEs. This way, they open their way wide to strive the market and the result gives them opportunity to pump up the value for the customers. Cravens and Piercy (2013) has illustrated the diversity and classify it into 4 categories, namely: (1) opportunity to upgrade the value and combine two or more competent corporates. (2) Environmental complexity, (3) competition strategy and (4) differentiation in resources and expertise. Partnership involves vertical relationship between suppliers and customers, and horizontal relationship consisting of business partners such as similar type of business organizations, higher educational institutions, and the internal relationship within the corporate departments and functional divisions (Cravens and Piercy, 2013). Thus, one way to find out the type of partnership strategy used by a corporate is to see if the relation built is vertical or horizontal.

2.1 Competitive Advantage

Competitive advantage, including how to maintain it, is the key concept of the strategic management. Competitiveness capability can be acquired by having something which competitors do not have. It is the competitive strategy designed to be exploited by an organization. Since this has been saturated by different notions created by the competitors, it is therefore necessary to understand the competitive environment as the arena to seek the competitive capability. Accordingly, Porter (2004: 26) states that the competitive capability brings an illustration to the corporate to select and apply the common strategy and sustain the competence based on the finance and strategy of the differentiation as well as the focus on the certain market target. Porter, sighted in Wheelen and Hunger (2012) and Pearce and Robinson (2013), describes the generic strategy based on the differentiation, focus differentiation and financial focus. He states that the cost leadership can be performed through becoming a producer with low cost in the industry. The profit can be obtained through putting the position the same as the competitors in terms of the price or setting the product volume with the price below the competitors. **Differentiation** refers to the fact that the corporate is different within several dimensions which become the value for the customers. This corporate with differentiation has the performance above the average if

the premium price is tagged greater than the additional cost for the uniqueness. Unlike the premium cost, there are more than one differentiation which can work well in an industry if a great variety of attributes are expected by the customers. **Differentiation Focus** is different through another dimension in a typical target market. It is used to identify the competitors with lower performance. **Cost focus** refers to a corporate who creates the competence in the pricing for the target market such as providing low cost program for certain segment through penetration pricing strategy. According to Longenecker, Moore and Petty (2003: 33), the competitiveness capability consists of results, strategies and foundations. The result expected has the capability of gaining the profit, marjet segment, customers and the ability to remain existing in an industry. This is in concord with the strategy proposed by Porter (1980) who states that it gives the illustration to select and apply the strategy to increase and sustain the competitiveness. This strategy is based on the finance and differentiation. The approach used by Longenecker, Moore and Petty (2003: 30) is based on the dimensions of price/value, unique service factor, notable products attributes and customer experience as well as customer convenience.

2.2 Concept of Corporate performance

The corporate performance refers to the accomplishment of the business owner or manager in running the business. However, for the SMEs, the concept is not yet well defined. Thus, it is a big challenge for the researches in this area (Kroeger, 2007) since generally the researchers tend to focus more on the variable of the information (Cooper dan Emory, 1995). The performance is measured subjectively based on the manager's perception as the business actor since it is hard to obtain objective data (Covin & Slevin, 1989). Subjective approach can still be employed in a research by using variety of different small industries having different goals and criteria (Lee dan Miller, 1996). Covin and Slevin (1989) also assert that the subjective measurement of performance has high reliability and validity. In addition, there is a strong correlation between the subjective and the objective measurement (Dess, at all, 1997). Furthermore, according to Covin (1991), there are a number of reasons for the use of subjective approach, namely: a) Business organizations, particularly the small scale, are reluctant to reveal the financial data. Thus the data can be more complete subjectively; b) The financial data is not publicized so that it is impossible to investigate the figures accurately. c) There is an assumption that the accurate financial data has been reported to be further interpreted; d) The absolute scores for the performance criteria of the financing performance is affected by the factors related to industry. Thus, the research, particularly on the ability to gain profit, is based on the subjective measurement through the perception of the small-scale business actors. Cleveland, et. al.

(1988) state that the performance can be measured through the combination of each function including financing, marketing and manufacturing. The financial performance can be measured by using *return on assets* (ROA), *Return on investment* (ROI) and the value of asset. The marketing performance can be measured through the sales and customer satisfaction. It is important to see the business performance as the feedback for the future strategic plan (Chenhall, 1997) through the performance appraisal and the business performance reflects how effective the strategy has worked. In other words the better the financial performance and the corporate position in the competition, the better the strategy has shown its application (Thompson, Stirckland and Gamble, 2010). In the meantime, according to Best (2005: 36), to facilitate the financial performance, the corporate requires a series of parallel measurement to go through the marketing performance. Although it has no elegance of financial accounting, individually and collectively, it brings a different performance perspective which is more strategic. The report gives us information about the market growth, segment, the customer's retention, new customers, dissatisfied customers, relative product quality, relative service quality and relative new product sale. The performance appraisal is a periodic determinant of the operational effectiveness of an organization, and this is a part of the implementation of strategic management. Barney and Hesterly (2010, 13) state that the effectiveness of the strategic management process refers to how far the corporate accomplishes the competitive advantage. The indicator used is among others the financial performance in terms of accounting through the ratio of Rate of Return on Asset (profit after tax : total asset), oru Rate of return on Investment (Profit before tax : Total Asset). Similarly, Barney dan Hesterly (2010) also add that this calculation is called *economic performance* where the *rate of return* should be compared with the *cost of capital*. Thus it is not just comparing with the return of the industrial domain. The competitive advantage and corporate performance can come in three possibilities as follows:

1. Competitive advantage: The state of being above the average accounting performance and normal economic performance
2. Competitive parity: The state of the accounting performance being the average and the normal economic performance
3. Competitive disadvantage: The state of the accounting performance below the average and the normal economic performance.

A research conducted by Daniel and Reitsperger (1991: 54) proves that if the business organization continuously employs the strategy, it will give feedback more frequently to improve the performance. According to Jaworski & Kohli (1993: 53-70) the performance appraisal can be applied within two different approaches as follows:

1. *Judgmental*: This appraisal is conducted through the whole business and the competitors which are valued at the scale of 5 points. The appraisal is related to profitability, business scale, market segment and growth (Deshpande, Parley & Webster, 1993: 74).
2. *Objective*: This method involves figures of both financing and the percentage. Kohli and Jaworski (1990) employ ROI, profit, sales volume, market segement and sales growth. Whereas Narver & Slater (1990) apply Rate of Return on Asset (ROA) as the performance parameter.

However, according to Chong (2008), the performance of SMEs can be measured by using the hybrid approach which is the combination of the financial and non-financial parameters. The financial parameter involves cashflow, profitability and Rate of Return on Investment (ROI); whereas the non financial parameter involves customers satisfaction, waiting period of goods delivery and market segment. The dimension of the business performance is presented in table 1 in Annexure. In this research, the profitability and corporate growth will be developed as the indicator for the endogen variable.

3. METHODOLOGY

3.1 Operationalization Variable

In this section, the operationalization variable is determined from the complete set of data about dimension, indicators, parameters and the scale. There are two types of variable, namely, independent and dependent variables. The former refers to the variable that affects or serves as the cause of the dependent; whereas the latter acts as the parameter to determine the effect of the independent (Malhotra 2010: 253). This research consists of one set of independent variable referring to the the partnership strategy (X_1), competitive advantage (X_2), and one set of dependent variable referring to the business performance (Y). Both variables will be correlated both partially and simultaneously. The degree of each independent variable to the dependent will be determined by using the regression coefficient. There are two sources included in this research, namely the primary and the secondary data. The former consists of empirical data of the corporate management response towards the partnership strategy and competitive advantage. The latter consists of the profiles of SMEs obtained from the Ministry of Cooperative and SMEs and the Office of Cooperative and SMEs of the West Java Province and the Statistic Centre Bureau.

4. DISCUSSION AND RESULT

The total sample population is 288 units of SMEs operating in trades and manufacture. The method employed is the descriptive and explanatory survey. To test the hypothese, the multi variant through SEM (structural equation modelling) and software Lisrel veri

8.7 and SPSS of Window version. Prior to further analysis, the validity and reliability tests are administered to make sure the validity and reliability of parameter functions including the questionnaires.

4.1 The Validity Test Result

The test is based on the statistic approach through the correlation coefficient value of the statements of the total score ≥ 0.0 whereby the statement is rated valid. The result based on the product moment correlation (validity index) shows as in the table 2 in Annexure. The table 2 shows that all the validity indexes are greater than the critical value 0.30. Thus, it can be concluded that the three variables are valid to be used in the analysis.

4.2 Result of Reliability Test

The reliability test is to prove that the instrument can be repeatedly employed with relatively the same result. The test is based on the reliability coefficient of greater than 0.7 to show reliability. Based on the *alpha-cronbach* approach, the result is presented in Table 3 in Annexure.

4.3 Descriptive Analysis

To be practical the collected data from the respondents are categorized based on the total scores of responses as adopted from Sugiyono's *Metode Penelitian Bisnis* (2009: 135), i.e. the maximum scoring range and the minimum divided by the number of categories as shown in the formula below.

$$\text{Rentang Skor Kategori} = \frac{\text{Skor Maksimum} - \text{Skor Minimum}}{5}$$

Description:

Maximum score = Number of respondents \times 5

Minimum score = Number of respondents \times 1

With the number of respondents of 288 heads and the scoring range of category, each of the indicators can be determined as follows:

$$\begin{aligned} \text{Rentang Skor Kategori} &= \frac{(288 \times 5) - (288 \times 1)}{5} \\ &= \frac{1440 - 288}{5} = 230,4 \end{aligned}$$

Thus, the length of the interval for each category is 230.4, so that the response scores at the end of each statement is categorized into a continuum line as given in Table 4 in Annexure.

4.4 Descriptive Analysis of Partnership Strategy

The partnership strategy employed in the SMEs in West Java can be revealed through the result of the questionnaire based on the score for each statement. The result is presented in the table 5 in Annexure. The table 5 shows that the average scores of the responses within the variable of partnership amount to **982.8**. Referring to the continuum in Table 4, the partnership strategy employed

by the SMEs is categorized "good". In terms of the internal dimension and buyers, it is also categorized "good". The lateral dimension shows the category of "fairly good" which is not yet optimum especially building up partnership with other enterprises due to prejudice which is reflected in the statement about the constrain in partnership. In some cases they compete to win the customers through down-tagging the price. The constrain also happens in the use of technology in transaction, delivery and human resource.

4.5 Descriptive Analysis on Viability

The viability is revealed through the responses towards the statements in the questionnaire. The result of the calculation in this aspect is presented in the table 6 in Annexure. The table 6 shows that the average scores under this variable is **1005,2**. In the continuum of Figure 5.1 shows that the SMEs have high viability. In terms of the dimensions of the cost leadership and the differentiation strategy, they can be categorized into "good", whereas in the speed based strategy, they are still fair.

4.6 Descriptive Analysis of Business Performance

The performance of SMEs in West Java will be revealed through the responses to the statements in the questionnaire. The result of the scoring calculation is shown in Table 7 in Annexure. The table 7 shows the mean score for the performance variable is **1013.8** which is high based on the continuum. Similarly, based on the dimension, the score for the response in the four dimensions is also high.

4.7 Analysis of Partnership Strategy of SME's to Develop Viability and the Implication towards the Corporate Performance

As in line with the purpose of the study, that is, to investigate the effect of the partnership strategy (X) in developing the viability (Y) and the implication towards the corporate performance (Z), the study has made a series of quantitative analysis based on the structural equation modeling which comes into two models, namely, measuring and structural models. The measuring model describes the variance proportion of each manifestation variable (indicator) described in the latent variable to identify which indicator is more dominant to reflect the latent variable. Next, the structural model is formulated to identify the effect of each of the latent variable (exogenous latent variable) towards the latent dependent variable (endogenous latent variable).

4.8 Result of Normality Variable

The use of maximum-likelihood estimation in structural equation modeling requires the multivariate normal distribution. Thus, prior to the estimation, the normality test is administered based on Chi-square (according to the application in LISREL 8.7 program); and the result is

presented in table 8 in Annexure. The test result obtains the value chi-square of 135,209 with p-value of 0.000 which is smaller than 0.05. This can be concluded that the manifest data variable is not normally distributed. This means that, as stated by **Raykov and Marcoulides** (2006: 30), the estimating method is Satorra-Bentler robust maximum likelihood.

4.9 Result of Goodness-of-Fit Test

The goodness-of-fit test is applied to identify whether the model fits well to indicate the relation between the variables to be able to be categorized into good modelling. This test in the structural equation modelling can be seen based on several criteria as presented in table 9 in Annexure. The following is the elaboration of the goodness of fit of each model:

- The result of the test on χ^2 (Chi square) obtains the value of 81.03 with $p\text{-value} = 0.000$. According to **Hair et al**, (2006: 746) in the *sturctural equation modeling*, small $p\text{-value}$ is not expected (statistically significant). As we can see in the table above $p\text{-value}$ is smaller than 0.05 showing that the χ^2 test is significant. This indicates that the model does not fit. However, still according to **Hair et al**, (2006: 747), since it is difficult to obtain greater $p\text{-value}$ than 0.05, several other tests are developed.
- Another model which still has the χ^2 test is RMSEA (*Root Mean Square Error of Approximation*). Ome of these values are still debatable, but according to **Hair et al**, (2006: 748), if the value is below 0.08, the model is acceptable.
- Looking at the value of GFI (*Goodness of Fit Index*) for the research model, 0.946 shows that the model criteria is good as stated by **Hair et al**, (2006: 747) tha the GFI value greater than 0.90 shows a good model.
- The value of the *Root Mean Square Residual* (RMR) is 0.040. According to **Hair et al**, (2006: 753) when smaller than 0.08, the model is qualified good.

The result of absolute fit shows that the model qualifies the criteria of *goodness of fit* at the values of RMSEA ($0.073 < 0.08$), GFI ($0.946 > 0.90$) and RMR ($0.040 < 0.080$). Thus, the model of estimation is acceptable. This means that the empirical model fits the theoretical model.

4.10 Measuring Model

The measuring model is the model that related between the latent variable and manifest variable. In the study, there are 3 latent variables and 10 manifest variables. The latent variable of the partnership strategy consists of 3 manifest variables, competitivness 3 manifest variables and corpporate 4 manifest variables. The *goodness-of-fit* test shows that the model is acceptable meaning that the model

can be used to test the hypotheses of the research. Through the estimate method of the *robust maximum likelihood*, the flowchart of a full model is obtained to reflect the effect of the partnership strategy on the competitiveness and the implication to the corporate performance as presented below:

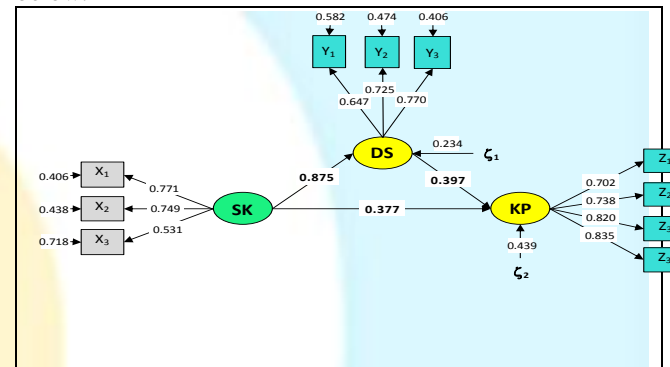


Figure 1: Coefficient of Modelling Standardization of the Structural Equation

From the factor weighing presented in the above figure, we can see the latent variable of partnership strategy (SK), dimension X₁ (internal factor) is strongest in reflecting the latent variable followed by dimension X₂ (buyer). On the contrary, dimension X₃ (lateral) is the weakest in reflecting the latent variable. In the latent variable of competitiveness (DS), dimension Y₃ (Speed Base Strategy) is the strongest to reflect the variable. On the other hand, dimension Y₁ (Cost Leadership) is the weakest. Next, the latent variable of the corporate performance (KP), the indicator Z₄ (profitability rate) is the strongest, but indicator Z₁ (satisfaction level of the sales) is the weakest. To find out if the partnership strategy, competitiveness and corporate performance have high degree of compatibility (goodness of fit), the test is administered based on the *construct reliability* and *variance extracted* approaches. The result of each indicator is presented in the table 10 in Annexure. In the variable of partnership strategy (SK), the value of variance extracted is 0.479 showing that 47.9% of information in the manifest variable (the three dimensions) is reflected through the latent variable of partnership strategy. The value of construct reliability from the three dimensions of the latent variable is 0.729 which is still greater than the recommended value (0.70). In the latent variable of competitiveness (DS), the value of variance extracted is 0.512 showing that 51.12% information from the manifest variable (the three dimensions) is reflected through the variable. The value of construct reliability from the three dimensions of the competitiveness latent variable is 0.758 which is still greater than the recommended value (0.70). Similarly, the latent variable of corporate performance (KP), the value of variance extracted is 0.602 showing that 60.2% information in the manifest variable is reflected through the latent variable of corporate performance. The value of construct reliability

from the four dimensions of the latent variable is 0.857 which is greater than recommended.

4.11 Structural Model

The structural model is the model that relates the exogenous latent variable with that of endogenous. The table 11 in Annexure shows the summarized values used in the structural model. The partnership strategy gives effect 76.6% on the competitiveness, whereas the remaining 23.4% is the effect of other factors outside of the research context. Similarly, the partnership strategy and competitiveness give effect up to 56.1% on the corporate performance (Thus, the fourth hypothesis is accepted), and the remaining 43.9% is the effects of other factors outside of the research context. Next is testing the hypothesis of the effect of the partnership strategy on the competitiveness and the implication to the corporate performance.

4.12 The Effect of Partnership Strategy on the Competitiveness

The first sub structure tested is the effect of the partnership strategy. Based on the research paradigm, the first sub structure is formulated as follows:

Table 12. Structural mode of Partnership Strategy on Competitiveness

Endogenous Constructs	Exogenous Constructs	Error variance
	SK	
DS	$\gamma_{1.1}$ SK	+ ζ_1

Description:

SK: Partnership Strategy

DS: Competitiveness

ζ_1 : Effect of other factors on competitiveness

$\gamma_{1.1}$: Coefficient of the effect of partnership strategy on competitiveness

The result of the data processing based on the Lisrel 8.7 software, the structural equation is formulated as follows:

Table 13. Structural Equation of the Effect of Partnership Strategy on Competitiveness

Endogenous Constructs	Exogenous Constructs	R-square
	SK	
DS	0.875 (12.886)	0.766

Description: The figure in bracket is the statistic value of the t-test

The partnership strategy gives contribution or effect up to 76.6% on the competitiveness and the remaining 23.4% is caused by other factors outside the partnership strategy. Next, to see the hypothesis of whether the partnership

strategy gives significant effect on the competitiveness, visually, it is presented in the following diagram.

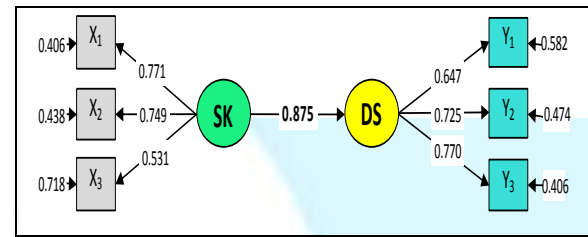


Figure 2: Diagram of Hypothesis 1 Testing

Hypothesis:

$H_0 : \gamma_{1.1} = 0$	The partnership strategy has no effect on the competitiveness
$H_a : \gamma_{1.1} \neq 0$	The partnership strategy gives effect on the competitiveness

Table 14. Result of Test on the Effect of Partnership Strategy on the Competitiveness

Path Coefficient	T_{count}	$T_{critical}$	Ho	Ha
0.875	12.886	1.96	Rejected	Accepted

Based on the test result, we can see the value of t_{count} of the variable partnership strategy is 12.886 greater than $t_{critical}$ (1.96). Since t_{count} is greater than $t_{critical}$, the standard deviation 5% rejects H_0 so that H_a is accepted. Thus, the partnership strategy gives effect on the competitiveness of the SMEs of West Java. As a whole, the strategy gives effect up to 76.6% on the competitiveness.

4.13 The Effect of Partnership Strategy and Competitiveness on Corporate Performance

The second sub structure tested is the effect of partnership strategy and competitiveness on the corporate performance. Based on the research paradigm, the second sub structure is formulated as follows:

Table 15. Structural Model of Effect of Partnership Strategy and Competitiveness on Corporate Performance

Endogenous Constructs	Exogenous Constructs		Error variance
	SK	DS	
KP	$\gamma_{1.1}$ SK	$\beta_{2.1}$ DS	+ ζ_1

Description:

SK: Partnership strategy

DS: Competitiveness

KP: Corporate performance

ζ_2 : Other affecting factors on performance

$\gamma_{2.1}$: Coefficient of effect of partnership strategy on corporate performance

$\beta_{2.1}$: Coefficient of effect of competitiveness on corporate performance

Dari hasil pengolahan data menggunakan software Lisrel 8.7 diperoleh persamaan struktural sebagai berikut.

Table 16. Structural Equation of the effect of Partnership Strategy and Competitiveness on Corporate Performance

Endogenous Constructs	Exogenous Constructs		R-square
	SK	DS	
WOM	0.377 0.397 (1.985) (2.074)		0.561

Description: The figure in bracket is the statistic value of the t-test

Simultaneously, the partnership strategy and competitiveness give effect up to 56.1% on the performance of SMEs in West Java, and the remaining 43.9% is caused by other factors outside the aspects. Through the coefficient values as presented in the above table, each of the effect can determine the variable of the two aspects on the performance.

- Effect of the partnership strategy on the performance
 1. Direct effect = $(0,377)^2 \times 100\% = 14,2\%$
 2. Indirect effect through competitiveness = $(0,377) \times (0,875) \times (0,397) \times 100\% = 13,1\%$
- Effect of competitiveness on the performance = $(0,397)^2 \times 100\% = 15,8\%$.

From the two variables affecting the performance, the competitiveness has greater direct effect on the performance. Next to test whether the partnership strategy and competitiveness give significant effect on the performance, the hypothesis testing is presented as follows:

4.13.1 Effect of Partnership Strategy on Corporate Performance

The second hypothesis tested is on the effect of partnership strategy on the corporate performance. This is presented in the diagram below:

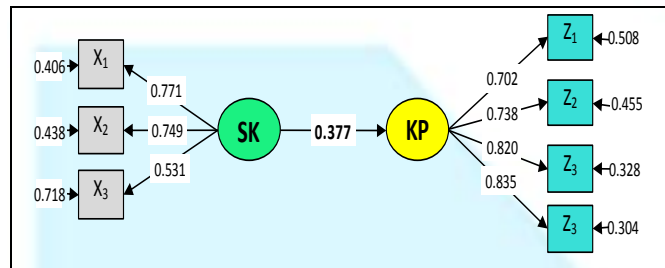


Figure 3. Diagram of Hypothesis Testing II

Hypothesis:

$H_0 : \gamma_{2.1} = 0$	Partnership strategy has no effect on the corporate performance of SMEs of West Java
$H_a : \gamma_{2.1} \neq 0$	Partnership strategy gives effect on the performance of SMEs of West Java

Table 17. Result of Test on the Effect of Partnership Strategy on Corporate Performance

coefficient Jalur	T _{count}	T _{critical}	Ho	Ha
0.377	1.985	1.96	rejected	accepted

Based on the test, it can be seen that the value of t_{hitung} of the partnership strategy variable is 1.985 greater than $t_{critical}$ (1.96). Since t_{count} is greater than $t_{critical}$, with the standard deviation of 5%, the H_0 is rejected and the H_a is accepted. Thus, partially the partnership strategy gives effect on the performance of SMEs of West Java. Directly, the partnership strategy gives effect up to 12.2% on the corporate performance and, indirectly, gives effect up to 13.1% through competitiveness on the performance. Thus, as a whole, the effect accumulates 25.3% on the performance of SMEs of West Java.

4.13.2 Effect of Competitiveness on Corporate Performance

The third hypothesis tested is the effect of competitiveness on the performance which is presented in the following diagram:

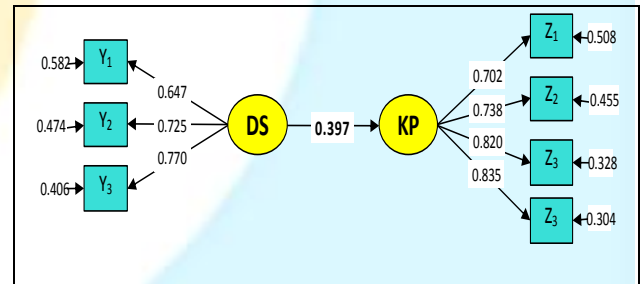


Figure 14. Diagram of Hypothesis Testing III

Hypothesis:

$H_0 : \beta_{2.1} = 0$	Competitiveness gives no effect on the performance of SMEs of West Java
$H_a : \beta_{2.1} \neq 0$	Competitiveness gives effect on the performance of SMEs of West Java

Table 18 Result of Test on the Effect of Competitiveness on Corporate Performance

Path Coefficient	T _{count}	T _{critical}	Ho	Ha
0.397	2.074	1.96	Rejected	Accepted

Based on the test, it can be seen that the value of t_{count} of competitiveness variable is 2.074 greater than $t_{critical}$ (1.96). Since t_{count} is greater than $t_{critical}$, with the standard deviation of 5%, H_0 is rejected and H_a is accepted. Thus, partially, the competitiveness gives effect up to 15.8% on the performance of SMEs of West Java.

5. CONCLUSION

Based on the analysis, the conclusion can be drawn as follows:

- The SMEs managements have generally applied the partnership strategy very well through the accomplishment indicators of the satisfaction level in performance in both the growth aspect, market segment, and profit which all have been regarded high. There are a number of aspects which are not yet optimized such as, firstly, long term contract with the suppliers so that it becomes potential problems. Secondly, prompt service in transaction is not maximum since they haven't applied ICT and the human resource has not been developed for that. Thirdly, the partnership with similar corporates has not been developed due to the lack of trustworthiness. They even play in lowering the prices to compete. The partnership strategy positively and significantly affects the competitiveness to get the positional advantage. However, the aspect of technology has not been well developed and they still rely on the facility provided by the government through the Cooperative Office and SME's as well as Dinas perindustrian dan Perdagangan (Industrial and Trading Agency).
- The effect of partnership strategy on the competitiveness is significant. Thus, the uniqueness of the resources gives positive and significant effect on the strategy. This means that it is an important factor that must be put into account in the venture and strengthening the competitiveness. In the strategy, the internal partnership aspect has strong effect in building up the partnership.
- The competitiveness give positive effect on the corporate performance. This means that this is also one of the very important factors to accomplish the corporate goals.
- The result of the test shows that simultaneously, the partnership strategy and competitiveness give effect on the corporate performance. This means that competitiveness is one important factor to build up positional advantage of the corporate performance.
- The test also shows that the effect of the competitiveness variable is significantly strong on the performance. Therefore, it is an important factor to improve the corporate performance.

6. PRACTICAL RECOMMENDATION

- Improvement should be made through education and training for business people, entrepreneurs and workers by participating actively in the training programs, seminars, or workshops held in higher educational institutions, Governmental and regional offices so that the SMEs people can be stimulated to develop their idea, gain input, be initiative, open up their visions and dare to take risks.
- Improving transaction service ability by applying new technology as well as in terms of production techniques through improving the operational standard and working procedure to come up with creativity and innovation in the product.

- Improving accounting competence for business capital to give better services. For this, it is necessary to actively find information of the financing assistance from the Government, State Companies and banks.
- Improving active marketing campaigns through finding information about customers and expanding distribution channels.
- A cooperation or collaboration is needed among the enterprises of SMEs in regards with team works based on trustworthiness, such as starting from finding the raw material, information gathering and finding market channels to vary the product, improve capacity, improve design and expansive market.
- The need to improve good relation between the suppliers, agents, retailers as well as the customers to make sure the supply and product distribution as well as strengthening good coordination with the government, higher education institutions in developing production technology and services.
- To the policy makers: The policy should be well adjusted with the regional regulation and support the small to middle scale businesses.
- To the Local Government, State-owned companies and higher educational institutions: assistance should be provided in terms of practical skills development, management, production, business ethics, applied technology as the result of researches in community service component. All these can be carried out through seminars, workshops, comparative studies and training. Beside that, the Government and financial institutions should actively communicate the credit facilities for the small businesses.

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ANNEXURE

Table 1 Dimension of Business Performance

Barney dan Hesterley (2012)	Thompson, Strickland and Gamble, (2010)	Hitt, Ireland and Hoskisson, (2009)	Whelen and Hunger (2012)	Frank, Kesler, and Fink (2010)
Sales Volume	Profitability	Corporate Profitability	Sales Volume	Sales growth
Market Share	Market Share	Sales Volume	Market Share	Profitability
Profitability			Profitability	Cashflow growth

Table 2. Result of Validity Test on Questionnaire

Variable	Item	Validity index	Critical value	Description
Partnership Strategy	Item 1	0,460	0,30	Valid
	Item 2	0,564	0,30	Valid
	Item 3	0,584	0,30	Valid
	Item 4	0,611	0,30	Valid
	Item 5	0,553	0,30	Valid
	Item 6	0,386	0,30	Valid
	Item 7	0,529	0,30	Valid
	Item 8	0,498	0,30	Valid
	Item 9	0,373	0,30	Valid
	Item 10	0,361	0,30	Valid
	Item 11	0,492	0,30	Valid
Competitiveness	Item 12	0,437	0,30	Valid
	Item 13	0,429	0,30	Valid
	Item 14	0,459	0,30	Valid
	Item 15	0,629	0,30	Valid
	Item 16	0,618	0,30	Valid
	Item 17	0,644	0,30	Valid
	Item 18	0,539	0,30	Valid
	Item 19	0,363	0,30	Valid
	Item 20	0,518	0,30	Valid
Corporate performance	Item 21	0,640	0,30	Valid
	Item 22	0,649	0,30	Valid
	Item 23	0,729	0,30	Valid
	Item 24	0,771	0,30	Valid

Table 3. Result of Reliability test on the Questionnaire

Questionnaire	Reliability coefficient	Critical value	Description
Partnership Strategy	0.823	0.70	Reliable
Competitiveness	0.816	0.70	Reliable
Corporate performance	0.855	0.70	reliable

Table 4. Interpretation Scale on Total Score of Response for Each Statement

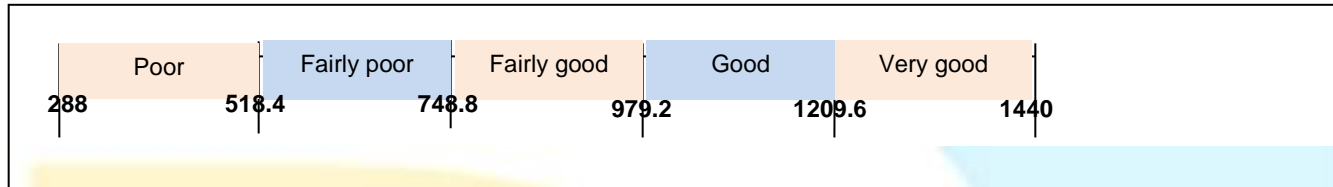


Table 5. Recapitulation of Score of Respondents' Statements on Partnership Strategy

No	Statements	Σ Score	Criteria
1	Making it easy to penetrate the target market	1025,0	Good
2	Improving the ability in the divisions to mitigate the business risks	985,0	Good
3	Improving the ability to fill each other's gap and help	1069,0	Good
4	Building up partnership between suppliers within inter division	1080,0	Good
5	Building up partnership with suppliers based on the needs	1081,0	Good
6	Making a long-term contract agreement with the suppliers based on mutual benefit	885,0	Fair
	Internal	1020,8	Good
7	Improving service based the customer's expectation	1161,0	Good
8	Promptness in facilitating the transaction	858,0	Fair
9	Giving incentive (discount/credit) for certain value of transaction	960,0	Fair
	Buyer	993,0	Good
10	Building up partnership with similar corporates	893,0	Fair
11	Building up partnership with the institutions designated by the Government for supervision	814,0	Fair
	Lateral	853,5	Fair
	Partnership Strategy	982,8	Fair

Table 6. Recapitulation of the Score of Responses about Viability

No	Statements	Σ Score	Criteria
1	Budgeting the operational cost efficiently	1059,0	Good
2	Pricing/fixing tariff below competitors without risking loss	952,0	Fair
3	Setting up the selling point through discounts	937,0	Fair
	Cost Leadership	982,7	Good
4	Creating product appeal differentiating from those of the competitors	1080,0	Good
5	Creating more appealing product variants than those of competitors	1078,0	Good
6	Creating easy-to-get products	1104,0	Good
	Differentiation Strategy	1087,3	Good
7	Promptly anticipating changes of demands	1011,0	Good
8	Adjusting to advanced technology	853,0	Fair
9	Ability in anticipating competitors' actions	973,0	Fair
	Speed Based Strategy	945,7	Fair
	Viability	1005,2	High

(Source: Tabulation of data result, 2013)

Table 7. Recapitulation of the Responses on the Performance

No	Dimension	Σ Score	Criteria
1	Satisfaction Level on the Business Result	1033.0	High
2	Growth Rate of Sales	1016.0	High

No	Dimension	Σ Score	Criteria
3	Market Segment Level	1004.0	High
4	Profit Level	1002.0	High
	Competitiveness	1013.8	High

(Source: Tabulation of data result, 2013)

Table 8 : Result of Multivariant Normality Test

Test of Multivariate Normality for Continuous Variables							
Skewness		Kurtosis		Skewness and Kurtosis			
Value	Z-Score	P-Value	Value	Z-Score	P-Value	Chi-Square	P-Value
9.515	8.706	0.000	139.837	7.708	0.000	135.209	0.000

Table 9. Goodness-of-fit Test Model

Parameter of Goodness of Fit	Result of estimation value	Cut-off Value
Chi-Square	81,03 (p-value = 0,000)	Expected to be small
RMSEA	0,073*	\leq 0,08
GFI	0,946*	\geq 0,90
AGFI	0,908*	\geq 0,90
NFI	0,969*	\geq 0,90
CFI	0,981*	\geq 0,94
IFI	0,981*	\geq 0,90
RFI	0,957*	\geq 0,90
RMR	0,040*	\leq 0,08

*qualified as good model

Table 10. Construct Reliability and Variance Extracted of each Latent Variable

Manifest Variable	Factor Weight		
	SK	DS	KP
X ₁	0,771		
X ₂	0,749		
X ₃	0,531		

Manifest Variable	Factor Weight		
	SK	DS	KP
Y ₁		0,647	
Y ₂		0,725	
Y ₃		0,770	
Z ₁			0,702
Z ₂			0,738
Z ₃			0,820
Z ₄			0,835
$\sum \lambda$	2,051	2,142	3,095
$\sum \lambda^2$	1,437	1,537	2,407
$\sum \delta$	1,563	1,463	1,593
Construct Reliability	0,729	0,758	0,857
Variance Extracted	0,479	0,512	0,602

Table 11. Summary of Statistic Test Result

Sub Structure	Path	Coefficient	T _{count} *	R-Square
First	SK → DS	0,875	12,886	0,766
Second	SK → KP	0,377	1,985	0,561
	DS → KP	0,397	2,074	

*t_{critical} = 1,96