

SOCIAL CAPITAL OF HUMAN RESOURCES IN SMES ON COMPETITIVE ADVANTAGES

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Nurul Badriyah

A Lecturer of Faculty of Economics and Management
Islamic University of Lamongan

Abstract: Fundamental change in the business environment is characterized by the volatility of business environment. Business condition is increasingly complex and unpredictable for organizations which want to achieve competitive advantage. Social capital is the attitude shown through more convincing communication and knowledge. Good social capital ownership is the form of human resources' competence in empowering and optimizing the business management for the survival of company. The objectives of this study are to identify and explain the significant effect of social capital of human resources in SMEs on competitive advantages. Research method used in this research is quantitative (positivistic) with analysis tool of exel program aid and GSCA software. Research respondents are 74 (seventy four) entrepreneurs of small and medium enterprises which have been clustered as the largest SMEs in each regency by Department of Industry and Trade in East Java in 2015. From the research results, it can be concluded that: (1) Social interaction significantly influences competitive advantage, with loading rate of 0.705. (2) Social action has significant effect on competitive advantage, with loading rate of 0.802 (3) Social Capital simultaneously has significant effect on competitive advantage and is considered to be able to exploit and neutralize threats from outside the company. (4) Social action is considered the most dominant effect on competitive advantages with results of path analysis of 0.93. Therefore, it can be **suggested** that: (1) Social interaction should be developed because it is able to measure consumer initiatives to be more productive socially. (2) Human resource development for entrepreneurs in order to improve social behavior can be done by training. (3) Government should promote training to improve the behavior of social capital.

Keywords: Social Capital, Human Resources, Competitive Advantage



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Correspondence Author:
Nurul Badriyah, A Lecturer of
Faculty of Economics and
Management
Islamic University of
Lamongan,
Nurulbadriyah19@yahoo.com
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Introduction

Economic development in Indonesia cannot be separated from the important role of Small and Medium Enterprises (SMEs). The increase in Gross Domestic Product (GDP) figure in Indonesia is the real form of contribution of SMEs. Based on survey re-

sults and calculation Central Bureau of Statistics (BPS), the contribution of SMEs to GDP in 2012 amounted to 82.96% and in 2015 increased to 85.93% (Hafsah, 2016). The most sustainable business groups in economic crisis are small and medium enterprises. Although can open up extensive employment, SMEs need social capital in facing competition and competitive advantage. Various big business groups, economic observer, and relevant institutes begin to pay attention to the patterns of people's economy that has a concern on the

sustainability of people's economy, after Indonesia experienced failure in conglomerate economic system during the monetary crisis in Indonesia.

Small, medium and cooperative entrepreneurs can show their existence and survive in facing of various changes in the business world to attract the attention of government to continue people's economic programs. Small and Medium Enterprises with a variety of business sectors, since 2000 until now, become the center of labor force in Indonesia of almost 99.45% by employing 65860 people in 2014. In addition, the contribution of SMEs to national non-oil exports by 19.9%. Therefore, the growth of SMEs in Indonesia is very important. In harmony with the understanding of economic development of Indonesia that leads to welfare improvement and poverty alleviation, economic empowerment of SMEs can open employment. Creating a conducive business environment and fostering the willingness of society to be entrepreneur improve the entrepreneurial skill of society. For the growth of SMEs in every year from 2011 to 2015, there are 6 million new business units recorded (data from Central Bureau of Statistics in 2015). It proves that each business actor has an individual competence which is accountable. The competence owned is the social capital of each entrepreneur, considering that the education level of small and medium entrepreneurs in Indonesia are high school (44.12%), diploma (74.20%), and bachelor's degree (17.9%), while the rest are below secondary education. This fact makes it easier for the government to invite the entrepreneurs to do more and be better. Social capital is the attitude shown through more convincing communication and knowledge. Good social capital ownership is the form of human resources' competence in empowering and optimizing the business management for the survival of company. The desire to go forward by exploring all of its abilities and fostering relationships with partners and consumers usually make the company to be more famous and achieve repositioning in competitive advantage era nowadays.

Fundamental change in the business environment is characterized by the volatility of business environment. Business condition is increasingly com-

plex and unpredictable for organizations which want to achieve competitive advantage. The rapid development of technology, especially in information and communication, reduces the distance between nations. With the development of technology, competition is growing open and business is growing complex. Social capital by fostering relationship between partners through social media may improve skill, knowledge, and communication; therefore, it can be concluded that in facing competitive advantage, the function of social capital is needed.

Problem formulation of this research is "Does social capital affect the competitive advantage of SMEs in East Java Province?" The objectives of this research are to identify and explain the significant effect of social capital of SMEs on competitive advantage. The benefits of this research are: (1) Theoretically, the results of this study can provide benefits for the development of science, especially in human resource management. (2) Practically, this research provides benefits to entrepreneurs, especially SMEs in East Java province, in choosing competitive advantage

LITERATURE REVIEW

A. Social Capital

Social capital is a set of shared values and norms among members, a group of people likely to engage in cooperation (Fukuyama, 2014). Social interaction, reciprocity and trust are key indicators and elements of social capital. Fukuyama (2014) suggests that trust is a hope for honesty and cooperative behavior within a community based on the norms shared with members of that community. Trust is beneficial to the creator of single economy because it can be counted on to reduce costs.

Reciprocal relationship can be found in the form of giving and taking as well as mutual help that can arise from social interaction (Soetomo, 2006). Wider interaction allows the scope of trust and the scope of reciprocal relationship. According to (Pratiko, et al 2012), seen from economic action, social network is sharing values and norms. In fact, in ordinary market transaction, the information depends on values and norms. Therefore, it can be concluded that social capital has an impact on economic value.

B. SOSIAL CAPITAL ANALYSIS

Entrepreneurs are basically integrated into public engagement. Association and network of social capital provide a representative place for how to behave, work together, and collaborate between groups. Social capital significantly contributes to social integration (Soetomo, 2006). Social interaction provides a dynamic social relationship concerning the relationship between people, and between groups in conducting activities. Interaction process makes a person has impression, feeling, make social contact, and what actions will do (Soejono, 2007). Social interaction is very good to analyze and learn many problems in the society (Soerjono, 2007). Forms of social interaction consist of: (1) Cooperation, (2) Cooperation aims to achieve business together either between individuals or between groups. With cooperation, usually people feel protected from threats, or danger from outside. SMEs seek cooperation to find potential customers and market network. (3) Competition is used to strive for profit in life and attention to attract the public's attention. (4) Conflict of awareness of differences, emotions, cultures, behaviors, and principles or ideologies proves a direct and comprehensive solution, so as not to affect a common goal. (5) Peace The process of balancing social interaction between groups and individuals in society in accordance with the norms and values that exist in society.

SOCIAL ACTION

Social capital done by every human being leads to a social action which in theory is called action theory and symbolic *interactionism* theory. Action theory arises from self-awareness as an individual with the external situation, while *interactionism* theory is allowing an individual to pay attention to the actions of others and directed at that person, Hotman M Siahaan (2014). SMEs must take social action to achieve more advanced interests and competitive planning. Social action carried out in a sustainable way means to be directed to the actions of others, IB Wirawan, 2012. Social reality, social action is not entirely determined by norms, habits or values, but beliefs, motivations and goals are more

essential in shaping their behavior (George Ritzer, 2011). Similarly, in digging the potential, the entrepreneurs of SMEs are more concerned on motivation and desire to achieve business goals.

COMPETITIVE ADVANTAGES OF SMES

To be more advanced and superior in facing competitors compared to other SMEs with the same product, SME would begin to move to seek a unique position. According to (Barney, 1991), competitive advantage can be interpreted as a sustainable advantage, in which competitors cannot imitate it easily. Competitive advantage should suggest four conditions of a sustainable source, namely:

1. It is a valuable organizational resource.
2. It is relatively difficult to develop, so it becomes a stage in a competitive environment.
3. It is very difficult to imitate
4. It is not easily replaced significantly.

RESEARCH MODEL

This research used Small and Medium Enterprises in East Java Province as research samples and tried to get information of respondent in facing competitive advantage through social interaction and social action. The essence of Small and Medium Enterprises (SMEs) can be understood as weak capital owned, a small number of employees and simple production process, so that high social capital ability is realized to help competitive advantage (Parnell.JA (2012) Integration of social interaction and social action of social capital as an individual's internal resource plays an important role for the success of SMEs' competition in East Java High social capital ability will result in good behavior of SMEs in having relation to the outside world.

As described previously, the objectives of this study are to identify and explain the influence between social capital variable (social interaction and social action) of SMEs' entrepreneurs on competitive advantage (competitive products, customer satisfaction and corporate profits). The goal to be achieved in this study is to understand the importance of social capital of SMEs in facing competitive advantage, Pfeffer, (2014). The challenge in

facing the quality of product that is competitive can be met by social skill through social interaction and social action.

The conceptual framework of this research is prioritized on the discussion of the influence of social capital on competitive advantage. In addition, social capital variable as independent variable is expected to contribute strongly to competitive advantage. Schematically, the conceptual framework of this research can be seen in Figure 1 below:

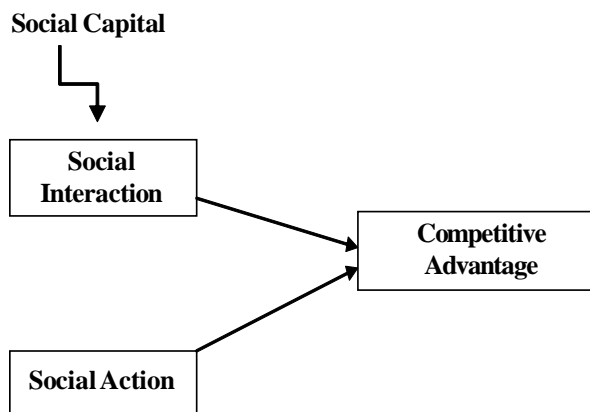


Figure 1 Conceptual Framework of This Research

Social capital is invested in the business world in the form of social interaction process and social actions of business actors in the daily life, through communication and cooperation that are interdependent and strengthening, Chan (2004). The superiority of social capital is demonstrated by interaction that enables one to pay attention to others' actions and to pay attention to the person, Cox (2015), so that in turn they empathize to increase business success and increase competitive advantage.

Weber (2015) concludes that social capital contributes positively to business success, while Fukuyama (2014) conducted a research on the impact of social capital on the success of micro enterprises which is capable of increasing investment opportunities for Ethiopian entrepreneurs and affects economic performance. Therefore, the study can be used as a guide that social capital can form positive support, interaction, and actions of micro business actors in running their business; therefore, the hypothesis in this research is stated as follows:

The social capital of human resources in SMEs has a significant effect on competitive advantage. Variables in this research can also be explained in table 1 below:

Table 1 Research Variables

| Variable | Indicator | Item | Source |
|-----------------------|-----------------------|---|---------------------|
| SOCIAL CAPITAL | Social interaction | Always cooperate to attract customers and find potential market network | Parnell J. A (2012) |
| | | Competition is used to attract public's attention | |
| | Social action | Reconcile conflict and difference directly and comprehensively | |
| | | Consider the norms and values of society in interacting with each child | |
| COMPETITIVE ADVANTAGE | Quality of Product | Product is inimitable | Barney, 2014 |
| | | Product has special characteristics | |
| | Customer satisfaction | Consumers are satisfied with our product | |
| | Corporate profit | Corporate profit is increasing | |

Source: Processed secondary data

RESEARCH METHODE

Analysis tool used in hypothesis testing is General Structural Component Analysis (GSCA). The

method used is quantitative (positivist) because the business owners of SMEs in East Java Province can be observed. Quantitatively, competitive advan-

tage of SMEs is caused by several factors. Quantitative method was used to prove the hypothesis. The type of this research is explanatory research, the research which aims to make the problems or symptoms of causality between the two variables clearer (Rosca, 2011).

Population of this study included SMEs in East Java Province in 2015 which are spread in 38 districts, with a total of 6.825.931 businesses and 11.291.000 workers. Sample determination was conducted by random sampling with 2 SMEs as representatives of each district, proportionally selected

as follows: SMEs in manufacturing, small business selected every 2 business with biggest income in 34 districts, respondents of the owner or managers of SME. From the number of business units selected, there are 76 SMEs obtained as samples. Data collection was done through documentary techniques, namely center, characteristic, and geography of SMEs. Questionnaire technique was done by making a list of questions related to social capital owned by SMEs. All data in the entry will be verified its reliability and completeness before being analyzed with the help of Excel program and GSCA software.

Model Measurement of Social Capital Variable

| Research Variable | Indicator | | Loading | CR | AVE | Alpha |
|-------------------|--------------------|------|---------|--------|-------------|-------|
| Social Capital | Social Interaction | X1.1 | 0.705 | 9.15* | 0.584√0.764 | 0.632 |
| | Social Action | X1.2 | 0.802 | 17.31* | | |

Note CR*: Significant at 0.05

The estimated loading values on all three indicators are greater than 0.40, and CR value is significant at 95% confidence level. Social action has the highest estimated factor loading value (0.802) of social interaction, so it can be said that social indicator reflects social capital variable.

AVE value amounted to 0.585 with "AVE of 0.764 is greater than 0.50, so it can be said that the *discriminant* validity is good and has good composite. Overall, it can be concluded that both variables have high suitability and reliability.

Measurement Model of Competitive Advantage Variable

| Research Variable | Indicator | | Loading | CR | AVE | Alpha |
|-----------------------|---------------------------------|------|---------|--------|-------------|-------|
| Competitive Advantage | Product can compete with others | Y1.1 | 0.702 | 0.82* | 0.615√0.812 | 0.731 |
| | Customer satisfaction | Y1.2 | 0.820 | 20.60* | | |
| | Corporate profits | Y1.3 | 0.810 | 35.60* | | |

Note CR*: Significant at 0.05

Overall the three indicators used in latent variable of competitive advantage have met the criteria to be accepted because they have high suitability and reliability. If it is viewed from the weight of factors obtained by competitive advantage indicator, the indicator of customer satisfaction has a dominant role in reflecting competitive advantage vari-

able, followed by indicators of corporate profits and ability of products to compete.

Hypothesis testing and path coefficient shows direct influence between variable of social capital and competitive advantage. The results of direct impact test can be seen in the following figure:

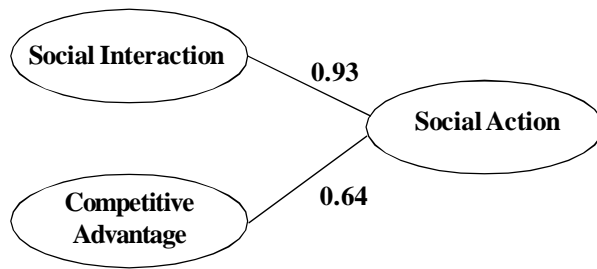


Figure 2 Social Capital Model on Competitive Advantage

Hypotheses:

H1: Influence of social interaction on competitive advantage

H2: Influence of social action on competitive advantage

H3: Simultaneous influence of social capital on competitive advantage

H4: Dominant influence of social interaction and social action on competitive advantage

FINDINGS AND DISCUSSIONS

The respondents in this study were 74 (seventy four) small and medium entrepreneurs who have been clustered as the largest SMEs in each regency by Department of Industry and Trade of East Java Province in 2015. The profile obtained is presented in the following table:

Table 2 Respondents of SMEs in East Java Province

| NO | REGENCY | NUMBER OF RESPONDENTS | TYPE OF BUSINESS |
|----|-------------|-----------------------|---------------------|
| 1 | PACITAN | 2 | TRANSPORTATION |
| 2 | PONOROGO | 2 | RESTAURANT |
| 3 | TRENGGALEK | 2 | PROCESS INDUSTRI |
| 4 | TULUNGAGUNG | 2 | EXCAVATION |
| 5 | BLITAR | 2 | FINANCE |
| 6 | KEDIRI | 2 | AGRICULTURE |
| 7 | MALANG | 2 | TRANSPORTATION |
| 8 | LUMAJANG | 2 | RESTAURANT |
| 9 | JEMBER | 2 | INDUSTRI PENGOLAHAN |
| 10 | BANYUWANGI | 2 | EXCAVATION |
| 11 | BONDOWONGSO | 2 | FINANCE |
| 12 | SITUBONDO | 2 | AGRICULTURE |
| 13 | PROBOLINGGO | 2 | TRANSPORTATION |
| 14 | PASURUAN | 2 | RESTAURANT |
| 15 | SIDOARJO | 2 | PROCESS INDUSTRY |
| 16 | MOJOKERTO | 2 | EXCAVATION |
| 17 | JOMBANG | 2 | FINANCE |
| 18 | NGANJUK | 2 | AGRICULTURE |
| 19 | MADIUN | 2 | AGRICULTURE |
| 20 | MAGETAN | 2 | TRANSPORTATION |
| 21 | NGAWI | 2 | RESTAURANT |
| 22 | BOJONEGORO | 2 | PROCESS INDUSTRI |
| 23 | TUBAN | 2 | EXCAVATION |
| 24 | LAMONGAN | 2 | FINANCE |
| 25 | GRESIK | 2 | AGRICULTURE |
| 26 | BANGKALAN | 2 | RESTAURANT |
| 27 | SAMPANG | 2 | PROCESS INDUSTRI |
| 28 | PAMEKASAN | 2 | EXCAVATION |
| 29 | SUMENEP | 2 | FINANCE |
| 30 | KEDIRI | 2 | AGRICULTURE |

| NO | REGENCY | NUMBER OF RESPONDENTS | TYPE OF BUSINESS |
|--------------|-------------|-----------------------|------------------|
| 31 | BLITAR | 2 | TRANSPORTATION |
| 32 | MALANG | 2 | RESTAURANT |
| 33 | PROBOLINGGO | 2 | PROCESS INDUSTRY |
| 34 | PASURUAN | 2 | EXCAVATION |
| 35 | SURABAYA | 2 | FINANCE |
| 36 | BATU | 2 | AGRICULTURE |
| 37 | MADIUN | 2 | FINANCE |
| TOTAL | | 74 | |

Source: Processed secondary data

Table 2 shows that SMEs taken as respondents are varied from various types of businesses. Based on the data in the field, SME owners can generate income up to 800.000.000 rupiahs. Although the employment in SMEs is not concerned about level of education, at least the East Java Provincial Government equips employees of SMEs with skill training.

The perception of SME owners of variable of social capital and competitive advantage can be seen in Table 3 below:

Table 3 Respondents' Perception of Variable of Social Capital and Competitive Advantage

| VARIABLE | VALUE | INFORMATION |
|---------------------------------|-------|-------------|
| Social Capital | | |
| Social Interaction | 4.05 | Agree |
| Social Action | 3.95 | Agree |
| Competitive Advantage | | |
| Product can compete with others | 3.26 | Quite Agree |
| Customer Satisfaction | 3.56 | Agree |
| Profit | 3.79 | Agree |

Source: Processed secondary data

Based on table 3 above, each indicator shows "agree", means that the condition of social capital needs to be considered. Although level of education is not too concerned about skill, the skill owned by entrepreneurs can help them work in a particular field with social interaction and social action and achieve competitive advantage. Questionnaire technique was done by making a list of statements related to social capital owned by SME entrepreneurs.

The reliability and completeness of data will be verified and before they are analyzed. Data processing was done with the help of excel program and GSCA software which are required. The respondents in this study were 74 (seventy four) entrepreneurs of small and medium enterprises which have been clustered as the largest SME in each regency by Department of Industry and Trade in East Java Province in 2015. The education level of the respondents is as follows: junior high school (12 people), senior high school (38 people), and Bachelor's Degree/Diploma (19 people), and Master's Degree (5 people). This shows that the average level of education SMEs is high school and above, which means that level of education can be a motivator that the success of entrepreneurs does not depend on level of education of a person. There are 35 people respondents aged 31-40, 22 respondents aged 41-50, and 2 people aged 51-60. It indicates that the respondents are in productive age, in which a person still has good physical condition to work.

This study was conducted to determine the effect of social capital on competitive advantage of SMEs. Social capital of respondents can be seen through social interaction and social action, while competitive advantage is assessed by indicator of competition level, uniqueness of products (inimitable), sensitivity of the product on consumer's response, and business sustainability.

H1: Influence of Social Interaction on Competitive Advantage

The basic concept of social interaction lies in social capital, Putnam (2013). The attractiveness

of social interaction which is employed by SME entrepreneurs finds social network which is beneficial in obtaining informal loans, Brata (2004). Social interaction can create economic value for SME entrepreneurs by opening social networks, establishing partnerships, and establishing relationships, Kolopaking (2002).

Social interaction plays a role in building same opinion among stakeholders and building consumer trust in corporate perception and exchange mediation arena, Pivato, Misani and Tencati (2008).

Profile of SME entrepreneurs in East Java Province shows higher productive age. Social interaction of a person is influenced by the maturity of human's mind, Pratiko, et.al (2012). So, it can be concluded that age influences one's behavior in interacting. Therefore, the value of loading factor of social interaction is lower than the value of loading factor of social action. The results of statistical analysis show that social interaction has a positive effect on competitive advantage, partnership, and cooperation built with civilized social interaction style that is able to produce commitment of interdependence relationship, mutual responsibility, and has an emotional bond between consumers and the company. Good social interaction is able to measure consumer initiatives to be more active socially, which ultimately helps companies to promote. Real social interaction can be observed from the performance of business owners and characteristics of product. Social interaction leading to competitive advantage by fulfilling customer advantage in obtaining a consistent difference from the resulting product attributes compared to competitors.

H2. The Influence of Social Action on Competitive Advantage

As long as individual action has a subjective meaning, it is directed at others' actions. In the practice, social action is not only determined by values, habits, or norms that exist in the community, although there is a structure of social institutions in the society. According to Weber (2015), people can perform a good social action if they can position themselves in others' way of thinking and behavior, so as to achieve the objectives of the action taken. More

than 50% of the owners of small and medium enterprises in East Java Province are senior high school graduates, thus their social action leads to rationality, either instrumental rationality or value rationality. The decision-making process of each business activity from product innovation, processing, to marketing strategy is carefully considered until the objectives are achieved. Value rationality is also used for individual and absolute objectives. In fact, social action directly affects the competitive advantage, social action on habit-based expectations.

The result of statistical analysis of the influence of social action on competitive advantage shows loading factor of 0.802, which means that there is real consistency of difference to product attribute compared to its competitor. Awareness of SME owners in East Java that survive in market reflects that the company has more value that attracts customers. (Satyagraha, 2004) states that competitive advantage grows from the benefits and value created by the company by comparing the costs spend by consumers. Therefore, real social action on the implementation of corporate strategy to offer products that are not easily replaced as well as the ability to maintain the conditions of newcomers, suppliers, and buyers greatly affect the capacity of excellence maintained.

H3. Analysis of the Effect of Social Capital of Human Resources in SMEs on Competitive Advantage

Analysis tool used is GSCA, with regression approach which is processed by GSCA to see the influence of variable and best model of research model. Social capital is an accumulation of social action and social interaction that shows an important role in economic development and poverty alleviation. Capacity of social capital development needs to be considered in order to achieve competitive advantage. The results show direct effect of social capital on competitive advantage through indicator of social action and social interaction. Good social capital really can help the pattern of entrepreneur's way of thinking in the process of negotiation and decision making. Dynamic concep-

tion of social relationship is related to the relationship with people around. It clearly shows that social contacts and communication are stable, both in cooperation, competition, conflict, and peace. Relationship and contact with others are directed and positive from all situations with regard to cultural systems in the form of norms, ideas and social values. Competitive advantage will be sustainable if every product offered is not easy to imitate (inimitable) (Barney, 1991). Similarly, attitude, action, and pattern of interaction can be demonstrated by different characters; therefore, there is possibility of not being able to take action to imitate or to compete with other companies (Coyne, 1986). This difference can separate our company from competitors. Nowadays, SMEs in East Java Province have valuable organizational resources, ability to exploit, and neutralize threats from corporate environment. The characteristics of semi-traditional SMEs in East Java Province become a crucial distinguishing factor with the competitors. Although competition is increasingly tight, management begins to be developed with training conducted by Department of Cooperatives and SMEs, both at province and reGENCY, to manage the source of competitive advantage which is the most difficult to imitate. The development of social capital enhancement activities provides a real strength in competitive advantage improvement (Pfeffer, 2014), especially on creativity, innovation and thinking skill.

H4. Dominant Effect of Social Capital on Competitive Advantage

Social capital indicator consists of social interaction (X1) and social action (X3). The indicator that has the greatest influence value is social action indicator that is equal to 0.93. The dominant influence of social action on competitive advantage is illustrated in conflict resolution when there is a friction of interaction of consumers or suppliers comprehensively until it is completely resolved. Norms and values developed in the society are considered well, so that the business can develop dynamic and conducive environment society. The model of sensitivity on the conflict of values and norms in society is used as the basis for the fulfillment of

consumer needs with the aim of continuously improving customer satisfaction, as explained by Barney (1991), consumer satisfaction can increase the sales and profit of company, can be obtain by integrating with the culture of local society, which is by paying attention to the values and norms of local society.

Conclusions

Based on the test conducted by using GSCA analysis about the influence of social capital on competitive advantage in SMEs in East Java Province (1) Social interaction significantly influences competitive advantage, with loading rate of 0.705. (2) Social action has a significant effect on competitive advantage, with loading rate of 0.802 (3) Social capital simultaneously has a significant effect on competitive advantage and is considered capable of exploiting and neutralizing threat from outside company. (4) Social action is considered the most dominant effect on competitive advantage, with the result of path analysis of 0.93. Therefore it can be given

Suggestions (1) Social interaction should be developed because it is able to measure consumer initiatives to be more productive socially. (2) Human resource development for entrepreneurs in order to improve social behavior can be done by training. (3) Government should promote training to improve the behavior of social capital.

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