INNOVATION STRATEGY BASED ON RESOURCE-BASED THEORY PERSPECTIVE AND ITS IMPACT ON SMALL AND MEDIUM BUSINESS PERFORMANCE

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ABSTRACT

This study aims to analyze innovation strategies in the perspective of resource-based theory (RBT). This research was conducted in the Province of Bali with the population in this study were all small and medium enterprises (SMEs) that produced export commodities and recorded in the List of Regional Exporters of Bali (Bali Province) in 2016, which amounted to 462 business units and sampling methods with slovin so that a sample of 215 is obtained. Analysis of data using PLS SEM. Mastery of social capital by export-oriented SMEs in Bali that prioritizes the cognitive dimension and is followed by the relational and structural dimensions have not been able to determine the improvement of their business performance. However, the mastery of social capital which is used as the basis for the application of innovation strategies to achieve a superior position in competition, is able to improve or improve their business performance.

Keywords: Innovation Strategy, Social Capital, resource-based theory

I. INTRODUCTION

Making sense from the superior field of eco-ethno justice research in the form of research is carried out in achieving national development goals. The direction of national development goals is to improve the welfare of the Indonesian people. This can be realized through increasing people's economy through the development of Small and Medium Enterprises (SMEs). The existence of SMEs in Bali generally as a support for the tourism sector is required to gain competitive advantage and exist in an increasingly uncertain business environment. The central point in achieving competitive advantage and superior performance is the management of the company's strategic resources, known as resource-based theory (resource-based theory-RBT) (Collis and Montgomery, 2008; Barney et al., 2011; Grant, 2010).

Resource-based theory (RBT) is one theory in the field of strategic management that provides a strategic framework to explain and predict the basis of competitive advantage and firm performance (Barney et al., 2011). However, the characteristics and use of resources in resource-based theory (RBT) to determine competing strategies still provide inconsistent and contradictory results (Kozlenkova et al., 2014), so that these limitations are the cause of confusion about the theory and its application. In previous empirical studies (Crook et al., 2008)

The primary caused of failure of this theory is that empirical studies tend to focus on economic capital (financial capital, physical capital), human capital and organization (Hitt et al., 2011; Barney et al., 2011). While the application of intangible resources (such as knowledge, access to partnerships, competencies, and networks) and entrepreneurship as a basis for determining the strategy is still small (Van de Vrande et al., 2009). Meanwhile, the results of RBT studies in the field of marketing turned out to focus more on intangible resources that complement each other, and the effect on the company's competitive advantage and corporate performance that is greater than the impact of tangible resources (Kozlenkova et al., 2014; Sok et al., 2013; Adriani, 2012). Therefore, critical efforts need to be made to clarify the determination of strategies in the RBT perspective by offering alternative approaches and overcoming logical inconsistencies (Barney et al., 2011).

The results of several studies show that the company's competitive advantage can be enhanced through the use of shared information and the central position of the competency of the industrial network (Chen et al., 2007; Chiu and Lee, 2007). The use of information and networking in this industry can be accessed directly through social capital (Landry et al., 2002). In resource-based theory (RBT), social capital is an essentials intangible resource for companies (Kozlenkova et al., 2014; Adriani, 2012). Social capital has distinctive and valuable characteristics through the involvement of network partners, customers, and employees to find connections, opportunities and take advantage (Farsi et al., 2013). In general, social capital is a resource that is gained by actors in the network of relationships (Chen et al., 2007; Chiu and Lee, 2007). Also, togetherness, honesty, egalitarianism, and trust that are developed in social capital strengthen networks between entrepreneurs (Batjargal, 2003).

Social capital is known to directly provide access to information, financial capital, emotional
support, legitimacy and competitiveness of entrepreneurs (Lavado et al., 2010). Weaknesses in building cooperation show that entrepreneurs are still less able to develop social capital, so companies have difficulty building core relational-based competencies (Tsai and Ghoshal 1998; Chiu and Lee, 2007). Companies that do not implement social capital will experience difficulties in developing entrepreneurship (Mayasari et al., 2013), and are less able to implement innovation (Stam and Elfring, 2008; Subramaniam and Youndt, 2005).

Innovation is one of the keys to building competitive advantage. Innovation in general implies the process of creating, improving, and expanding products, processes, markets, and management in order to improve business performance and competitive advantage in the market (Avlonitis and Salavou, 2007). Companies need to develop a comprehensive innovation strategy that includes: leadership orientation, process innovation, product innovation, internal innovation sources, external sources of innovation, implementation of innovation and investment level (O’Dwyer et al., 2015).

The innovation strategy directs the ability to manage organizational resources, expertise in analyzing markets and taking opportunities, and managing access to information, both market and capital (Price et al., 2013). The innovation strategy has two main impacts, if it is right it will be the key to business success, and vice versa if it is bad for business performance. The implementation of the innovation strategy is an inevitable demand for companies to continue to exist (Sok et al., 2013), to become strategic weapons to be more competitive (Haiyang, 2001), and improve business performance (Man and Theresa, 2008). Failure to implement an innovation strategy can certainly have an impact on the low competitiveness and achievement of business performance (Van de Vrande et al., 2009).

In boosting the innovation strategy it is not enough to rely on the use of resources. The competitive advantage of a company can also be strengthened by increasing value and uniqueness for customers, and becoming a differentiator with competitors. In the context of SMEs, marketing activities based on entrepreneurship have proven to be innovators in creating value and uniqueness for customers, so that they will strengthen competitiveness and improve business performance (Miles and Darroch, 2006).

According to Martin (2009), strategic and entrepreneurial marketing synergy known as entrepreneurial marketing is the latest marketing concept that focuses on creating new value and value and innovation (Bacherer et al., 2008). Entrepreneurial marketing is understood as a strategic marketing activity that is generally in companies that have limited resources (Hacıoğlu et al., 2012), so that they can be more creative and excel in competition through innovation strategies (Krauset al., 2010). However, Barney et al. (2011) reminded that the competitive advantage achieved from strategic maneuver (innovation strategy) is inseparable from the entrepreneur’s ability to build and master key resources for the company (valuable, distinctive, difficult to imitate and not easily replaceable).

This is faced by small and medium enterprises (SMEs) in Indonesia, especially SMEs in Bali. Some SMEs in Bali, have experienced developments in producing handicraft products by penetrating foreign markets through export activities. However, the still low quality of human resources owned, access to partnerships is still limited, weak marketing activities, and entrepreneurial spirit owned by entrepreneurs is still low (Egbu, 2001). In addition, the low level of innovation possessed and the high risk of exports due to network limitations in foreign markets (Suardhika, 2012). This phenomenon certainly illustrates that the competitiveness of SMEs in Bali is still relatively low.

**Figure 1. Development of Bali Province Export Volume**

This problem is confirmed by the information obtained from the BPS Province of Bali in year 2016, there was a decline in export realization (Figure 1), while SMEs contributed around 80% of the total non-oil and gas exports in Bali Province. The decline in export realization each year occurred from 19.96% (yoy) in the fourth quarter of 2014 to 18.55% (yoy) in the first quarter of 2015. This condition indicates the failure of SME managers to make strategic choices in innovating appropriately (Chang et al., 2006), which can threaten the sustainability of their business (Van de Vrande et al., 2009). Strategies to innovate are business trends in competing in the dynamics of an increasingly competitive and uncertain external environment (Subramaniam and Youndt, 2005; Adriani, 2012). SMEs in Indonesia including in Bali are still limited in innovation, because entrepreneurs feel the amount of costs that must be invested (Tedjasuksmana, 2014). However, the need for innovation comes from an increasingly uncertain business environment, so companies are required to seek and implement innovations in their strategies to gain competitive advantage and improve their performance (O’Dwyer et al., 2015).

The explanation above motivates to examine empirically related to SME issues in achieving competitive advantage and business success. This study is carried out by explaining the role of social
capital, as well as synergizing with the entrepreneurial aspects through entrepreneurial marketing that underlies the innovation strategy, especially export-oriented SMEs in Bali Province, so that it can improve or improve its business performance.

The main motivation for using innovation strategies in the RBT perspective is to: 1) offer the determination of innovation strategies based on social capital as an intangible resource that is important for improving business performance; 2) establishing an innovation strategy based on entrepreneurship in marketing (entrepreneurial marketing) to improve business performance; and 3) developing an innovation strategy that integrates social capital and entrepreneurial marketing, as well as explaining the synergies and contingencies associated with each relationship, and the differential effect on business performance in the context of SMEs in Bali Province. Thus the research question that can be submitted is: "What is the innovation strategy in the perspective of the Resource-Based Theory and its impact on the performance of small and medium-sized businesses?"

Resource based theory (RBT) as a theory that underlies the strategy and performance of companies has failed. The use of RBT tends to be focused on economic capital (financial capital, physical capital), human capital and organization (Hitt et al., 2011; Barney et al., 2011). Meanwhile, social capital which is an important intangible resource of the company is still very limited to be studied in the theory (Kozlenkova et al., 2014; Adriani, 2012). On the other hand, entrepreneurial marketing is one of the intangible resources in the RBT perspective that can complement each other, and be able to provide a competitive advantage and corporate performance that is greater than the tangible resources (Kozlenkova et al., 2014; Sok et al., 2013; Adriani, 2012). Therefore, it is necessary to improve and develop RBT to determine a more appropriate innovation strategy from the synergy of social capital and entrepreneurial marketing (Subramanyam and Youndt, 2005; Kozlenkova et al., 2014), so as to produce superior performance.

Being a faculty in the hospitality management program of an ISO 9001 certified higher education institution, the researcher was challenged to determine the employees' perception on the readiness of hotels for ISO 9001:2015 standards. The researcher was challenged to determine the employees' perception on the readiness of hotels to ISO 9001 standards.

II. LITERATURE REVIEW

Resource-Based Theory-RBT

Resources can be considered as inputs that allow companies to carry out their activities. Internal resources and capabilities determine strategic choices made by companies when competing in their external business environment (Barney, 1991; Teece et al., 1997). Capability also allows companies to add value to the customer value chain, develop new products or develop into new markets (Collis and Montgomery, 2008).

Resource-based theory (RBT) views companies as a collection of resources and capabilities (Barney et al., 2011). Differences in resources and ability of companies with competing companies will provide competitive advantages for the company. RBT assumptions are how companies can compete with other companies to gain competitive advantage through managing the resources they have (Barney et al., 2004).

According to RBT, resources that can be in the form of assets, organizational processes, company attributes, information, networks, or knowledge controlled and controlled by companies can be used to compile and implement their strategies (Van de Vrande et al., 2009). With this explanation, social capital fulfills the criteria as a valuable and distinctive resource that can create competitive advantage, and ultimately produce superior performance.

Social Capital

Social capital is defined as a set of informal values or norms shared by members of a group that allows cooperation between them (Kozlenkova et al., 2014), and can have a direct effect on competitive advantage (Fussel et al., 2006) The results of other studies, Inkpen and Tsang (2005) argue that social capital is an intangible asset that helps its members to cooperate in achieving common goals.

The ability of the entrepreneur community to cooperate and foster good trust among its members and with outsiders is a great strength, and is the essence of social capital (Tsai and Ghoshal, 1998). Thus directing SMEs to always uphold honesty, openness, fairness, and work for the common interest is a social capital that is of great value to be able to gain the trust of various parties. So, this social capital will play an important role for SMEs to develop networks with various parties, so that it becomes increasingly innovative and successful in trying.

Nahapiyet and Ghoshal (1998) use an organizational approach by emphasizing three aspects of social capital, namely structural, relational, and cognitive. Meanwhile, the results of several empirical studies found important indicators of social capital, including: the ability to gather resources, the ability to build cooperation, the ability to build trust, the ability to build images and reputation (Inkpen and Tsang, 2005; Liao and Welsch, 2005).

Entrepreneurial Marketing

The view from Kraus et al. (2010) that the challenges of marketing in small businesses and new businesses can be overcome with the synergy of marketing and entrepreneurship known as entrepreneurial marketing. Furthermore, Kraus et al. (2010) define entrepreneurial marketing as an organizational function and a set of processes to create, communicate, and provide value to customers and to manage customer relationships in a way that benefits the organization and stakeholders, and which is characterized by innovation, proactively taking risks, and possible with limited resources. In its application, entrepreneurial marketing tends to lead to interactive
marketing with consumers, and using word-of-mouth news communication to find new consumers. Entrepreneurial souls owned by managers or owners of SMEs make it easy to form strong marketers, are very sensitive to environmental developments, and quickly capture market opportunities to create new products.

In his study, Mort et al. (2012) offers four measures for entrepreneurial marketing, namely: creating opportunities, proximity to customers that underlie product innovation, increasing resources and legitimacy. Meanwhile, Morris et al. (2002) presents six indicators of entrepreneurial marketing, namely: innovation, proactivity, courage to face risk, focus on opportunities, intensity on customers, and value creation. The six parameters offered are supported by the empirical study of Miles and Darroch (2006).

Innovation Strategy

With the implementation of the MEA, global competition is in sight and requires entrepreneurs to innovate by reducing production costs and improving technological capabilities and innovating products. In addition, companies that innovate are expected to penetrate new markets, maintain existing market share and increase competitive advantage. Innovation in the implementation of the strategy to act as a strategic weapon to achieve sustainable competitive advantage in global competition (Kuratko et al., 2005).

By implementing an innovation strategy, entrepreneurs can improve core competencies and engineer business structures to respond to new market conditions and customer demand, and establish different markets, increasing the fabric of collaboration with other entrepreneurs (Evangelista et al., 2001). Innovation strategy is a multidimensional concept used to measure the level of innovation of a company (Muchlas, 2015). Innovation strategies can be classified into four, namely innovation in leadership orientation, type of innovation, source of innovation, and level of investment. These four measures are important indicators in determining the level of innovation in a company (Fernandez, 2001).

As stated by the researchers (Verbano et al., 2013; Zhou et al., 2005), leadership orientation shows how companies position themselves in the market. This type of innovation shows a combination of innovations made by manufacturing companies. Furthermore, the type of innovation is divided into two, namely: the process carried out and the products produced. The source of innovation shows whether the place of innovation activities is in an internal, external, or both company. Finally, the level of investment, namely financial, technological and human capital expenditures related to innovation.

The four dimensions of the innovation strategy are comprehensive and integrated, and are widely used by other researchers to measure the level of corporate innovation (Lee et al., 2001). Meanwhile, Price et al. (2013) confirmed that the level of corporate innovation can be accurately explained in a multi-dimensional and comprehensive measure compared to a single size.

Business Performance

The goal is the end result pursued by the company through its existence and operations, for example: sustainability, profitability, efficiency, employee satisfaction and coaching, product quality or service for consumers, social responsibility, market leadership, etc. (Hitt et al., 2011). Therefore, the efforts made by the company to achieve goals are usually measured through performance appraisal. Business performance other than as a reflection of the success or failure of a company, can also describe the results of the company's achievements from a series of work or activities in a given period (Wheelen and Hunger, 2011).

The development of corporate performance measurement in current research tends to use multi-dimensional measures. Carton and Hofer (2006) examined in depth the use of performance measures of organizations/companies in empirical research in the field of entrepreneurship and strategic management published in a period of five years (July 1996 - June 2001). Sanchez and Marin (2005) measure the performance of small and medium enterprises (SMEs) by referring to three aspects, namely: profitability, productivity, and markets. The profitability aspect looks at business performance in terms of achieving financial targets as planned by the company. Financial objectives are generally emphasized on achieving income, profits, cash flow, return on capital, return on investment, or economic value added. In the aspect of productivity is based on the achievement of the company in its business activities to meet customer desires and needs, and the productivity of its employees. Whereas, on the market aspect, it is viewed from the achievement of product sales, market position, and market share (Sanchez and Marin, 2005).

Preliminary Study that Has Been Implemented and Results Achieved

Previous research conducted by Suardhika (2009) entitled "Factors Affecting the Performance and Competitiveness of Small and Medium Enterprises (Studies in export-oriented SMEs in Bali)". The research funded by the Young Lecturer Research Scheme (Dikti Grant) produced a model of performance and competitiveness of export-oriented SMEs in Bali based on identification of external factors, internal factors, and entrepreneurial behavior in strategy orientation. Subsequent research was developed by Suardhika (2011) with the title "Integration in RBV for the Application of Competitive Strategies and Business Performance Achievements (Studies in Small and Medium Enterprises in Bali)". This independent research found that the important role of the integration of strategic and entrepreneurial resources in the strategy of competing in facing the dynamics of the environment, so that business performance is increasingly increasing.

In 2015 a study was conducted for the implementation of strategies on MSMEs with the title "Empowerment of Micro, Small and Medium Enterprises (MSMEs)". Empirical studies conducted in the industrial, trade, and cooperative sectors in Jembrana Regency obtained the results of the formulation model and
The implementation of strategies for entrepreneurship-based business empowerment. Furthermore, an advanced empirical study was conducted for the development of theory with the title "Increasing the Advantages of Competing Small and Medium Enterprises with Alignment of Entrepreneurship and Marketing" (Suardhika, 2016). The findings obtained in this study that entrepreneurship and marketing alignment in innovation strategies can improve the competitive advantage of SMEs in Bali.

The results of the preliminary studies that have been described above are used as the basis for funding the 2018 Higher Education Primary Research (PDUPRT). This advanced research is important to develop resource-based theory (RBT) to strengthen innovation strategies of social capital synergy and entrepreneurial marketing so that they can produce business performance for SMEs in Bali.

III. RESEARCH METHOD

The populations in this study are all small and medium enterprises (SMEs) that produce export commodities and are listed in the Bali Regional Exporters List (Indindag Bali Province) in 2016, which amounted to 462 business units.

Determination of the sample in this study using disproportionate sampling method with the allocation of commodities. The argument underlying the use of disproportionate sampling method is to maintain the representation of sampling in each commodity in the population frame.

Determination of the number of samples used (traditional statistical model) from Yamane (1973) quoted by Ferdinand (2006). The calculation results show that from the SME population as many as 462 business units with a sampling error rate of 5 percent, the number of samples targeted in this study is 215 business units.

In this study, data were analyzed using two analytical tools, namely inferential analysis using a variance structural equation model or component based structural equation model, known as Partial Least Square (PLS). According to Wald (2001) in Ghozali (2008) PLS is a powerful analytical method, because it does not assume data must use certain scale measurements. PLS analysis can be used in large sample sizes (n => 200 units), and is used to test or confirm the theory (Hair et al., 2010).

IV. RESEARCH RESULT

Inferential Analysis Results

The analysis technique used in this inferential analysis is structural equation modeling (SEM) which is component based / variant better known as partial least square (PLS). In the PLS analysis that uses SmartPLS software in this study an evaluation of structural equation models was carried out. In this evaluation, there are two fundamental evaluations, namely: 1) evaluation of the measurement model (outer model) to determine the validity and reliability of indicators that measure latent variables, 2) evaluation of the structural model (inner model) to determine the fit model and hypothesis testing, and coupled with 3) mediation testing to confirm the role of mediating variables in the research model (Hair et al., 2006; Ghozali, 2008).

1. Outer Model

In testing the measurement model (outer model), there are three criteria that must be met, namely: convergent validity, discriminant validity, and composite reliability. The results of the evaluation of each criterion can be described as follows.

a. Convergent Validity

Convergent validity of measurement models that use reflective indicators is evaluated based on the correlation between the estimated item score / component score. Chin (1998) in Ghozali (2008) stated that individual reflective size is said to be high if it correlates more than 0.70 with the construct measured. However, Hair et al. (2006) stated that for the initial stage of the study the measurement scale with a loading value of 0.50 to 0.60 was considered adequate. Thus, in this study using a loading factor limit of 0.60.

All indicators on the variable social capital (X), innovation strategy (Y1) and business performance (Y2) have the value of outer loadings greater than 0.60. This result provides an indication that the measurement model of the variables studied has fulfilled the requirements of the convergence validity.

b. Discriminant Validity

Discriminant validity evaluation is done to ensure that each construct of the latent variable is different from other variables. The model is said to have good discriminant validity if each latent variable has an average variance extracted (AVE) value above 0.50 and all variables have a square root of average variance extracted (\(\sqrt{AVE}\)) greater than the correlation coefficient value with other variables (Ghozali, 2008).

Information that can be conveyed, the three latent variables studied, namely social capital (X), innovation strategy (Y1) and business performance (Y2) have AVE values above 0.50 and all variables have a value of \(\sqrt{AVE}\) higher than the value correlation coefficient is one variable with other variables so that it can be said that the data has good discriminant validity.

c. Composite Reliability

Composite reliability evaluation aims to examine the reliability value between the indicator blocks and the constructs that shape them. Composite reliability results are said to be good if the latent variables in the research model have values above 0.70.

Based on the evaluation conducted it can be stated that all latent variables meet composite reliability because they have values above 0.70, and are included in good reliability criteria.

A. 2. Inner Model

Evaluation of the structural fit model (inner model) is done by analyzing predictive relevance model
(Q^2) which measures how well the observation value is produced by the model. The value of Q^2 is obtained by calculating the coefficient of determination (R^2) of all endogenous variables. The magnitude of Q^2 has a value with a range of 0 <Q^2 <1, the closer to the value of 1, the model is stated to be better.

In the current structural model, two endogenous variables were identified, so the coefficient of determination for the innovation strategy variable (R^2) was 0.655 and the coefficient of determination for the business performance variable (R^2) was 0.537.

The calculation results, found the Q^2 value is close to 1 or has a value of 0.8403. The results of this evaluation provide clues that the structural model has a good (goodness of fit model), and gives meaning 84.03 percent of the relationships between variables can be explained by the model. Meanwhile, the remaining 15.97 percent is explained by errors or residual variables. Thus, the research model obtained from the analysis can be continued to test hypotheses.

1. Hypothesis Testing

Hypothesis testing is done by using T-Statistic in each direct effect path. In accordance with the instructions of the rule of thumb from Hair et al. (2006) and Ghozali (2008), T-Statistic is declared valid and accepts the hypothesis if it has a value above 1.96 on alpha (α) of 5%. In addition, an analysis will be conducted to examine the mediating variables on indirect effects on the research model. The following can be explained by the results of direct effect testing and examination of mediating variables on indirect effects.

### Figure 6. Overall Structural Model

![Overall Structural Model](image)

The basis used in testing hypotheses on the direct effect is information from the output for inner weight output, both the path coefficient and the T-statistic. The results of hypothesis testing on direct effects in brief can be presented in Table 1 below.

### Table 1. Hypothesis Test Results on Direct Effects

<table>
<thead>
<tr>
<th>Inter Variable</th>
<th>Path Coefficient</th>
<th>T-Statistic</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Capital (X) to Innovation Strategy (Y1)</td>
<td>0.394</td>
<td>5.072</td>
<td>H1 accepted</td>
</tr>
<tr>
<td>Social Capital (X) to Business Performance (Y2)</td>
<td>0.381</td>
<td>1.643</td>
<td>H2 rejected</td>
</tr>
<tr>
<td>Innovation Strategy (Y1) to Business Performance (Y2)</td>
<td>0.653</td>
<td>13.476</td>
<td>H3 accepted</td>
</tr>
</tbody>
</table>

Information from Table 1 above can be used as a reference for testing the hypotheses described as follows:

1. Testing Hypothesis 1: Effect of Social Capital on Innovation Strategies

Social capital (X) has a positive and significant effect on the innovation strategy (Y1). This result is shown by a positive path coefficient of 0.394 with T-Statistic = 5.072 (T-Statistic > 1.96), so hypothesis 1 (H1) is empirically proven. This result gives meaning, the stronger the social capital owned, the more business performance increases in export-oriented SMEs in Bali.

2. Testing Hypothesis 2: Effect of Social Capital on Business Performance

Social capital (X) has a positive and insignificant effect on business performance (Y2). This result is shown by a positive path coefficient of 0.381 and T-Statistic under 1.96 (T-Statistics < 1.96) or 1.643, so the hypothesis 2 (H2) fails to prove. These results provide clues, however strong the social capital owned by export-oriented SMEs in Bali will not be able to directly impact their business performance.


Hypothesis 3 states that innovation strategies have a positive effect on business performance. The parameter coefficient test results between the innovation strategy and business performance shows that there is a positive relationship with a coefficient of 0.653 with a T-statistic value of 13.476. The t-statistic value is above the critical value of 1.96 so that (H1): The effect of the innovation strategy on business performance can be accepted.

### Inspection of Mediation Variables

To facilitate the examination of the mediating variables in this study, an analysis was carried out as presented in Table 2 below.
In accordance with the analysis carried out, providing evidence of an innovation strategy (Y1) positively mediates the indirect effects of social capital (X) on business performance (Y2). These results are obtained from the results of the mediation examination on each effect (Table 2), the effect appears (b), (c) and (d) obtain a significant value, but the effect (a) is not significant. In addition, other information obtained that the innovation strategy intervention (Y1) as a mediating variable on the indirect effects of social capital (X) on business performance (Y2) is perfect mediation.

Instructions that can be conveyed from these results that the innovation strategy (Y1) is a key variable in the effect of social capital (X) on business performance (Y2). These results can be understood that the innovation strategy (Y1) is a determinant of the prediction of social capital (X) on business performance (Y2). Without the role of innovation strategy (Y1), social capital (X) cannot predict business performance (Y2).

In order to determine the overall effect on each effect of the variables under study, it can be recapitulate to the direct, indirect and total effects in the following Table 3.

### Table 3. Recapitulation of Direct, Indirect and Total Effects

<table>
<thead>
<tr>
<th>No</th>
<th>Variable Relationships</th>
<th>Direct Effects</th>
<th>Indirect Effects</th>
<th>Total Effects</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Social Capital (X) to Innovation Strategy (Y1)</td>
<td>0.394**</td>
<td>-</td>
<td>0.394</td>
</tr>
<tr>
<td>2</td>
<td>Social Capital (X) to Business Performance (Y2)</td>
<td>0.381**</td>
<td>0.257</td>
<td>0.638</td>
</tr>
<tr>
<td>3</td>
<td>Innovative Strategy (Y1) to Business Performance (Y2)</td>
<td>0.653**</td>
<td>-</td>
<td>0.653</td>
</tr>
</tbody>
</table>

The information obtained from Table 3 above shows that social capital (X) has a positive and significant direct effect on innovation strategy (Y1) with a total effect of 0.394. Similarly, the innovation strategy (Y1) has a positive and significant direct effect on business performance (Y2) with a total effect of 0.653. The effect of social capital (X) on business performance (Y2) appears to have a positive and not significant effect directly. In a sense, social capital (X) does not have a direct effect on business performance (Y2). However, the mediating role of the innovation strategy (Y1) is able to explain positively the influence of social capital (X) on business performance (Y2) with a greater total effect, which is 0.638.

Based on the results of the analysis obtained in its entirety, it can be illustrated the model of the results of this study in the presentation of Figure 7. By looking at the model of the results of the study (Figure 2), it gives empirical findings that the mastery of social capital by export-oriented SMEs in Bali prioritizes the cognitive dimension and followed by the relational and structural dimensions have not been able to directly improve the performance of their businesses. However, the mastery of social capital that can be used as the basis for the application of innovation strategies to compete is able to improve or improve their business performance.

### Figure 2. Model of Research Results

![Figure 2. Model of Research Results](image)

**Discussion**

1. **Effect of Social Capital on Innovation Strategies**

   The results of hypothesis testing indicates that social capital has a positive and significant effect on innovation strategies. These results mean that the better the management of social capital owned by SMEs as core competence, the stronger the social capital they control. With the increasingly strong mastery of social capital, SMEs are better able to choose and implement strategies to innovate to determine success in competing.

   The findings of this study illustrate that SMEs have made good efforts to control and control social capital as a core competency and the basis for the preparation of strategies for innovation. With this process, SMEs are proven capable of implementing innovation strategies appropriately to respond to...
challenges and opportunities from a dynamic and competitive business environment, so as to be able to position more competitively in the market.

The results of this study recognize the importance of social capital as a major asset in developing and implementing innovation strategies as supported by several empirical studies that have found a positive relationship between social capital and innovation (Nahapiet and Ghoshal, 1998; Kaasa, 2007; Aragón-Correa et al., 2007; Stam and Elfring, 2008; Kozlenkova et al., 2014; Adriani, 2012; Mayasari et al., 2013). The same results were obtained from Agyapong et al. (2017) which studies micro and small businesses in Ghana, the important role of social capital and innovation in the success of micro and small enterprises in developing countries. Mastery of social capital can help businesses to develop better communication, facilitate information flows, and better access to the resources needed for business growth, thus helping micro and small businesses in Ghana become more innovative. In addition, Nupus et al. (2016) revealed the results of his study that the development of social capital from SMEs was crucial in order to improve product innovation and company performance. The use of social capital and trust helps coordinate the organization and overcomes the lack of the company's ability to develop external networks, thus ultimately driving the innovation of SME furniture in Indonesia.

The results of the studies that have been conducted provide findings that the strategies of innovation carried out by SMEs to compete tend to focus on the application of the type of innovation from the social capital they control. With the increasingly strong mastery of social capital, SME managers can implement innovation strategies appropriately. Based on these explanations, the findings of this study reinforce the conception of strategy in the perspective of resource-based theory (RBT) delivered by Barney et al. (2011) that companies that are able to master and generate resources and capabilities as a basis for strategies can adjust the pressures of the business environment and produce competitive advantage. In addition, it is relevant to Grant (2010) that the determination of strategies that focus on competitive advantage based on a specific and specific set of resources is the company's core competency to achieve business success.

In the RBT perspective, innovation strategies as conduction of specific and specific resources that are controlled by the company to produce competitive advantage (Baumane-Vilotina, 2013). Social capital is an important resource that is able to distinguish and be difficult to imitate by competitors to implement relevant innovations (Agyapong et al., 2017). Core competencies derived from social capital shape the corporate culture for the implementation of innovation by developing cooperation, both internal and external. Cooperation is carried out by providing assistance in sharing knowledge, obtaining new and relevant market information, information on demand fluctuations, and observing new business opportunities (Inkpen and Tsang, 2006). In addition, cooperation with other parties (often with competitors) is important for SMEs because research and development activities are not affordable with limited financial resources (Tedjasuksmana, 2014; Suardhika, 2012).

Regarding the results of the study, mastery of social capital from SMEs that tended to cognitive aspects, namely: sharing knowledge with employees, mutual agreement in business, sharing business values on networks, exchanging information with business colleagues, and sharing knowledge with business partners can direct the implementation of strategies innovation that prioritizes innovating types. The innovation strategy implemented by prioritizing these types of innovations will later encourage increasing the number of innovative products and services in order to meet diverse customer desires.

2. Effect of Social Capital on Business Performance

The results of testing the hypothesis found, social capital has a positive and not significant effect on business performance. This finding implies that no matter how strong the social capital possessed by SMEs does not necessarily have a direct impact on improving business performance. The findings generated in this study are not consistent with the conception of Nahapiet and Ghoshal (1998) that social capital is an aggregate of actual or potential resources related to structural, relational, and cognitive network ownership that leads to increased business performance.

The findings of this study also do not support empirical findings (such as Chen et al., 2007; Farsi et al., 2013) that social capital among organizational members increases their ability to share knowledge and transfer ideas between each other. In addition, social capital increases the ability of businesses to gather resources that can improve their performance. Various studies show how effective internal communication encourages a stronger focus on organizational outcomes (eg Chiu and Lee, 2007). Meanwhile, Kozlenkova et al. (2014) and Adriani, 2012 show the results that network relationships (or social capital) are important sources of information and knowledge that complement employee experience, which in turn affects organizational performance.

However, Agyapong et al. (2017) provides clues that companies that benefit from these resources (social capital) tend to contribute to their innovation in terms of product development, market development, and customer relations, so that they can later get their business performance. This statement directs the importance of social capital as a determinant of innovation (Carrasco-Hernández and Jiménez-Jiménez, 2013). Furthermore Carrasco-Hernández and Jiménez-Jiménez (2013) stated that certain elements of external and internal social relations provide valuable learning resources, and are needed for the development of innovation in the company. Relevant to the results of this study, social capital has a positive and significant indirect effect on business performance through mediating innovation strategies.

The findings of this study provide meaning, SMEs that have informal relationships and connections that facilitate cooperation and knowledge transfer, which are both fundamental to innovation.
strategies formulated through collaboration and transfer of new knowledge can be applied appropriately to produce better business performance. In addition, innovative SMEs can exploit their social capital to share and test ideas, identify new opportunities and detect trends in changing business environments. In accordance with the findings of Yokakul et al. (2011), SMEs can have better competitive positions by using their social network relationships to achieve competitive advantage through the implementation of innovation strategies. Strategic innovation efforts from managers and people within the company have a key mediating role in the relationship of social capital with business performance.

Thus, SMEs need to identify and master social capital as an important asset in business activities. In the RBT perspective, the use of social capital helps coordinate in organizations and develop external networks to ensure the implementation of innovation strategies appropriately. The implementation of innovation strategies that prioritize the type of innovation can improve competitive position and improve the business performance of SMEs.

3. Effect of Innovation Strategies on Business Performance

The results of hypothesis testing indicate that the innovation strategy has a positive and significant effect on business performance. This result implies that the more appropriate export-oriented SMEs in Bali in choosing and implementing strategies to innovate, the business performance will increase.

Innovation strategies direct the ability to manage organizational resources to generate, develop, and implement, or expand products, services, processes, technology, administrative systems, or new structures (Price et al., 2013). By implementing the right innovation strategy, companies will be able to absorb and use external information to adopt new innovating knowledge in terms of product development, market development, and customer relations, so that later their business performance can be achieved (Lin et al., 2010; Rosenbusch et al., 2011). Failure to implement innovation strategies certainly can have an impact on the low competitiveness and achievement of business performance (Van de Vrande et al., 2009). Similar results are also found from other empirical studies (such as, Agyapong et al., 2017; Sok et al., 2013; Man and Theresa, 2008) that innovation strategies have a positive and significant effect on business performance.

Related to this research, improving the business performance of export-oriented SMEs in Bali can be achieved through the implementation of innovation strategies. The better the implementation of innovation strategies based on the implementation of the type of innovation, leadership orientation, level of investment and sources of innovation, the more business performance achieved by SMEs will also increase.

V. CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The conclusion can be drawn from this study that the mastery of social capital by export-oriented SMEs in Bali that prioritizes the cognitive dimension and is followed by the relational and structural dimensions have not been able to determine the improvement of their business performance. However, the mastery of social capital which is used as the basis for the application of innovation strategies to achieve a superior position in competition, is able to improve or improve their business performance.

Recommendations

Some suggestions that can be submitted from the results of this study are as follows:

1. Cognitive aspects are the most important role for SMEs to further strengthen social capital. By prioritizing cognitive aspects coupled with relational and structural aspects, it gives confidence to strengthen social capital and is used as a source of competitive advantage for SMEs. Therefore it provides guidance for SME managers to further strengthen this cognitive aspect through sharing knowledge with employees, mutual agreement in business, sharing business value on networks, exchanging information with business colleagues, and sharing knowledge with business partners.

2. This type of innovation is the most important role in implementing innovation strategies. By prioritizing the type of innovation coupled with leadership orientation, level of investment and sources of innovation, the application of innovation strategies from SMEs is increasingly appropriate. These results provide input for SME managers to prioritize this type of innovation in implementing innovation strategies by developing product designs, developing technology in production, improving market management, and using new methods of production.

3. Growth in market share is the most important business achievement for SMEs. In line with the reality, SME managers have targeted precisely their achievements in market share growth as a form of business success. This condition provides guidance for SME managers to maintain their business achievements by increasing market share and increasing the number of markets served.

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