

Development Of Entrepreneurship And Sustainable Innovation In Indonesian Small And Medium Enterprises

(Study on Trusmi Batik SMEs in Cirebon, West Java, Indonesia)

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ABSTRACT

The objective of this research is to describe the development of entrepreneurship and sustainable innovation in Indonesian Small and Medium Enterprises, casestudy on Trusmi Batik SMEs in Cirebon, West Java, Indonesia. This study is a descriptive study by using qualitative approach, and generate descriptions and analyzes how the development of entrepreneurship and sustainable innovation in Trusmi Batik SMEs in Cirebon, West Java, Indonesia. This study used data which collected using several methods, including site observation, interviews, and document study method (content analysis). Data were analyzed using interactive analysis. The research result indicated that the important role of entrepreneurship and sustainable innovation on Trusmi Batik SMEs businesses entrepreneurship can provide ideas in the businesses development. Innovation can provide tangible contribution to support business improvement on Batik Trusmi SMEs in Cirebon. The results also showed that high innovation can improve business Trusmi Batik SMEs. These results indicate that product innovation implementation became priority and have dominant contribution to reflect innovation. Meanwhile, growth in assets is the most important indicator to reflect the businesses. That is, an increase in product innovation can determine which assets growth as a reflection of the development of business, thereby providing a high contribution toward business improvement of Batik Trusmi SMEs in Cirebon.

Keywords: Entrepreneurship, Sustainable Innovation, Trusmi Batik SMEs.

1. Introduction

Small and medium enterprises (SMEs) have function to help government to move economy to develop economic in Indonesia. People's economy is based on fair market mechanism with principles of fair competition and can boost economic growth. Economists argue that small and medium enterprise sector has proven their durability in various economic conditions and able to withstand from various conditions of competition with big business. It should be well understood that small firms play an important role in economic development of a country (Mahmood and Idar, 2011). Reality shows that majority of small and medium enterprises sector in Indonesia has not been addressed seriously by government. For example, they did not get funding, even with a relatively small capital. But with hard work of owners, the production process can run, though with relatively slow development due to various obstacle and limited company's individual abilities, particularly with regard to entrepreneurial orientation.

The role of SME in economic development and growth is crucial, and its contribution is not only in developing countries but also in developed ones. SME is considered as the exceptional industry since this kind of industry does not only absorb the larger sales force compared to the larger industry, but it also provides the most significant contribution to the national gross domestic product (GDP) (Tambunan, 2009). The development and SME's role is not minor, since they can provide huge contribution in worker absorption. Many efforts have been performed by SME to create competitiveness, such as building a relationship with a larger industry, create a proper management, convenient technology, and innovation creativity.

Based on the data from Bureau of Statistics, West Java (2014), textile industry has provided the largest contribution to the economy of West Java. Batik is one of the work of art and it becomes the

famous heritage of Indonesia. Batik has been adored by many countries. Batik has made Indonesia to be one of the excellent countries that produces the most unique silky traditional fabric in the world. This label comes from a long-standing tradition of batik, which has deeply rooted in Indonesian culture, as a rich various, creative and artistic tradition. In addition, batik has also been acknowledged by the United Nations Educational, Scientific, and Cultural Organization (UNESCO) as “Intangible World Heritage” in October 2009. The similar label was also given to “keris” (traditional personal sacred weapon) and puppets. In West Java, Cirebon has been well known for the batik production, especially Kampong Batik of Trusmi. The introduction of imported batik in Indonesia becomes a threat and also a chance for batik industries, especially in Kampong Trusmi, to maintain their competitive advantages and business performance. Their entrepreneurship and the sustainable innovation will be the most important factors in maintaining their business performance in the market (Meutia, 2012).

Entrepreneurial success is highly dependent on the role of entrepreneurship as a major factor in the running of business (Shane & Venkataraman, 2000). Entrepreneurial orientation is an important factor in sustainable innovation. To achieve sustainable innovation companies need managerial capabilities in order to use resources effectively. Entrepreneurs with a strong entrepreneurial spirit and supported by management capabilities are needed in allocating the resources of the company in order to obtain an effective and efficient outcomes (Tidd et al, 1998).

Every business requires the application of management principles. The involvement of the business owner becomes an important aspect for the success of the business in the future. Pearce & Robinson (2009) stated that the survival and growth of a company depends on the entrepreneur's ability to understand and manage their businesses.

The efforts of finding a better future in entrepreneurship are not as easy as flapping hand palm, but it needs hard work (Dewanti, 2008). The journey of achieving the future in entrepreneurship needs a process which is full of risk. The first step which grows from the bottom will lead to success. Those have been experienced by the successful entrepreneurs who have found their way of success (Suryana, 2010). They build, maintain, and develop the business that they found. Entrepreneurship is the process of creating something new and producing something different from the one produced before. The purpose is achieving individual welfare and additional value for the society. Entrepreneur is someone who creates welfare and additional value through creating a new idea, combining resources, and realizing the idea into reality. In another side, entrepreneurship refers to the personality, character, and characteristics of someone who has strong willingness to create innovative idea in real entrepreneurial world and is able to develop it toughly. The factors triggering entrepreneurship is determined by the achievement motive, optimism, attitude and values and the success status. Entrepreneurial behaviour is influenced by internal and external factors (Suryana, *et.al*, 2010). The internal factors are property rights, ability/competence, and incentive, while the external factors are environmental, because affective abilities include attitudes, values, aspirations, feelings, and emotions that are all highly dependent on environmental conditions that exist, and then the dimension of affective and cognitive ability is a part of the entrepreneurship capability approach. Thus, entrepreneurial ability is a function of entrepreneurial behaviour in combining creativity, innovation, hard work, and courage to face the risk of acquiring opportunities.

The entrepreneurship begins with innovation. Innovation is influenced by various internal and external factors, such as education, sociology, organization, culture, and environment (Suryana, *et.al*, 2010). Those factors form locus of control, creativity, innovation, implementation, and growth so as to make a person develop into a great entrepreneur. Internally, innovation is influenced by the factors derived from the individual, namely tolerance, values, locus of control, education, and experience, while the environmental factors are role models, activities, and opportunities. Therefore, innovation evolves into entrepreneurship through a process that is influenced by environment, organization, and family. Therefore, entrepreneurship develops beginning with innovation. Innovation is triggered by personal factors, environment and sociology (Hisrich, *et.al*, 2008). The individual factors that trigger entrepreneurship are the achievement locus of control, tolerance, risk taking, personal values, education, experience, age, commitment, and dissatisfaction. The trigger factors derived from the environment are opportunities, role models, activities, competitors, incubator, resources, and government policy, while the trigger factors

derived from the social environment are family, parents, and group network. The environment factors affecting entrepreneurial growth are competitors, customers, suppliers, and financial institutions. The individual factors are commitment, vision, leadership, and managerial ability, while the factors derived from the organization are group, structure, culture, and strategy. People who succeed in entrepreneurship are those who can combine value, the main properties (pattern of attitudes), and the behaviour of the knowledge, experience, and practical skills (Hisrich, et.al, 2008).

Any changes in business environment have forced the companies to create any new thoughts, new ideas, and to offer the innovative products. Sustainable innovation has an important part in Trusmi Batik SME's improvements because it will not only be the important tool to maintain the company's survival, but it also to win the strenuous competition.

Batik is a product of high innovation creativity, which becomes one of the Indonesian cultures that need to be maintained its existence. High creativity, ability to adapt with business environment change and business network will be the important variables in improving the competitive advantage and the SME business performance. These variables have partially been investigated by previous researches on the Trusmi Batik SME, but they have been no study performed to explore the innovation creativity of batik industry, especially batik industry in Kampong Trusmi Cirebon.

Based on the above explanation, this research is aimed to describe the development of entrepreneurship and sustainable innovation in Indonesian Small and Medium Enterprises, casestudy on Trusmi Batik SMEs in Cirebon, West Java, Indonesia.

2. Problem Statement

Pursuant to the objective of the research, researcher herein formulates the following problem statement "How the development of entrepreneurship and sustainable innovation in Trusmi Batik SMEs in Cirebon, West Java, Indonesia".

3. Theoretical Framework

a. Entrepreneurship

Entrepreneurship can be conceptualized as the discovery of opportunities and the subsequent creation of new economic activity, often via the creation of a new organization (Reynolds, 2005).

Due to the fact that there is no market for "opportunities", the entrepreneur must exploit them, meaning that he or she must develop his or her capabilities to obtain resources, as well as organize and exploit opportunities. The downside to the market of "ideas" or "opportunities" lies in the difficulty involved in protecting ownership rights of ideas that are not associated with patents or copyrights of the different expectations held by entrepreneurs and investors on the economic value of ideas and business opportunities, and of the entrepreneur's need to withhold information that may affect the value of the project.

Entrepreneurship is often discussed under the title of the entrepreneurial factor, the entrepreneurial function, entrepreneurial initiative, and entrepreneurial behaviour and is even referred to as the entrepreneurial "spirit. The entrepreneurial factor is understood to be a new factor in production that is different to the classic ideas of earth, work and capital, which must be explained via remuneration through income for the entrepreneur along with the shortage of people with entrepreneurial capabilities. Its consideration as an entrepreneurial function refers to the discovery and exploitation of opportunities or to the creation of enterprise. Entrepreneurial behaviour is seen as behaviour that manages to combine innovation, risk-taking and proactiveness (Miller, 1983). In other words, it combines the classic theories of Schumpeter's innovative entrepreneur (1934, 1942), the risk-taking entrepreneur that occupies a position of uncertainty as proposed by Knight (1921), and the entrepreneur with initiative and imagination who creates new opportunities. Reference to entrepreneurial initiative underlines the reasons for correctly anticipating market imperfections or the capacity to innovate in order to create a "new

combination". Entrepreneurial initiative covers the concepts of creation, risk-taking, renewal or innovation inside or outside an existing organization. Lastly, the entrepreneurial spirit emphasizes exploration, search and innovation, as opposed to the exploitation of business opportunities pertaining to managers.

All this explains why entrepreneurship is described in different ways. The business process includes the identification and assessment of opportunities, the decision to exploit them oneself or sell those, efforts to obtain resources and the development of the strategy and organization of the new business project (Eckhardt and Shane, 2003). Entrepreneurship is "a process by which individuals either on their own or within organizations pursues opportunities" (Stevenson and Jarillo, 1990: 23). It has recently been claimed that if the managers and businessmen of many of our firms were to adopt entrepreneurial behaviour when developing their strategies, firms would be facing a much brighter future than current perceptions suggest (Lee and Peterson, 2000).

The entrepreneur's central activity is that of business creation, which can be studied at an individual and/or group level analyzing psychological aspects and social variables of education, background or the family either at an environmental level using variables that enable business development, or by analyzing aspects of the economic, social and cultural environments.

The study of entrepreneurs as individuals analyzes the variables that explain their appearance, such as personal characteristics, the psychological profile (the need for achievement, the capacity to control, tolerance of ambiguity and a tendency to take risks) or non-psychological variables (education, experience, networks, the family, etc.).

Therefore, there are three basic ideas that explain the appearance of entrepreneurial activity. The first focuses on the individual, in other words, entrepreneurial action is conceived as a human attribute, such as the willingness to face uncertainty (Kihlstrom and Laffont, 1979), accepting risks, the need for achievement (McClelland, 1961), which differentiate entrepreneurs from the rest of society. The second fundamental idea emphasizes economic, environmental factors that motivate and enable entrepreneurial activity, such as the dimension of markets, the dynamic of technological changes (Tushman and Anderson, 1986), the structure of the market normative and demographic (Acs and Audretsch, 1990) or merely the industrial dynamic. The third factor is linked to the functioning of institutions, culture and societal values. These approaches are not exclusive (Eckhardt and Shane, 2003: 2), given that entrepreneurial activity is also a human activity and does not spontaneously occur solely due to the economic environment or technological, normative or demographic changes.

b. Sustainable Innovation

Joseph Schumpeter can be considered the father of innovation as a key management concept, from his seminal work of 1934 where he argued that economic development is driven by innovation by a process of "creative destruction". He argued then that innovations could be considered "radical" when they generate major disruptive changes, while if these innovations produced small improvements generating a slow change process they could be considered "incremental". Finally, he proposed that there are five types of innovations: (1) introduction of new products; (2) introduction of new methods of production; (3) opening new markets; (4) development of new sources for raw materials or other inputs; and (5) creation of new market structures in an industry. Most works on innovation depart from this framework (Damanpour, 2010).

Innovation is certainly a key competitiveness factor for firms as it can help to significantly increase performance by improving products and services, processes, business models and marketing strategies. It is, however, unclear how to measure it. This is why it is very important to take a broad perspective on innovation and not see it solely as a linear process based on an investment, a R&D activity and an output or return on the original investment. In fact, the Oslo Manual specifies that "Innovation activities include all scientific, technological, organizational, financial and commercial steps which actually lead, or are intended to lead, to the implementation

of innovations". Finally, innovation only happens when it develops as a social practice, when it changes practices and habits (Jimenez and Sanz-Valle, 2011).

Currently it is practically impossible to turn on the TV or browse through a magazine without encountering advertisements of companies developing some sustainable innovation strategies. If we look at a ranking centred on sustainability such as the Global 100 Most Sustainable Corporations in the World published by Corporate Knights and Innovest, we find that many of the leading sustainable companies are the same that appear in the rankings of the most innovative. The conclusion is that there seems to be a connection between innovation and sustainability.

At the centre of the debate on innovation as a linear versus a dynamic, complex and unpredictable process is the question of what drives innovation. Ultimately, innovation has been generally about generating profits for the firm, while today there seems to be a tendency to understand innovation as the effective application of new processes and products designed to benefit the company as well as its stakeholders. The difference may seem mild, but it takes innovation from a process designed to generate profits for the firm, to a process focused on generating value for both the public and the firm. That is, innovation must generate some sort of public value beyond the sole satisfaction of the customers. The innovation drivers are very important because there is some evidence that the manner in which the firm innovates determines what the firm innovates. In other words, a firm that uses exploration throughout its ranks understands that the basic unit of innovation is not a department, but rather a network which aims to generate public and private good. As Prahalad and Rangaswami proposed in 2009, "we find that smart companies now treat sustainability as innovation's new frontier" (Hilmi, et.al., 2011).

4. Research Methods

This study is a descriptive study by using qualitative approach, and generate descriptions and analyzes how the development of entrepreneurship and sustainable innovation in Trusmi Batik SMEs in Cirebon, West Java, Indonesia. This study used data which collected using several methods, including site observation, interviews, and document study method (content analysis). Data were analyzed using interactive analysis (Miles and Huberman, 1984).

5. Result and Discussion

Batik has become the icon of Indonesia and a world heritage by the UNESCO. This milestone has not been responded well by the industry and batik consumers in Indonesia. Besides the fact that consumers do not appreciate batik, the batik entrepreneurs themselves do not take advantage of this momentum as they have not gained a "benefit" of this designation. In fact there are many batik entrepreneurs have not yet increased their turnover today. It's sad, because actually this is a very good opportunity for batik entrepreneurs. It was found that there was a downturn in batik market, especially its market share on writing/hand-made and stamped batik. Some of the reasons are less technological innovation applied, difficulty to anticipate and to know the needs of the market, difficulty to find buyers and the difficulty to develop business. Along with the increasingly fierce competition among batik entrepreneurs, such as competition from both domestic and abroad, batik entrepreneurs then need to anticipate the future in all areas, for example in the field of manpower, raw materials, models and design, technology, etc.

From the interview with Trusmi Batik, it indicates clearly that Trusmi Batik is not just textile products but has become a culture that has its own values. This is the potential and power for Batik Trusmi business. Many workers also have tacit knowledge, which is not owned by another region. Batik Trusmi market is many, scattered both in domestic and abroad. Besides its potential, Batik Trusmi also experience obstacles that are relatively similar to those carried out in other region.

It is seen that the raw material is still a major problem in the activities of batik making. Wax called *malam* where there is gondorukem in it, remains a concern for batik entrepreneurs because the current price pegged by Perhutani is the export price, thus Batik Trusmi entrepreneurs with middle class market will face difficulty to chase the price. To solve this problem need entrepreneurship of the owner of Batik Trusmi SMEs to look for the solution.

Entrepreneurship and hard work seem to need to be pursued improved to address the supply of raw material of batik home industries and guarantee availability at affordable prices, availability of equipment for batik processing seems to still be things that need to be prioritized. Because of from 19 centres of batik in Indonesia, there are only six businesses “canting” maker, 31 businesses batik stamp maker and 10 business mix “malam” maker. In fact, the total batik business enterprises in Java amounted to 15 293 units (Kompas, October 2013). Therefore entrepreneurship from the owner of Batik Trusmi SMEs is challenged to solve the problem of procurement of raw materials consisting of “canting”, “malam” and dyes.

For “canting” procurement canting, Trusmi Batik SMEs have sent members to have train in “canting” making since the year 2012 to the centres of “canting” maker. The result, today Trusmi Batik SMEs no longer entirely dependent on “canting” suppliers because 60% of the requirement of “canting” can already be provided by members of his own Trusmi Batik SMEs as well as the “malam” raw material that can be made of honeycomb so as to reduce dependence on “malam” suppliers to 30%.

Not just a matter of raw materials as a problem faced by batik entrepreneurs in Kampong Trusmi Cirebon, but the problem about consumers as buyers of batik products. International market orientation these days, Japanese and European markets in particular, wanted batik products which are naturally friendly. (Sancaya Rini, in *Clean Batik Initiative/CBI*, 2013). This was based on the reality of the awful impact of the over-usage of synthetic colouring based chemical materials in batik industry. According to the Institution of Water Resource Management (BPSDA), the four rivers in Pekalongan had been contaminated that they could no longer be used as needed by the people or community. The water from the rivers could no longer be used to water the rice fields or the fishery pools at the delta streams. Similar cases were also found in Cirebon. 18 rivers had been only used for industry. It would need an extremely longer time to neutralize the water of the rivers in this area. Considering how awful was this problem and the lack of successful problem solving to overcome it, Trusmi Batik SMEs considers the use of natural colouring materials as a concept of big importance to support to get the industry back to its stem root, and would be able to result in a sustainable development. To achieve this purpose, it would need lots of re-learning (*Clean Batik Initiative/CBI*, 2013).

In the effort of minimizing this kind of waste problems, SMEs of Batik Trusmi entrepreneurs in regency of Cirebon, particularly in processing the colouring of seeded batiks in these villages, to use various parts of plants such as mango leaves, the bark of mahogany trees, tobacco, the bark of indigo, up to the bark of *jengkol* trees. The batik motives colored by jengkol bark will later be brownish. All the herbal parts should be boiled beforehand for at least 4 hours with 10 liters of water until the water became 4 liters. It was that water that will be used to colour the batik. The colours resulted from natural materials would seem rather dull, not as bright as that resulted from synthetic system. It should be admitted that the price of batik colour by natural colouring materials was more expensive, between Rp.300 -500 thousands, whereas those colour by synthetic system were priced about Rp 125,000,- This was the challenge for SMEs of Batik Trusmi entrepreneurs to be able to produce environmentally friendly batik in a sustainable way.

Batik Trusmi SMEs innovation also encouraged the emergence of new success ideas that reflected on product, process and managerial innovation. Product innovation is a factor preferred in practice, measured by the ability to increase the novelty of product produced as compared to competitors, improving the new product quality that produced, quicker development of new products compared to competitors. SMEs current is required to produce good quality products, creative motifs and batik dyeing and innovation in new product development. Empirical facts show that product innovation is the most preferred factor in the implementation.

Interviews with respondents, employers of Batik Trusmi SMEs in Cirebon, shows that Batik Trusmi SMEs recognize the threat came from invasion of batik printing products which can be easily found in market. Therefore, Batik Trusmi SMEs constantly make new innovations in creating new motifs and classical motifs creation and then adjusted to the current market demand.

Entrepreneurs of Batik Trusmi SMEs need to understand the constraints in promoting innovation in order to support the new products development that have a competitive advantage in marketplace. Some entrepreneurs Batik Trusmi SMEs have concerns in marketing the product. Therefore, it is time

entrepreneur of Batik Trusmi SMEs to develop informal mechanisms actively, which is considered the most applicable to small and medium enterprises in sharing and exploiting knowledge that determine the quantity and quality of decision-making that qualified for Batik Trusmi SMEs, so knowledge creation process will take place more quickly and effectively.

This study results show the important role of entrepreneurship and sustainable innovation on Trusmi Batik SMEs businesses entrepreneurship can provide ideas in the businesses development. Innovation can provide tangible contribution to support business improvement on Batik Trusmi SMEs in Cirebon. The results also showed that high innovation can improve business Trusmi Batik SMEs. These results indicate that product innovation implementation became priority and have dominant contribution to reflect innovation. Meanwhile, growth in assets is the most important indicator to reflect the businesses. That is, an increase in product innovation can determine which assets growth as a reflection of the development of business, thereby providing a high contribution toward business improvement of Batik Trusmi SMEs in Cirebon.

6. Conclusion, Limitation and Recommendations

a. Conclusion

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b. Limitation of the Research

Further research on these issues is hoped to taken care of these research limitations. This research only describe from internal side of a Trusmi Batik SMEs, while none of the external conditions such as business environment and government's support and policy was analyzed.

c. Recommendations

Sustainable innovation is described as part of the evolution to be executed by the Trusmi Batik SMEs. In Batik Enterprises, innovation can be started from something that already exists, or from experience. Periodic market research is needed to explore creative ideas as a source of innovation.

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