

IMPROVING SUSTAINABLE COMPETITIVE ADVANTAGE OF CREATIVE INDUSTRY THROUGH STRATEGIC ALLIANCES TO OVERCOME ENVIRONMENTAL TURBULENCE

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ABSTRACT

Fundamental changes in the business environment that cause turbulence are suspected making many companies difficult to maintain competitive advantage. To restore competitive advantage, MSEs, need to take strategic steps through strategic alliance that is the most appropriate approach to an increasingly turbulent environment. This study aims to examine the effect of strategic alliances as mediating variables in the relationship between environmental turbulence and sustainable competitive advantage. The design of this study uses 130 craft industries. Data collection was conducted in all region of Malang Raya including Malang Regency, Malang City and Batu City. The findings show that environmental turbulence does not a significant relationship with sustainable competitive advantage but has a significant relationship with strategic alliance. Strategic alliance has a significant relationship with sustainable competitive advantage. Strategic alliance will mediate the relationship environmental turbulence and sustainable competitive advantage. The analysis showed that highly environmental turbulence tended to highly strategic alliance. The result of the study show that strategic alliance practiced by SMEs has been significantly affected the sustainable competitive advantage. It indicated that strategic alliance offers a systematic model for supporting SMEs to build a well-maintained environment and sustainable competitive advantage

Keywords: Environmental Turbulence, strategic alliance, Sustainable Competitive Advantage.

1. INTRODUCTION

Competitiveness is the principle key to success and survival in globalization. This competitiveness arises not only in the form of products but also in quality. Salman (2010) showed that the quality of the product can be obtained through imaging or creating innovative products that are not quite the same as different areas. Creativity was expected to make inventive products. From this point, the creative economy finds its existence.

Creative economy was associated with forms of economic activity related to creation and used of knowledge and information. This activity come from the utilization of individual's creativities, skills, and talents to create prosperity and employment by generating individual's creative and creative power that has enhance economic value and influence the welfare of the community (INPRES No. 6, 2009).

Although it does not produce a large number of products, the creative economy is able to make a significant positive contribution to the national economy. In 2013 the creative economy sector contributed 7.05% of total GDP. The contribution placed the creative economy sector 7th out of 10 economic sectors. The number of creative business units in 2013 is estimated to reach 9.7% of the total business in Indonesia and absorb employment of about 10.65% (fourth largest) of the total number national workforce. The number of creative businesses grew by 1% per year. Indonesia's export of creative works in 2013 was valued at US \$ 3.2 billion, an increase of around 3%. (Statistics Indonesia, 2013)

The creative economy is a new source of growth that is needed to accomplish the longterm development targets supported by the global market for creative workers. The creative economy confronted the challenges of the 21st Century landscape. Hitt et al. (1998) stated that challenges which are characterized by unpredictable and challenging environmental conditions that are transformed by numerous elements, such as globalization, technological development, and the expanding speed of diffusion of new technologies. This new landscape encourages companies to do something different in order to survive. Specifically, companies must discover new sources of competitive advantage and engage in new forms of competition that ultimately require an understanding of the nature and elements of competition and change condition (DeNisi et al., 2003).

External environmental changes that must be watched out for, are potential to cause turbulence. Shamsie et al. (2000) showed that the characteristics of this external environmental change can impact the significance of the strategy to change. The characteristics of change that cause turbulence are dynamic and complex changes (Emery & Trist, 1965), quick and unpredictable (Igor Ansoff & Sullivan, 1993) and cause uncertainty (Auster & Choo, 1993). Dynamic environment refers to a rapidly changing environment, a complex environment refers to a changing environment due to an expansion in elements of change in the environment, and the environment uncertain refer to a gap between the information that is owned and the information required. These gaps make it difficult for organizations to make predictions, causing uncertainty (Auster & Choo, 1993).

Some study found that competitive advantage is affected by the ability of management in dealing with the environment. Burgess et al. (1998) argued the proactive corporate environmental management as a corporate strategy to create competitive advantage. Chavan (2005) proposed that the use of good environmental management will help companies achieve competitive advantage. The growth strategy refers to the ability of firm in managing internal resources and its external environment that are capable of producing superior differentiation.

The company seem also have to immediately transform its business when its compete and retain in turbulent environmental conditions. Statistics Indonesia (2015) showed that the low constraints on the quality of human resources, limited access to fund, limited marketing, low management and technological capabilities and not yet optimal institutions require SMEs to implementing strategic alliances. Alliances are becoming increasingly common due to globalization. Teece et al. (1997) argued that the companies can distinguish the underlying condition or market trends by

communicating with various stakeholders. Companies can form and reform alliances with stakeholders to get to and manage valuable, mobile, and rare resources to survive in competition in a dynamic environment and that valuable or moving resources in the dynamic environment may not be valuable or can be substituted in the environment in the future

The drive to make strategic alliances in environmental turbulence conditions is shown by several research results that show that there are relationship between environmental turbulence and strategic alliances (Dollinger and Golden, 1992; Kandemir et al., 2006; Defee, 2006). Apart from being driven by conditions of environmental change, strategic alliances were also triggered by many motives. Vardarajan and Cunningham (1995) argued that there are several motives for companies to undertake strategic alliances namely entering new international markets, overcoming barriers to entering new markets, protecting competing positions in local place, extending product lines or filling product line gaps, entering the new product market or getting a foothold in developing industries, improving industrial structures, reduce potential competitive future threats, increase entry barriers, overcome entry barriers, increase resource use efficiency, expand resources and acquire new skills.

The success of business alliances will be based on a sense of unity and togetherness through the process of creating value, not just an exchange process for a certain value of investment (Kanter, 1994). The accomplishment of an alliance requires the willingness to give and receive from allied parties and the challenge is how much resistance can be given to outsiders to control the alliances. In the context of achieving sustainable competitive advantage, strategic alliances can be used with two scenarios, in particular: 1) the focal point of each partner is at a specific stage of the value chain that they can contribute to the cost and / or superiority of differentiation given unique resources and its skills; 2) each partner consolidates their expertise and resources to jointly carry out one or more value chain activities such as technology development, manufacturing and marketing to achieve a competitive advantage position. This means that an alliance can achieve sustained competitive advantage only if a collection of strategically equivalent resources used to exploit the same strategic does not exist (Varadarajan and Cunningham, 1995). In addition to providing many benefits, some researchers found that collaboration is not always constantly able to improve performance. The failure of the alliance strategy reached fifty percent (Park and Ungson, 2001), Zineldin and Dodourova (2005) found that the failure rate of collaboration in the form of alliances reached 70 percent. Palakshappa and Gordon (2007) found that companies are not able to realize the benefits of collaborative activities because they are unable to get new skills and competencies from collaborative activities.

Companies that rely heavily on strategic alliances to build competitive advantage without considering the risks of long-term dependence on their partners will weaken their ability to learn or increase new skills (Porter Lynch, 1990). This phenomenon is not a strange thing because partners do not have a complete similarity so that difficulties arise in merging operations or do not have the same motivation to enter an alliance. Strategic alliances in the process of achieving goals

encounter changes, markets, products and their commitment to change. Facing these challenges, managers who intend to do strategic alliances must have valid arguments that positive contributions exceed potential problems that will emerge. Given the importance of formulating the right strategy to achieve sustainable competitive advantage in enhancing performance and maintaining business continuity, especially SMEs in the context of developing countries such as in Indonesia, this study is intended to conduct further study and development of various phenomena, contradictions or inconsistencies in the results of previous research. This study is intended to examine the application of strategic alliance in Indonesian SMEs. It is also expected to give exposure to the SMEs' owner and managers for implementation of strategic alliance in their business. The study was guided by major research questions as follows:

RQ1. Do the environmental turbulence dimensions play a role in improving strategic alliance of SMEs?

RQ2. Does the strategic alliance play a role in improving SMEs' sustainable competitive advantage?

2. LITERATUR REVIEW AND HYPOTHESES

2.1. Environmental Turbulence and Sustainable Competitive Advantages

In the perspective of strategic management, the environment is a contextual factor that has an impact on performance. Environmental conditions that need to be watched out are those that cause turbulence. Environmental turbulence is related with increasing levels of change and the drastic nature of many changes, which makes it increasingly difficult to identify the causes or predict outcomes of competitive initiatives with sufficient certainty (Bower & Christensen, 1995).

Some empirical studies have found that environmental turbulence affects business performance. Ward & Duray (2000) found that the environmental dynamics have a significant and positive effect on competing differentiation strategies. Kuivalainen et al. (2009) found that companies with intensive knowledge experience more intensive international growth than different companies and work in environments with significantly higher technological turbulence.

In environmental conditions which are characterized by increasingly sharp and complex competition and a high rate of acceleration, companies must adjust to dynamic environmental movements in order to be able to achieve sustainable competitive advantage. Gordon & Schaller (2014) argued that when environmental changes are hard to anticipated, organizations must be able to change rapidly to survive and that turbulence is a new normal mechanism that must be solved. Consequently, internal structural changes can be considered as appropriate reactions to external volatility. The description, reinforces the argument that with a small form and organizational structure, it is easier for SMEs to immediately adjust to various environmental changes in order to accelerate the achievement of sustainable competitive advantage. Therefore, the following hypothesis presented:

H1: Environmental turbulence has a significant relationship with sustainable competitive advantage

2.2. Environmental Turbulence and strategic alliance

In a turbulent environment the company must immediately transform its business when it competes and defends the company, one of them by making a strategic alliance. Alliances have become increasingly common due to globalization and accelerating the pace of technological change. Hamel, et al. (1989) stated that in order to win global competition, companies that collaborate with their competitors will increase expanded skills and technology and transfer competitive advantages from their rivals.

Dollinger and Golden (1992) found that the munificence environment has a positive effect on the use of collective strategies. Kandemir et al. (2006) showed that environmental turbulence moderates alliance orientation towards alliance network performance which in turn improves market performance. Defee (2006) recommended that strategic alliances make it possible to quickly enter foreign markets, facing significant uncertainty in the long run.

Global competition characterized by environmental turbulence will encourage companies to build up cooperation with other stakeholders because companies, particularly SMEs, have many limitations so that other companies need to get many benefits and can be able to survive. Therefore, the following hypothesis presented:

H2. Environmental turbulence has a significant relationship with strategic alliances

2.3. Strategic alliances and Sustainable Competitive Advantages

For most companies it is impossible to have all the capabilities, resources, and core competencies needed to compete effectively in the field competition over a significant lot of time. Therefore, to deal with the intense competitive pressures in an industry, a cooperative strategy emerged, namely a strategic alliance. Bleeke and Ernst (1991), argued that the formation of strategic alliances and cooperation is fundamentally motivated to gain competitive advantage in the market. Strategic alliances are also described as the key to competitive success (Ohmae, 1986) and answers to many companies that seek to gain competitive advantage (Hammel and Prahalad, 1990).

Teng (2007) stated that strategic alliances are logical choices that are used to fill resource gaps and help companies to achieve competitive advantage and create value. Ireland et al. (2002) showed that strategic alliances as the main growth vehicle and generate market value for the company. Strategic alliances create two types of competitive advantages namely creating value through combining resources and managing portfolio alliances to achieve competitive advantage.

Hamel et al. (1990) argued that in order to win global rivalry, companies can collaborate with their competitors to strengthen their market position. Companies that collaborate with their competitors will gain increased skills and technology as well as transfer competitive advantages obtained from their competitors. Cui and Jiao (2011) stated that sustainable competitive advantage comes from the ability to create, accumulate, use internal resources to form strategic alliances. Therefore, the following hypothesis presented:

H3: Strategic alliances has a significant relationship with sustainable competitive advantage.

2.4. The effect of strategic alliance as a mediating variable in the relationship between environmental turbulence and sustainable competitive advantage

In the global era characterized by increasingly sharp and complex competition and high levels of acceleration, companies are required to be able to create different strategic choices. In order to win global competition in a changing environment, companies that collaborate with their competitors will gain increased skills and technology and transfer competitive advantages from their competitors. Certain business actors can break through the barriers of the domestic market, to be specific cooperating with one particular local company. (Hammel et al., 1989)

Teece et al. (1997) argued that in addition to physical, human, and organizational resources owned by companies, companies can form and reform alliances with stakeholders to get and manage valuable, mobile, and rare resources to maintain competitive advantage in a dynamic environment. They also argued that Companies that can identify the initial environment or market trends by communicating with various stakeholders through collaboration, and then can rapidly configure or reconfigure to align their resources with the needs and demands of new market situations and competition, will gain a competitive advantage.

Defee (2006) proposed propositions about how the combination of global operations strategies and strategic alliances offers attractive choices for small businesses. Alliances are used as SMEs technique to compete effectively against larger companies and established competitors. Strategic alliances are a tool of SMEs to grow and compete in a more effective way in the future.

Given the evidence above and the way in which companies provide supplements for accessible resources and combine new resources, reinforce the notion that strategic alliances with important stakeholders of the company are mediators of the relationship between environmental turbulence and sustainable competitive advantage. Therefore, the following hypothesis is:

H4. Strategic alliance will mediate the relationship between environmental turbulence and sustainable competitive advantage

3. RESEARCH METHODOLOGY

3.1. Data collection method

The data in this study were collected through a survey method using a questionnaire adopted from previous research. Questionnaires were addressed to creative economic SMEs registered with the Department of Industry and Trade of Batu City and Malang City, the Office of Cooperatives and SMEs of Malang Regency. Questionnaires are given to SME owners or managers because they were accepted to give exact information about SMEs.

3.2. Sampling technique

The proportional random sampling technique was used in this study. For this purpose, a list of creative economy SMEs was collected from the Industry and Trade Office of Batu City, Malang City and the Office of Cooperatives and SMEs Malang Regency. From 632 creative economy SMEs in the index, the selection was made for the craft industry with a total number of 194 companies. Out of the total listing for the craft industry, SMEs were selected to complete the total sampling using the Slovin method with a total number 130 companies. Then sampling is taken randomly based on sub-population.

3.3. Target respondents and sample size

The sampling unit in this study was the owner or manager of SMEs in the craft industry. This group of respondent was expected to meet the requirements of the study by providing a valid and accurate view of their company. With the end goal of this study, data collection was conducted in Malang City, Batu City and Malang Regency. All categories under definition of SMEs in craft industry. A total of 130 questionnaires were distributed to SMEs.

3.4. Questionnaire development

The questionnaire consists of two parts. The first part of the questionnaire includes a demographic section related to respondents' of company. The second part consist of 56 items from 14 indicators of: environmental turbulence (ET) (3 indicators), strategic alliance (SA) (8 indicators), and sustainable competitive advantage (SCA) (3 indicators). The seven-point Likert scale was used to measure the three categories of construct, the scale from "1" strongly disagrees with "7" strongly agree. The seven-point Likert scale is a valid and appropriate measurement, because many previous studies have used seven scales. In this study, the dimensions of environmental turbulence are measured by adapting the indicators suggested by Volberda & van Bruggen (1997). The Strategic alliance Dimensions were adapted from Varadarajan dan Cunningham (1995) and sustainable competitive advantage dimensions were adapted from Barney (1991) and Chen et al. (2006).

3.5. Profile of Respondents

Respondents in this study consisted of owners and managers in SMEs. The number of questionnaires distributed was 130 questionnaires. All respondents represent the craft industry. Table 1 shows the company profile of the respondents.

Table 1.
Demographic profile of respondents

Demographic	Category	Frecuency	Percentage
Gender	Male	45	34,6
	Female	85	65,4
Age	< 30	21	16,2
	30-39	32	24,6
	40-49	45	34,6
	≥ 50	32	24,2
Number of labour	1 - 3	8	6,2
	4 - 19	124	93,8
Classification	Micro	109	83,8
	Small	22	16,2

3.6. Descriptive statistics

Descriptive statistic was used to provide an overview of the respondents' company background. The average scores for ET, SA and SCA are 4.56; 4.91; and 4.57, respectively

4. DATA ANALYSIS

To test the model developed, we used the partial least squares (PLS) approach. PLS is a second generation multivariate technique that can simultaneously evaluate measurement models (the relationship between constructs and their corresponding indicators) and structural models with the aim of minimizing the variance errors (Hair et al., 2012; 2013). Smart PLS3 was used to analyze the data.

4.1. Measurement model

Convergent validity is the degree to which multiple items to measure the same concept are in agreement. As suggested by Hair et al.(2013) we used factor loadings, composite reliability (CR) and average variance extracted (AVE) to assess convergent validity. The recommended values for loading are set at >0.6, the AVE should be > 0.5 and the CR should be > 0.7. From Figure 1, it can be seen that we have conceptualized of TL, SA and SCA as the second-order constructs.

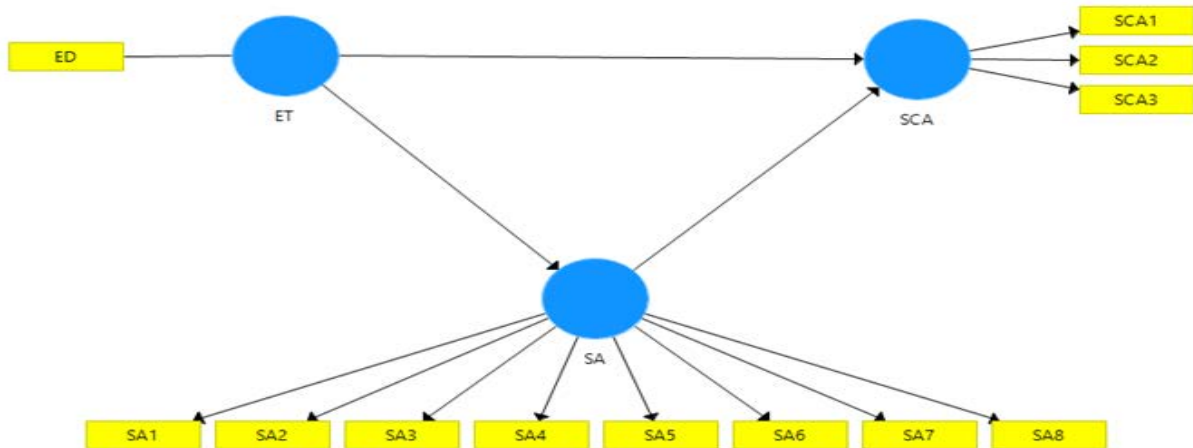


Figure 1.
The research model

We followed the method suggested in the literature in PLS which is a repeated indicator approach to model the second-order of factors in the PLS analysis

Tabel 2.
Measurement Model

Construct	Indicator	Loading	AVE	CR
Environmental Turbulence	Environmental dynamism	1,000	1,000	1,000
Strategic Alliances	Access and Market Positioning	0,860	0,699	0,949
	Product Development	0,838		
	New Market-Product	0,878		
	Market Structure Modification	0,840		
	Acceleration	0,883		
	Resources-efficiency	0,839		
	Reduce Risk	0,841		
	Improving skills	0,695		
Sustainable Competitive Advantage	Value, Rare, Inimitable, nonSubstitution	0,860	0,809	0,927
	Management, innovative, image	0,953		
	Profit	0,882		

Notes: AVE = average variance extracted; CR = composite reliability

Table 2 shows that the results of the measurement model are exceeded the recommended values, thus indicating sufficient convergence validity (Figure 2).

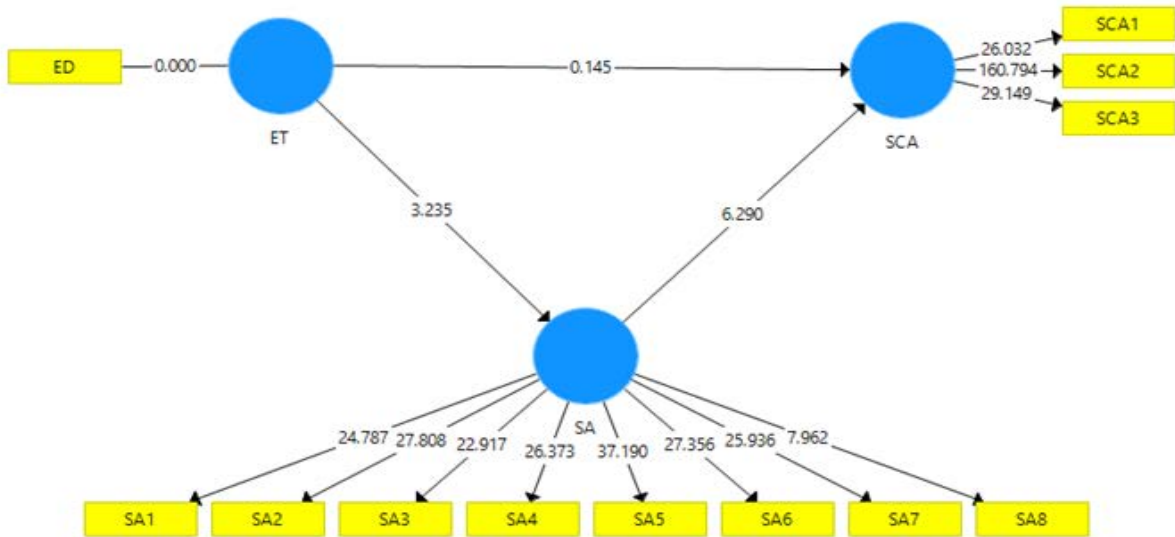


Figure 2.
The PLS algorithm results

After confirming convergent validity, we proceeded to assess the discriminant validity using the (Fornell & Larcker, 1981) method. Discriminant validity is the degree to which items differentiate between among constructs or measure distinct concepts. The criteria used to assess this is to compare the AVE with the squared correlations or the square root of the AVE with correlations.

Table 3.

Discriminant validity

Construct	ET	SA	SCA
ET	1,000		
SA	0,297	0,836	
SCA	0,154	0,481	0,899

Note: Diagonals represent the square root of the AVE, while the off-diagonals represent the correlations

As shown in Table 3, we have used the second method which is to compare the square root of the AVE with the correlations. The criteria is that if the square root of the AVE, shown in the diagonals, is greater than the values in the row and columns on that particular construct, then we can conclude that the measures are discriminant. From Table 3, it can be seen that the values in the diagonals are greater than the values in their respective row and column, thus indicating that the measures used in this study are distinct, demonstrating adequate discriminant validity.

4.2. Structural equation modeling - partial least squares

To evaluate the structural models' predictive power, we calculated the *R*². *R*² indicates the amount of variance explained by the exogenous variables (Barclay et al., 1995). All three variables together explained 42.4 percent of the variance. Using a

bootstrapping technique with a re-sampling of 500, the path estimates and *t*-statistics were calculated for the hypothesized relationships.

Table 4.
Hypothesis testing

	B	SE	T Statistics	P Values	Decision
ET -> SCA	0,012	0,083	0,145	0,885	Not Supported
ET -> SA	0,297	0,092	3,235	0,001	Supported
SA -> SCA	0,478	0,076	6,290	0,000	Supported
ET -> SA -> SCA	0,142	0,051	2,758	0,006	Supported

Table 4 shows the structural model analysis. From the analysis, it was found that ET ($\beta = 0,012$, $p > 0.05$) was not significant related to SCA. ET ($\beta = 0.297$, $p < 0.01$) is positively related to SA. SA ($\beta = 0.478$, $p < 0.01$) is positively related to SCA. Next, we tested the mediating effect of SA in the ET-to-SCA relationship. We used the bootstrapping procedure which has been suggested in the literature to test the indirect effect, and the results show that the indirect effect ($\beta = 0.142$, $p < 0.01$) was significant, indicating that there was a mediating effect. As suggested by (Zhao et al., 2010), if the relationship ET to SCA was not significant, but ET to SA and SA to SCA was significant, SA mediated the relationship between ET and SCA with a full mediation category.

5. CONCLUSIONS

The objective of this study is to examine the impact of SA as a mediating variable in the relationship between ET and SCA. The results of this study found that ET has not a significant relationship with SCA; thus, H1 was not supported. Some research results show that environmental turbulence encourages improvements in competitive strategies that have an impact on accomplishing competitive advantage (Ward & Duray, 2000). Kuivalainen et al. (2009) showed that companies with intensive knowledge experience more intensive growth than other companies in environments with significantly higher technological turbulence. Environmental turbulence provide indicators of performance on developed of knowledge better than others. This condition was supported by the fact SMEs in Indonesia have shown their strong in the face of extreme changes in the economic environment during the economic crisis. SMEs remaining able to survive and tend to grow, although not all SMEs can exit from the effects of economy crisis and environmental change. this condition is consistent with the findings of Li & Atuahene-Gima (2001) which suggested that if the companies was unable to adjusted the company's internal conditions to environmental changes, it will give a negative impact on performance.

The relationship between ET and SA was significant, and H2 was supported. The Significant relationships between ET and SA show that SMEs in Malang Raya

utilized characteristics of ET to encourage SA. This finding is consistent with the viewpoint that turbulent environmental changes, will encourage increased use of SA to achieve competitive advantage. Dollinger and Golden (1992) showed that the munificence environment has a positive effect on the use of collective strategies. Defee (2006) also argued that strategic alliances make it possible to quickly enter foreign markets, facing significant uncertainty in the long run. Global competition characterized by environmental turbulence will encourage companies to establish cooperation with other stakeholders because companies, especially SMEs, have many limitations so that other companies need to get many benefits and still be able to survive.

The relationship between SA and SCA was significant, and H3 was supported. For most companies it is impossible to have all the capabilities, resources, and core competencies needed to compete successfully in the arena of competitive competition over a long period of time. Therefore, to deal with the intense competitive pressures in an industry, a cooperative strategy emerged, namely a strategic alliance. Bleeke and Ernst (1991), say that the formation of strategic alliances and cooperation is primarily motivated to gain competitive advantage in the market. Strategic alliances are also described as the key to competitive success (Ohmae, 1986) and answers to many companies that seek to gain competitive advantage (Hammel and Prahalad, 1990). For this reason, managers or owners of SMEs are advised to focus more on improvements in EM Practices to improve SMEs' SCA.

Meanwhile, SA will mediate the relationship between ET and SCA, and H4 was supported. This study shows the indirect effect of ET on SCA fully mediated by SA and emphasizes the significance of SA in the achievement of the SMEs' SCA. The finding of this study is consistent Teece et al. (1997) stated that in addition to physical, human, and organizational resources owned by companies, companies can form and reform alliances with stakeholders to access and manage valuable, mobile, and rare resources to maintain competitive advantage in a dynamic environment.

Companies that can identify the initial environment or market trends by communicating with various stakeholders through collaboration, and then can rapidly configure or reconfigure to align their resources with the needs and demands of new market situations and competition, will gain a competitive advantage (Teece et al., 1997).

Defee (2006) proposed propositions about how the combination of global operations strategies and strategic alliances offers attractive choices for small businesses. Alliances are used as SME techniques to compete effectively against larger companies and established competitors. Strategic alliances are a means of SMEs to develop and compete in a more effective way in the future.

This analysis shows that highly strategic alliances tend to be highly SMEs' performance. On the other hand, the results of this study show that the strategic alliances practiced by SMEs in Malang Raya has significantly affected the SMEs' SCA. It indicates that SA offers a systematic model for supporting SMEs to build a well-maintained environment and SMEs' SCA.

6. LIMITATIONS AND FUTURE RESEARCH

Although the empirical findings of this study contribute to the existing literature, the result of the study cannot be generalized. Future studies should adopt the proposed research model among different type of SMEs to generalize the findings. Finally, the managerial level of SMEs should be considered as a control variable to develop the findings more precisely with the mediating role of dynamic capability, Entrepreneurship orientatio (EO) or Marketing Orientation (MO).

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