

# A Study of Corporate Social Responsibility as a Strategic Instrument to Create Competitive Advantage Through Adaptation to Change Business Environments: An Analysis with Structural Equation Modelling

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**Abstract.** *Small and Medium Enterprises (SMEs) are important part of a country's economy and one of the ideas of empowering SMEs in Indonesia is done through batik business. The trend to increase batik SMEs in order to create competition among batik SMEs in the area of East Java Province also faces competition with batik SMEs outside East Java province. The existence of CSR does not only apply to companies that have a large number of operational activities, but it has been carried out by a number of small and medium-sized businesses such as batik SMEs. This study seeks to explore the relationship of Corporate Social Responsibility with competitive advantage through adaptation to change the business environment by using structural equation modeling analysis. CSR programs conducted by SMEs give much contribution to achieve competitive advantage if those SMEs are able to adapt with the business environments changes.*

**Keywords.** *CSR programs, adaptation to business environments change, and competitive advantage*

## I. INTRODUCTION

Small and Medium Enterprises (SMEs) are important part of a country's economy and one of the ideas of empowering SMEs in Indonesia is done through *batik* business. The rapid development of *batik* in Indonesia can be seen from the emergence of many *batik* industries in Indonesia. East Java Province is one area that has a lot of potential and art. One of the well-known arts is painting, especially in terms of *batik*, although *batik* in East Java Province is still considered to be inferior compared to other regions like Central Java and DIY. Therefore, the government of East Java Province is trying to encourage the development of *batik* as one of the icons of the creative industries in East Java Province.

The trend to increase *batik* SMEs in order to create competition among *batik* SMEs in the area of East Java Province also faces competition with *batik* SMEs outside East Java province. In addition, the management of *batik* SMEs still face various problems as the problems are interrelated between one another. Those problems are: problems related to internal factors of *batik* SMEs such as, lack of capital, limited human resources (HR), lack of mastery of science and technology, weak business networks and market penetration capabilities. While the external factors of *batik* SMEs are: less conducive business climate, limited facilities and infrastructure, the implications of regional autonomy, the implications of free trade, the nature of products with a short lifetime, and limited market access.

Problems faced by *batik* SMEs have caused low competitiveness faced by *batik* SMEs in East Java province, so it needs to get special attention. [3] explained that competitive advantage is the result of implementing strategies that utilize a variety of company resources. Companies experience competitive advantage when actions in an industry or market create economic value and when several competing companies are involved in similar actions [1]. [3] revealed that competitive advantage is measured by indicators of product uniqueness, competitive prices, rarity, cannot be imitated easily, cannot be replaced easily. [5] stated that competitive advantage is measured in four indicators, namely: Price, Quality, Deliver Dependability, product innovation and time to market. [22] measured priorities which consist of cost priority, quality priority, deliver priority, flexibility priority and innovation. [19] used image, quality, differentiation, contact and price in seeing the competitive advantage of a company. [18] study conceptual framework develop five indicators for measuring competitive advantage, namely: price / cost, quality, delivery dependability, product innovation and time to market.

The achievement of competitive advantage by *batik* SMEs must be able to implement a program of social responsibility activities (CSR). CSR implementation is realized through the contributions in the form of social costs incurred by SMEs to conduct social activities. *Batik* SME is considered as one of industries which cause the production of emission waste containing high CO<sub>2</sub> levels which in turn can increase severe environmental damage. Therefore, *batik* SMEs are required to spend a number of costs associated with environmental costs to manage waste and reduce pollution and toxic gases in rivers that have been contaminated with *batik* coloring substance. [32] revealed the dimensions of CSR in small and medium enterprises namely CSR activities oriented to labor, market orientation, social orientation and environmental orientation. Whereas [33] concerned on CSR activities which are oriented to workers, customers, competitors, the community and the environment. [16] looked at CSR implementation in terms of: environmental concerns, customer relations, community and Integrated quality.

CSR can integrate various functional fields to create social and environmental added value [13] [17]. CSR activities help improving the viability of Small and Medium Enterprises (SMEs), and may offer great opportunities for business competitiveness, locally and globally[32]. The active development of CSR principles and practices is an important factor for increasing competitiveness[20]. The relevance and essence of CSR practices is important for competitiveness in a highly competitive business environment [2][15]. The results of the study are supported by the opinion of [25] that CSR programs contribute to the competitive advantage of SMEs, [4] concluded that CSR programs have a relationship with social development, and social trust.

The results of the CSR program cannot be known in short term, but it is an investment that can be enjoyed in long term. This means that the essence of CSR practices in increasing competitive advantage cannot be known in a short period of time, because CSR programs are investments that can be enjoyed over a long period of time, so that in the short term the implementation of CSR programs needs to pay attention to environmental adaptation. [28] state that in the context of small-scale business, adaptability becomes more important. Compared to medium and large scale companies, small scale companies are more vulnerable to external forces, mainly because of limited cash reserves, debt capacity, often dependent on limited product / service lines, and a tendency to rely on a niche customer base. Many small companies are also disadvantaged because they can only serve a relatively limited market, are prone to losses due to significant demand fluctuations, aggressive competition, and lack of support from suppliers and intermediaries.

According to [14], the ability of environmental adaptation is the ability to respond quickly when changes occur. [24] concluded that climate change mitigation and adaptation strategies can be conceptualized and presented as part of CSR strategies. [24] showed that CSR can increase the capacity of community adaptation to climate change through environmental, economic and social responsibility. It is also concluded that the tourism industry's CSR initiatives can play an important role in empowering communities to overcome environmental challenges.

SMEs that implement CSR programs by taking into account the adaptation to changes in the business environment will have an impact on the acquisition of competitive advantage in the long run. This is in line with [27] who stated that adaptability in responding to environmental changes becomes an important factor for gaining competitive advantage [29] concluded that the ability to adapt to environmental changes has a direct impact on competitive advantage.

## II. LITERATURE REVIEW

Corporate Social Responsibility (CSR) is a concept the company decides voluntarily to contribute to something society to be better. Factors affecting implementation and disclosure of corporate social responsibility including political economy theory, legitimacy theory, and stakeholder theory [12]. [16] see the implementation of CSR in terms of: environmental concerns, customer relations, community and Integrated quality. While [7] explain the indicators of CSR programs for SMEs can be divided into Internal CSR Stakeholders with employee indicators and environmental (environmental), while External CSR Stakeholders are represented with indicator suppliers or business partners (Suppliers / Business partners), consumers (Consumers) and society (Community). In the pyramid of responsibility social responsibility, [6] explains that the conceptualization of four parts of Corporate social responsibility in total includes the idea that the corporation not only has economic and legal obligations, but also responsibilities ethics and philanthropy. [4] revealed that measuring CSR with indicators of social value addition, social commitments, community empowerment, livelihood promotion and protection of commons and environmental protection.

According to [9] adaptability is based on the ability to adapt to changes in the organizational environment. Adaptability of an organization must develop norms and beliefs that support the ability to accept and then interpret various signals that come from the environment and translate into cognitive and behavioral changes. Organizational success depends on internal adaptation to the environment [14]. [10] explained the organizations that have the ability to adapt to the environment are indicated by the following indications: 1). The organization continually adjusts changes by making strategies according to feedback which is based on its market. 2). Product and business planning processes adjust or involve customers, suppliers and fund providers. 3). Organizations quickly make adjustments to environmental changes. 4). Speed of response for policy

changes from the principal. According to [14] adaptation to the environment is shown by the speed of response to policy changes from the principal, the amount of competitor information owned, response to special requests from customers, and speed of decisions for proposals from customers.

The use of resources has many potential advantages for organizations such as achieving greater efficiency and subsequently lower costs, improving quality and possibly greater market share and profitability [8]. Analytical approaches called Resource-Based View (RBV) emphasize increasing competitive advantage comes from strategic resources organization [11]. Competitive advantage enables companies to obtain superior performance over a certain period of time [11]. The point of Resource-Based View (RBV) is that companies are fundamentally different because they have a set of resources [27]. The most effective achievement of competitive advantage is to use company competencies or capabilities [1].

Competitive advantage is measured in four indicators, namely: Price Deliver Dependability, product innovation and time to market[5]. Whereas [22] priority measurement consists of 1). cost priority, 2) quality priority, 3) deliver priority, 4) flexibility priority and 5) innovation. Competitive priority refers to the strategic emphasis on capability development such as: cost advantage, quality, delivery and flexibility[22]. [19] uses image, quality, differentiation, contact and price in seeing the competitive advantage of a company. [18] develop five indicators measuring competitive advantage, namely: price / cost, quality, delivery dependability, product innovation and time to market.

### III.THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

[28] state that in the context of small-scale business, adaptability becomes more important. The ability of environmental adaptation is the ability to respond quickly when changes occur [14]. [24] concluded that climate change mitigation and adaptation strategies can be conceptualized and presented as part of CSR strategies. [24] show that CSR can increase the capacity of adaptation to climate change through environmental, economic and social responsibility. [31][30] revealed that through CSR programs, SMEs have the ability to adapt to the business environment.

H1. CSR programs can improve the ability of SMEs to adapt to the business environment

The ability to adapt to changing business environments is an important factor for gaining competitive advantage. [27] that adaptability in responding to environmental changes becomes an important factor for gaining competitive advantage. [29] conclude that the ability to adapt to environmental changes has a direct impact on competitive advantage.

H2. The ability of SMEs to adapt to the business environment can increase competitive advantage

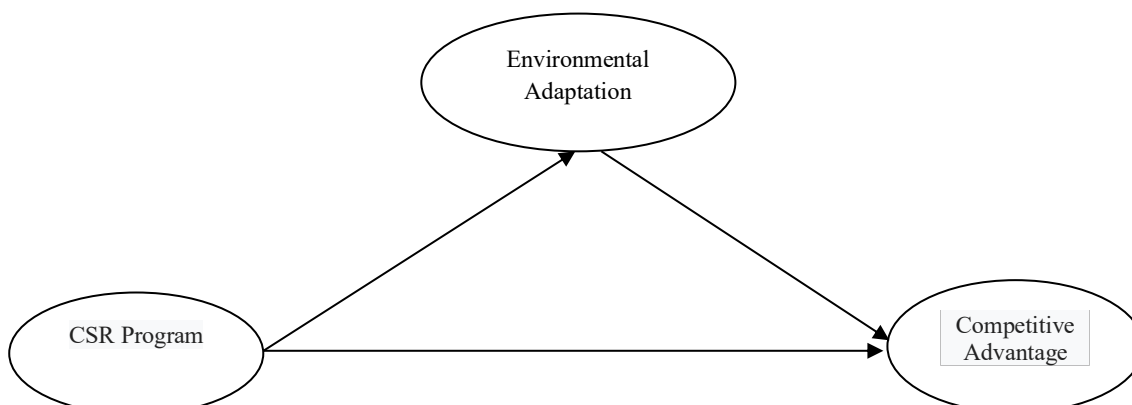
CSR programs can integrate various functional areas to create social and environmental added value [13]. CSR activities help improve the viability of Small and Medium Enterprises (SMEs), and may offer great opportunities for business competitiveness, locally and globally [32]. The active development of CSR principles and practices is an important factor for increasing competitiveness [20]. The relevance and essence of CSR practices is important for competitiveness in a highly competitive business environment [2]. [25] that CSR programs contribute to the competitive advantage of SMEs.

H3. CSR programs can increase competitive advantage

The essence of CSR practices in increasing competitive advantage cannot be known in a short period of time, because CSR programs are investments that can be enjoyed over a long period of time, so that in the short term the implementation of CSR programs needs to pay attention to environmental adaptation [23][24][31][30]. The ability of SMEs to adapt to the business environment contributes to competitive advantage [27][29].

H4. The ability of SMEs to adapt to the business environment mediates CSR programs in increasing competitive advantage

Based on the phenomenon of competition among batik SMEs outside the province of East Java and even between countries and the results of previous empirical studies, the novelty of this research offers the concept of the ability of SMEs to adapt to the business environment that bridges the influence of CSR programs on the competitive advantage of Batik SMEs in East Java in one integrated model. Although this empirical research was carried out within the scope of Indonesia, the results are relevant to other developing countries. The model proposed in this article is validated through the structural equation model (SEM). The theoretical framework is presented in Figure 1.



#### IV. METHOD

This research uses a quantitative approach (quantitative approach), which is an approach that emphasizes testing theories or concepts through measurement of variables metric / numbers and perform data analysis procedures aimed at testing hypotheses. This research uses primary data and data collection techniques carried out with a questionnaire that provides a list of written questions to the owners of batik SMEs in East Java, amounting to 110 respondents. The sample sizes that exist in each city are shown in Table 1 as follows:

**Table 1. Distribution of Research Samples**

No.	Cities	The number of samples
1	Banyuwangi	22
2	Pamekasan (Madura)	24
3	Malang	19
4	Sidoarjo	14
5	Tuban	31

Descriptions of the characteristics of respondents classified by sex, age structure, level of education and length of time of the respondent's business are further described in Table 2.

**Table 2 Descriptions of Respondent Characteristics**

Individual characteristics	The number of persons	%
<b>Based on sex</b>		
Male	35	32
Female	75	68
<b>Based on age</b>		
20-30 years	12	11
31-40 years	49	45
41-50 tyears	39	35
51 more	10	9
<b>Last education</b>		
Junior High School	17	15
Senior High School	58	53
Undergraduate	35	32
<b>Lathe length of entrepreneurship</b>		
Less than 10 years	9	8
10 – 20	32	29
21- 30	43	39
30 more	26	24

This research uses three variables: the CSR program consists of four indicators namely Social value addition, social commitments, community empowerment and environmental protection. The adaptation variable changes in the business environment, consisting of four indicators namely market-based strategy, planning processes adjusting customers, suppliers and fund providers, quickly making adjustments to environmental changes and the speed of response to policy changes from the principal, while the competitive advantage variable consists of five indicators namely price , quality, deliver dependability, product innovation and time to market. The variables in this research can be explained in Table 3.

**Table 3 Operational matrix of research variables**

Variable	Indicator	Source
CSR Program (X <sub>1</sub> )	Social value addition	[1]
	Social commitments	
	Community empowerment	
	Environmental protection	
Adaptation to business environment change (Y <sub>1</sub> )	Market based strategy	[10],[14]
	The planning process adapts customers, suppliers and fund providers	
	Quickly adjust to changes in the environment	
	Speed of response for policy	

	changes from the principal	
Competitive advantage (Y4)	Price	[18],[5],[19],[26]
	Quality	
	Deliver Dependability	
	Inovasi Product	
	Time to market	

To measure the variables studied used a Likert scale, in this research each of the answers to the questions in the questionnaire was scored as follows: strongly disagree (1), disagree (2), neutral (3), agree (4) and strongly agree (5). Data analysis for testing hypotheses used Structural Equation Model (SEM) using AMOS 20.0 As a basis for testing hypotheses the Critical ratio (Cr) of output regression Weight was used. Where the hypothesis will be accepted if the p value <of significance of 5%.

As for testing adaptation to changes in the business environment mediating the effect of CSR programs on competitive advantage, the Sobel test was used. The indirect effect of the CSR program (X) on competitive advantage (Y) through adaptation to changes in the business environment (M) is calculated by multiplying the path  $X \rightarrow M$  (a) with the path  $M \rightarrow Y$  (b) or ab. So the coefficient  $ab = (c - c')$ , where c is the effect of X on Y without controlling M, while c' is the coefficient of the effect of X on Y after controlling M. Standard error coefficients a and b are written with Sa and Sb, the magnitude of the standard error Indirect effects (indirect effects) Sat calculated by the formula below:

$$Sab = \sqrt{b^2 \cdot Sa^2 + a^2 \cdot Sb^2 + Sa^2 \cdot Sb^2}$$

Where:

a: coefficient of the direct effect X with respect to M

b: coefficient of the direct effect M on Y

Sa: standard error of the coefficient a

Sb: standard error of the coefficient b

To test the significance of the indirect effect, it is necessary to calculate the t value of the a b coefficient and the t value is compared with the t table value of  $\geq 1.96$  for a significant 5% and t table  $\geq 1.64$  showing a significance value of 10%. If the calculated t value is greater than the t table value, it can be concluded that there is a mediating effect.

## V. FINDING AND DISCUSSION

### Testing Result of Convergent validity

The results of convergent validity tests on the indicators that make up the CSR program variables, adaptation to environmental change and competitive advantage are shown in Table 4

**Table 4 Construct Validity and Reliability Analysis**

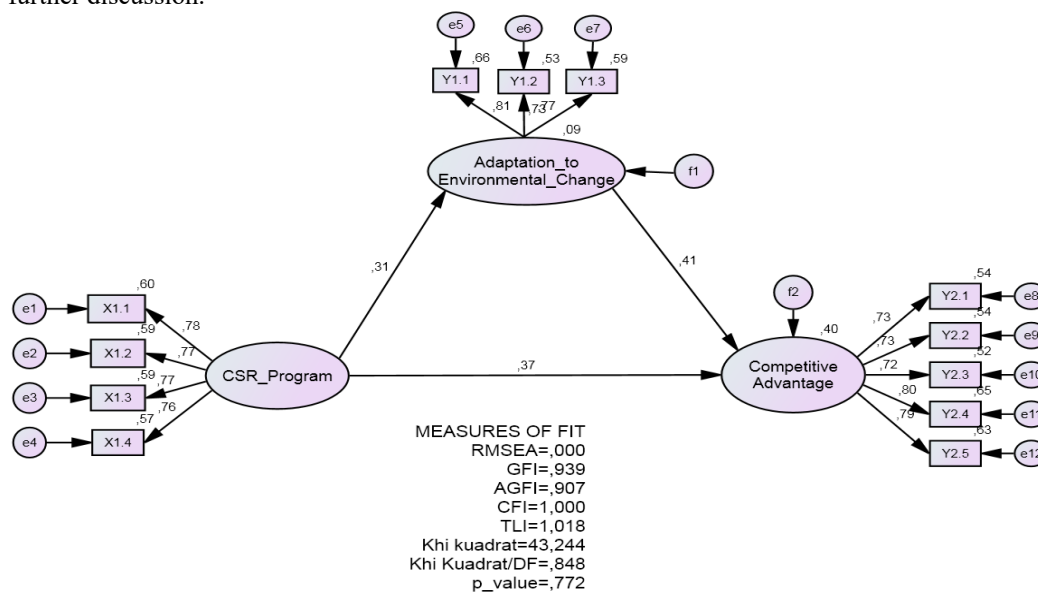
Variable and indicator	Loading Factor (Standardized Value)	Cronbach's $\alpha$ Coefficients
<b>CSR</b>		
Social value addition	0,761	0.849
Social commitments	0,776	
Community empowerment	0,773	
Environmental protection	0,762	
<b>Adaptation to Environmental Change</b>		
Adjust changes by making market-based strategies	0,813	0.813
The planning process adapts customers, suppliers and fund providers	0,742	
Quickly adjust to changes in the environment	0,758	
Speed of response for policy changes from the principal	0,433	
<b>Competitive Advantage</b>		
Price	0,731	0.867
Quality	0,747	
Deliver Dependability	0,717	
Inovasi Product	0,791	
Time to market	0,803	

Based on Table 4 it can be explained that the indicators that make up the CSR program (market oriented, environment oriented, labor oriented and community oriented) and the indicators forming competitive advantage (regulation, market tastes, and technological change) have a loading factor value of (LF) > 0.5. As for the anticipation indicators of seasons that shape adaptation to environmental changes have a loading factor (LF) value of < 0.5, so that it is excluded from the model. Indicators forming competitive advantage (price, quality, deliver dependability, product innovation and time to market) have a loading factor value of (LF) > 0.5. That is, indicators that are used validly measure what should be measured in the model.

Based on the results of the reliability test conducted on the instrument items used in the study, it showed that all items of the research instrument can be said to be reliable because it has met the reliability criteria of the instrument instrument used, ie the Cronbach Alpha value is greater or equal to 0.6. These results indicate that the instrument used can be trusted or relied upon when used multiple times.

**Goodness-of-Fit Indexes for Measurement Model**

The model test results presented in Figure 1 were evaluated based on the goodness of fit indices criteria showing that the model evaluation of the construct had fulfilled the cut-off value, where Sign Probability  $\geq 0.05$ , CMIN / DF  $\leq 2.00$ , GFI  $\geq 0.90$ , AGFI  $\geq 0.90$ , TLI  $\geq 0.95$ , CFI  $\geq 0.95$  and RMSEA  $\leq 0.08$ . Based on these results, the model can be categorized as suitable and feasible to use, so that interpretation can be made for further discussion.



**Figure 2. Research model Hypothesis Testing**

The results of testing the relationship between the variables tested both directly and indirectly are explained in Table 5.

**Table 5. Testing for direct and indirect effects**

Direct relationship		Indirect relationship		Cr	p-value	Note
CSR Program	→	Adaptation to Environmental Change	→	-	2,629	0.009* Sig.
CSR Program	→	Competitive Advantage	→	-	3,296	0.000* Sig.
Adaptation to Environmental Change	→	Competitive Advantage	→	-	3,604	0.000* Sig.
CSR Program	→	Adaptation to Environmental Change	→	Competitive Advantage	2,132	0,033* Sig.

Note: \*) significant on 5% level

Table 5 explains the effect of CSR programs on adaptation to environmental change resulting in a Critical ratio (Cr) value of 2.629 at a significance level of 0.009 (H1). The results indicate that CSR programs directly affect adaptation to environmental change. The results of testing the effect of CSR programs to competitive advantage produces a Critical ratio (Cr) of 3.296 at a significance level of 0.000 (H2). These results

indicate that CSR programs directly affect competitive advantage. The results of testing the effect of adaptation to environmental change on competitive advantage produce a Critical ratio (Cr) value of 3.604 at a significance level of 0,000 (H3). These results indicate that adaptation to environmental change directly influences competitive advantage. The results of adaptation to environmental change testing mediate the effect of CSR programs on competitive advantage resulting in a Critical ratio (Cr) of 2.132 at a significance level of 0.033 (H4). These results indicate that adaptation to environmental change mediates the effect of CSR programs on competitive advantage.

## VI. DISCUSSION

The contribution in this study is it is able to explain that the CSR program conducted by *Batik* SMEs in East Java contributes to the adaptation to the changing business environment. This means that the existence of CSR does not only apply to companies that have a large number of operational activities, but also drags a number of small and medium-sized businesses such as *Batik* SMEs as one of the *batik* producers that provides positive feedback on the surrounding environment for the development of *batik* businesses. For this reason, *batik* SME owners can carry out social activities as a form of social concern for the surrounding community that has provided space for *batik* SMEs. The implementation of CSR programs is oriented to the environment and the community because SMEs participate in generating waste and increasing environmental pollution. Apart from waste, the implementation of CSR is driven by the spirit to maintain harmony between SME owners and the surrounding community such as empowering the surrounding community to become workers in the *batik* SMEs. The participation of *Batik* SMEs in East Java in implementing CSR programs that are oriented to the environment and society has an impact on adaptation business environment changes by doing such activities like SMEs are continuously adjusting changes by making strategies in accordance to market-based feedback, conducting product planning and business, adjusting customers, suppliers, and providers of funds, and triggering SMEs to quickly adjust to environment changes .

Adaptation to changes in the business environment has an impact on achieving competitive advantage. This can be explained by the fact that *Batik* SMEs continually adjust changes by making strategies in accordance to market-based feedback, planning products and businesses to adapt customers, suppliers and fund providers and SMEs quickly adjust to environmental changes by doing a contribution to increase the competitive advantage of *batik* SMEs in East Java. Increased competitiveness carried out by *Batik* SMEs in East Java will be achieved if those SMEs are able to implement CSR programs effectively for xample by doing social activities as a form of social concern for the surrounding community that has provided space for *batik* business.

## VII. CONCLUSION AND MANAGERIAL IMPLICATION

Based on the results of research by testing the hypothesis, it shows that CSR programs can be used as a means to adapt to changes in the business environment. This means that *batik* SMEs in East Java that carry out social activities as a form of social care for the surrounding community are able to adapt to the environment and this is shown by their effort in continuously adjusting changes by making strategies in accordance to market-based feedback, carrying out product planning and business processes to match customers, suppliers. and fund providers and quickly making adjustments to environmental changes. The results of this study support [23] concluding that climate change mitigation and adaptation strategies can be conceptualized and presented as part of CSR strategies. [23] show that CSR can increase the capacity of community adaptation to climate change through environmental, economic and social responsibility. It also concluded that the tourism industry's CSR initiatives can play an important role in empowering communities to overcome environmental challenges.

Adaptation to changes in the business environment carried out by *Batik* SMEs in East Java plays a role in increasing competitiveness. This condition occurs if *batik* SMEs in East Java are able to continuously adjust changes by making strategies in accordance to market-based feedback, carrying out product and business planning processes to adjust customers, suppliers and fund providers and quickly making adjustments to environmental changes. The use of resources has many potential advantages for organizations such as achieving greater efficiency and subsequently lowering costs, and improving quality and possibly greater market share and profitability [8]. An analytical approach called Resource-Based View (RBV) emphasizes an increase in competitive advantage derived from the organization's strategic [11]. Competitive advantage enables companies to obtain superior performance over a certain period of time [21]. This agrees with [27] stating that adaptability in responding to environmental changes becomes an important factor for gaining competitive advantage. [29] concluded that the ability to adapt to environmental changes has a direct impact on competitive advantage.

The achievement of competitive advantage by *Batik* SMEs in East Java cannot be separated from the role of SMEs in implementing CSR programs effectively. The implementation of CSR programs is carried out by conducting social activities as a form of social concern for the surrounding community that has provided space for *batik* SMEs. The active development of CSR principles and practices is an important factor for increasing competitiveness [20]. The relevance and essence of CSR practices are important for competitiveness in a highly competitive business environment [2][15]. The results of this study are supported by the opinion

from [25] stating that CSR program contributes to the competitive advantage of SMEs. In addition, [4] concluded that CSR programs have a relationship with social development, and social trust.

The main value of this study is that *Batik* SMEs in East Java implements CSR programs by carrying out social activities as a form of social concern for the surrounding community that has provided space for *batik* SMEs to make *batik* SMEs in East Java able to adapt to changes in the business environment by continuously adjusting changes in making strategies according to market-based feedback, carrying out product and business planning processes to adjust customers, suppliers and fund providers and quickly making adjustments to changing environments. In these conditions, *batik* SMEs in East Java were able to seize competitive advantage in terms of price, quality, deliver dependability, product innovation and time to market.

#### VIII. LIMITATIONS AND FUTURE RESEARCH DIRECTION

This study has several important limitations to note. First: Some respondents are still not enough to understand some of the questions posed in the questionnaire so that respondents have different perceptions of the questions posed, Second: The problems raised have not been able to fully represent the variables that can increase excellence compete against SMEs. Future researchers are expected to examine other variables that affect the competitive advantage of SMEs, for example variables: business networks (partnerships) and Entrepreneurial Orientation.

#### IX. CONCLUSION

Through CSR programs conducted, *batik* SMEs in East Java are able to contribute to competitive advantage if mediated by the ability of SMEs to adapt to changing business environments.

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