

Innovation Strategy in Sustaining Small Businesses: Study of Songket Handycraft Home Industries in Palembang - Indonesia

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Abstract: Dynamic changing environment is a challenge condition to home industry businesses as small businesses. Some of the crucial challenges facing the industries are changing in the external environment such as competition, demand and technology. Songket Palembang woven by hand with threads of gold and silver and are generally worn on formal occasion. The competitors are from songket handicrafts that is also made in Palembang and also from other area such as Padang and Malaysia, Brunei as well. To sustain the business, one of the strategies that can be used is the innovation strategy. Innovativeness has been recognized as a very important factor in the industrial competition.

The study objective is to observe and explain how business decision as innovation strategy can promote the performance and the sustainability of songket handicraft home industries as small businesses. The study is developed by the characteristics of the owners as leader or leader itself, and also the innovation strategy that applied to the business. The sampling method in this study was using purposive sampling. The respondents are the songket handicraft home industry owners or leaders that have been doing the business more than ten years and have at least one more additional branch in other city in Indonesia. The questionnaires based survey was conducted to gather data from the respondents. The questionnaires were informed by previous studies on characteristic owners or leaders of small businesses, characteristics of small businesses, owners or leaders orientation of innovation, types of innovation, sources of innovation and level of innovation. The questionnaires were gathered by hand directly to respondents. A Total of 46 usable responses were received and analyzed by descriptive statistic using the SPSS.

The result of the study that the owners or leaders that have been successful in sustaining the business are characterize as the middle ages (between 40 – 55 years old) and more than 10 years are doing the business, and most of them are continuing their family businesses. The overall effort of innovation strategy is very important factor in sustaining the business. The innovation strategy involved songket handicraft home industries as follows: (1) The owners or leaders orientation to support innovation is a mayor successful factor to sustain the business; (2) Type of innovation that most used in the business is the product innovation; (3) Source of innovation that involved to the business is external sources, especially the competitors; (4) Level of innovation that achieved in the business is incremental innovation that focus on changing in raw material and design. Furthermore, the innovation strategy should start from the effort of leader orientation of innovation. The strategy must be followed and applied by the employees in order to develop future innovative products to compete with competitors. It is proven that innovation is important strategy in improving the small business performance to sustain in the market.

Originality/value – Although the songket handicraft home industries take the important role in social and economy in Palembang - Indonesia, innovation in handicraft sector has received little previous attention from researchers. This study makes an important contribution by finding the role of owners or leaders orientation and type of innovation as the sustaining strategy. Moreover, it encourages and develops the understanding of the leader from other handicraft industries to improve innovation strategies for their business.

Keywords: Home industries, Innovation strategy, leaders orientation, sustainability, type of innovation

Introduction

Songket is a kind of fabric woven traditional Palembang, Malay, and Brunei. Songket woven by hand with threads of gold and silver. Songket is one of priceless heritage of Sriwijaya kingdom that was founded in the 7th century. Songket exclusive requires between one and three months to complete, and used by the rich segment of the society. Nowadays songket is not only meant for the rich segments of society, because the ordinary songket only takes about three days. Songket is a luxurious woven fabric that is usually worn during the festivity, celebration or a party. Dynamic changing environment is a challenge condition to home industry businesses as small businesses. Some of the crucial challenges facing the industries are changing in the external environment such as competition, demand and technology. Home Industry commonly called of small business has a strategic role in the economy system in Indonesia. There are at least 4 strategic role regionally as follow: (1) Spreading over all economic sectors, (2) Giving a great potential in employment, (3) Using local raw materials, and (4) Producing goods that needed with affordable price (Bank Indonesia, 2001). On the other side, small businesses have complex number of weaknesses. Several weaknesses those are include: (1) Informal business and rarely had the business plan, (2) Organization structure is temporary or is not clear, (3) the number of workers are limited and small, (4) There are not separation between personal wealth and company wealth, (5) The accounting system is simple, some do not have bookkeeping, (5) Small in economies of scale, making it difficult to put pressure on production costs, operation, and innovation, (6) The ability of market diversification and innovation is tend limited, (7) The margin of profit is small (Sutojo, et.all:1994).

The Indonesia Government is trying to print new entrepreneurs to break down the colonial economic system and replaced with democracy economic. The legislative body has given its support for the Government to develop small business. Under Law No. 20 year 2008 regarding small business the role of Government among others: (1) Local government facilitates the development of Joint ventures in the field of production and processing, marketing, human resources, and design and technology (Article 16, paragraph 1); (2) Along with local governments do Business empowerment in the field of Secondary financing and guarantee (Article 24); (3) Along with local governments, businesses and communities, supporting, facilitating and stimulating the activities of the partnership, interdependence, trust, strengthen, and benefit (Article 25, paragraph 1). Partnerships between micro, small, and medium enterprises and partnerships between micro, small, and medium with great effort includes process instead of skills in the field of production and processing, marketing, human resources, capital, and technology (Article 25, paragraph 2); and (4) Minister of cooperatives and small business and other technical ministers govern the granting of incentives to big businesses that do partnership with micro, small, and medium enterprises through innovation and development of export-oriented products, the absorption of labor, use of appropriate technology and environmentally friendly, as well as organizing education and training (Article 25, paragraph 3).

The various supporting for home industries have been creating by Government, but they are still classified as lack of innovation management and strategy to develop their businesses. Strategy innovation is the triggering factor of competitiveness in business environment that rapidly changing and competitive now. Innovation is increasingly recognizes as having as important contribution to make to organizational success, performance and survival. To sustain the business, one of the strategies that can be used is the innovation strategy.

The research reported in this article, which is a part of innovation study and sustainability of small businesses. The study aims to observe and to explain how business decision as innovation strategy has been promoting the performance and the sustainability of songket handicraft home industries as small businesses. More specifically, the objectives of the study are to profile: (1) the Home Industries owners or leaders characteristics; and (2) The perception of how are their practices of innovation strategy in sustaining their businesses; (3) The major innovation strategy that they have been using in sustaining the businesses.

Theoretical and framework

There are diversity definitions about Innovation. But in general, innovation contains creation, repairs and expansion of products, the process, and management to increase the performance and competitiveness companies in the market (Robert, 1999; Reed, 2000). Innovation is dynamic strategy to be applied by management in order to compete and has a high performance. Strategy innovation means that each owners or leaders have a vision of sharpening the business; manage resources in organization; expertise in analyzing the markets and opportunities; and manage good

market access to information and liquid capital. Strategy innovation has a least two major impacts; if it is doing right, it would be a key of business success; and if there is wrong strategy, it could make bad performance. But innovation is demands inevitable that the company remain can live and compete.

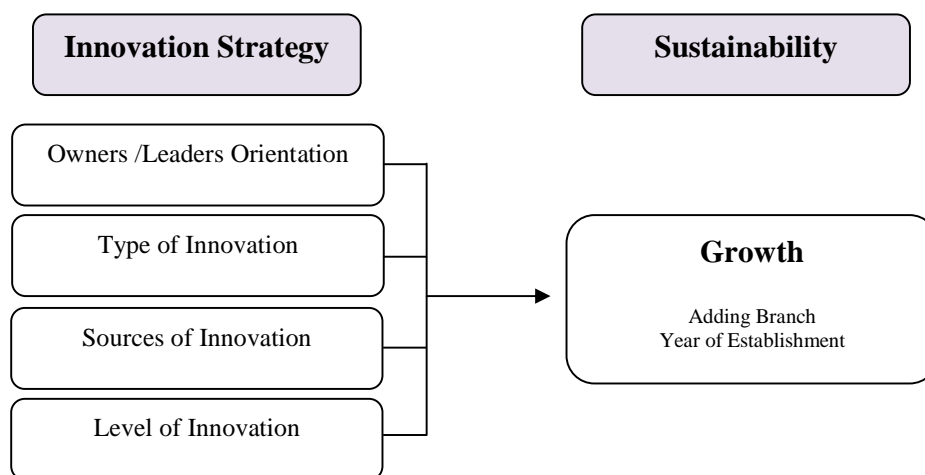
Owners or leaders of small businesses should be able to formulate and implement a strategy of innovation properly. The proper strategy between internal condition and change in the business environment will be able to increase competitiveness and sustainability. Zahra & Das, 1993; Sharma and Fisher, 1997; Haiyang Li, 2001; and Rahmawati, 1998 found that a strategy of innovation influence significantly on competitiveness and positive performance of business in order to sustaining the businesses.

Research on strategy innovation and its impact on competitiveness prove that only choice and the accuracy of strategy innovation would give positive impact on competitiveness (performance) of the businesses. Research on this theme is still rare, especially in small to medium-sized enterprises (Zahra & Das, 1993 ; Rahmawati,1998; Robert,1999 ; and Fernandez, 2001).

Strategy innovation is a construct consisting of some dimensions. Zahra and Das (1993) classifying dimensions strategy innovation to four dimensions namely (1) vision and orientation leadership; (2) type innovation of product and process; (3) source innovations in internal and external; and (4) investment. Redd (2000) Dividing strategy innovation by 3 dimensions are (1) type innovation, (2) the innovation; and (3) stages of analysis. Fernandez (2001) Divided strategy innovation to (1) technical- administration; and routine-radical. Of various innovation strategies, Zahra and Das model (1993) most often used to measure strategy innovation and its impact on competitiveness (Sharma and Fisher, 1997; Roberts, 1999; Murni, 2000; and Rahmani, 2003).

This study framework is applied to observe and to explain how business decision as innovation strategy has been promoting the performance and the sustainability of songket handicraft home industries as small businesses.

Figure 1
Framework of Innovation strategy



Research methodology

This research in a qualitative which on the type of descriptive qualitative. The study is developed to observe and to explain the characteristics of the owners as leader or leader itself, and also the innovation strategy that applied to the business. The sampling method was using purposive sampling. The respondents are the songket handicraft home industry owners or leaders that have been doing the business more than (10) ten years and have at least one more additional branch outlet in other city in Indonesia.

The data collection process through stages as follow: (1) Questionnaires based survey was conducted to gather data from the respondents. The questionnaires were informed by previous studies on characteristic owners or leaders of small businesses, characteristics of small businesses, owners or leaders orientation of innovation, types of innovation, sources of innovation and level of innovation. The questionnaires were gathered by hand directly to

respondents. (2) Observation is to find uncover information and obtain picture intact and systematic about the atmosphere and stimulation that motivates and promote various strategy innovation by the owners or leaders. Observation to the home industries location had been done for almost 35 days. (3) Report files gathered to get secondary data of business growth and performance.

A Total of 46 usable responses were received and analyzed by descriptive statistic using the SPSS software.

Dimensions strategy the innovation that used in this study is as follows:

- A. **Leadership orientation**, this dimension indicates whether the company as the first time enter the market (first-to-the-market); the company is as second player who is enter the market (second-to-the-market) or players are last (late- entrant) as features imitator in an activity innovations (Zahra, et al.,1993; Tellis and Golder, 1996; Lucas and Ferrel, 2000). In the context of manufacturing companies, a company that are at a position the first-to-the-market), usually innovation processes and their products would produce uniqueness used to achieve superiority in competition. For the company that follow as follower, used to do monitoring of innovation competitors and secondarily to quickly would have imitate the innovation. For companies late-entrant, the orientation is on cribbing copy famous brand, products or model with the prices offered to consumers to be lower. Late-entrant is usually do innovation by means of products add to the function of being imitated, emphasis on the use of ease, and compete at a low price. The orientation of the leadership will be linked to the financial performance of corporations that in this case is a construct of variable as measured by the use of on sales growth and opening other branch.
- B. **Types of innovation**, this dimension in this research is not connected by business applications the other like information technology and innovation in the design viability. The focus of this study is to innovation the process and or products, in which both it was important in business strategy (Slack, 2001). Product innovation is the result of the creation and the introduction of products radically or modification products existing. Basically product innovation more risky than innovation the process. Zahra (1993) explained that definition regarding the requirements products a less well, uncertainty technology, lack of support senior managers, the lack of resources and project bad management will obstruct the achievement of a goal product development. While innovation the process emphasis on the new method of operating by making new technology or develop technology existing. Company can use strategy the combination of product innovations and the process. Election type this innovation will be influenced by investment owned company, and finally can affect the performance and sustainability of businesses.
- C. **Source of innovation** explains specifically the activity of innovation that company did, internal, external, or both (Mansfield, 1988). Innovation source of internal means that the company entrusted at the company research and development to perform innovation of process or products. If the company trust in a source of external, then that would mean company will do innovation how to buy, approval license, acquisition to other companies or cooperation such as joint ventures with supplier, customers or other companies.
- D. **Level of innovation** is size intensity innovation and characteristic of stadium innovation. Intensity innovation is measured by how often do product innovations and the process innovation such as incremental or radical. While, stadium innovation measured from how many resources used, including capital, to do innovation. Innovation and resources are numerous and expensive are classified as innovation stadium high and if only small so grouped in stadium low. This stadium innovation includes investment in financial, technology, and investment in human resources in conjunction with the activity of innovation company (Capon, et al., 1992).

Fourth multidimensional widely use by other researcher for measuring the degree of innovation company (Makdok, 1998 ; Fernandez, 2001; Lee et.al., 2001). Therefore, this research also used fourth multidimensional for measuring the degree of innovation strategy. Most questions of those dimensions used the a five-point Likert-Style rating scale to elicit respondent's view of the level of engagement of their home industries with their activities embedded in the statements, on a scale from "very disagree" (1); "disagree" (2); "enough" (3); "agree" (4); and "very agree" (5).

Result and discussion

The profile of the respondents is offered in Table-1. The majority of respondents are as follows: female (63.90 percent), the ages around 40-50 years (56.52 percent), the owners or leaders more than 11 years (82.66%), academic qualification is high school degree (69,70 percent), establishing the business 21 years or more (65.22 percent), having two or more branch outlet (100 percent).

Table 1
Presentation of Respondent’s Characteristics of owners or leaders
of songket handicraft home industries in Palembang

	Frequency	Percent	Cumulative %
GENDER			
Male	18	39.10	
Female	28	63.90	100.0
AGE			
< 25 years	0	0.00	
25 - 40 years	7	15.22	
40 - 55 years	26	56.52	
55 years above	13	28.26	100.00
YEAR OF LEADERS POSITION			
< 5 years	2	4.34	
5 – 10 Years	6	13.00	
11 – 15 Years	23	50.00	
>15 Years	15	32.66	100.00
ACADEMIC QUALIFICATION			
High School Degree	32	69.57	
Diploma/Certificate Higher Diploma/Degree Masters	14	30.43	100.00
YEAR OF ESTABLISHMENT			
1-9 years	2	4.34	
10-15 years	5	10.87	
16-20 years	9	19.57	
21-25 years	24	52.17	
26 years above	6	13.05	100.00
BRANCHESS OF BUSINESS OUTLET			
1	0	0.00	
2	38	82.61	
>2	8	17.39	100.00

Source: *Sample Survey, March 2016*

Statistics descriptive analysis aimed to test how characteristics answer respondents pertaining to the responses to all question about innovation strategy in songket handicraft home industries in Palembang. Statistic descriptive analysis is analysis on the average answer respondents to value minimum, maximum, and mean. Descriptive statistics analysis from data of respondents indicated that the average score answer above 2.5 that is half of 5 points of Likert style. This means all respondents answer were above the enough or the respondents choose answer enough agree with various questions asked by researchers. The complete results from data statistics descriptive can be concluded the following tables as follows.

Next Page

Table 2: Descriptive Statistics of Leaders Orientation of Songket Handicraft Home Industries in Palembang

	N	Minimum	Maximum	Mean	Std. Deviation
First to the market 1	46	1.00	4.00	3.4595	.88794
First to the market 2	46	1.00	4.00	3.2466	.86603
First to the market 3	46	2.00	3.00	2.8380	1.25095
Mean				3.1813	
Late entrant	46	2.00	5.00	4.8628	1.34809
Late entrant	46	2.00	5.00	4.9628	1.29126
Late entrant	46	2.00	5.00	4.9116	1.64505
Mean				4.9124	
Valid N = TOTAL	46			4.0469	

Source: Sample Survey, March 2016

Statistics descriptive for leader orientation dimension found the average mean 4.0469 that more than “agree” of 5 point from Likert style measurement. It means that owners or leaders are very supporting and engagement with the orientation of innovation in their businesses. Focus on owners or leaders orientation of innovation found that orientation is focus in late entrant strategy or second to the market strategy (mean = 4.9124). Almost all of the owners or leaders have orientation for innovation as the followers in the market. Based on the observation related to this orientation found that owners and leaders always want to develop their market to find the new product in the market and following the design and comparing the prices. On the other side the owners and leaders also tend to be at last involve with paradigm in orientation to be the first to the market strategy (mean = 3.1813).

Tabel 3
Descriptive Statistics of Type of Innovation of Songket Handicraft Home Industries in Palembang

	N	Minimum	Maximum	Mean	Std. Deviation
Product innovation 1	46	3.00	5.00	4.8595	.88794
Product innovation 2	46	3.00	5.00	4.9091	.86603
Product innovation 3	46	2.00	5.00	4.4380	1.25095
Mean				4.7355	
Process innovation 1	46	1.00	3.00	2.4628	1.34809
Process innovation 2	46	1.00	3.00	2.3478	1.29126
Mean				2.4053	
Valid N = Total	46			3.5704	

Source: Sample Survey, March 2016

Type of innovation dimension found the average mean 3.5704 that more than “enough to agree” from Likert style measurement. It means that owners or leaders are enough in engaging their businesses to innovation strategy. Focus on type of innovation found that the owners or leaders are focus in product innovation strategy (mean = 4.7355). Based on the observation related to this type of innovation, the product innovation is mainly stressed in (1) design that is combining the songket motive with another motive of some types of sarongs in Palembang; (2) raw material change in order to improve from heavy yarn such as cotton to row silk and synthetic; (3) type of products not only sarongs but also produce the handbags, pillowcases, tablecloth etc. For process innovation, the owners or leaders are not focus on this strategy because the process of producing the songket has been using the traditional handicraft tool work by wooden and bamboo since the beginning. That is why the songket prices is expensive (mean = 2.4053).

Table 4
Descriptive Statistics of Sources of Innovation of Songket Handicraft Home Industries in Palembang

	N	Minimum	Maximum	Mean	Std. Deviation
Extrenal 1	46	3.00	5.00	4.8595	.88794
External 2	46	3.00	5.00	4.9091	.86603
External 3	46	2.00	5.00	4.0380	1.25095
Mean				4.6022	
Internal 1	46	2.00	5.00	4.4628	1.34809
Internal 2	46	1.00	3.00	2.2628	1.29126
Internal 3	46	1.00	4.00	3.0116	1.64505
Mean				3.2457	
Valid N = Total	46			3.9240	

Source: Sample Survey, march 2016

The dimension of source of innovation has the average mean 3.9240 that more closed to perfect at “very agree” from Likert style measurement. It means that owners or leaders have been giving very good attention and engagement to their businesses for innovation strategy. Focus on source of innovation found that the owners or leaders are focus in information from external business environmental change (mean = 4.6022). The most factors encourage owners or leaders to innovation are competition from local crafter in the market. In addition, factors that supported the owners willing to innovate come from the needed of owners to maintain and grow the market. Internal source also involve in innovation the products, especially from the needed of financial to survive the businesses (mean = 3.2457).

Table 5
Descriptive Statistics of Level of Innovation of Songket Handicraft Home Industries inbang

	N	Minimum	Maximum	Mean	Std. Deviation
Incremental Design	46	1.00	5.00	4.4595	.88794
Incremental HR	46	2.00	5.00	4.9091	.86603
Incremental Finance	46	2.00	5.00	4.8380	1.25095
Mean				4.7354	
Radical Design	46	1.00	3.00	2.4628	1.34809
Radical HR	46	1.00	2.00	1.4628	1.29126
Radical Finance	46	1.00	2.00	1.2116	1.64505
Mean				1.7124	
Valid N = Total	46			3.2239	

Source: Sample Survey, march 2016

Level of innovation dimension found the average mean 3.2239 that is more than enough from Likert style measurement. It means that owners or leaders are almost agreeing in engaging their businesses to innovation strategy in level of innovation. Focus on level of innovation found that the owners or leaders are focus in incremental level of innovation strategy (mean = 4.7354). Based on the observation related to this level of innovation, the incremental innovation is mainly stressed in (1) incremental level of innovation in design such as changing in raw material and improving in tools with the new system; (2) incremental innovation in training and empowering human resources is designing and managing the business; and (3) incremental innovation in adding the financial investment to the business. For radical level innovation, the owners or leaders are not focuses on this strategy because of very expensive investment for them (mean = 1.7124).

Conclusion and recommendation

Conclusion, Strategy innovation is the key factor to boost competitiveness and value added to small businesses that will be able to break the deadlock and coldness market impenetrable by the home industries as small businesses. Drawing the conclusion from this study show that innovation strategy has been being the essential strategy for songket handicraft home industries in sustaining the businesses. Furthermore, the innovation strategy should start from the effort of leader orientation of innovation. The strategy must be followed and applied by the employees in order to develop future innovative products to compete with competitors in sustaining the businesses. Specific conclusions specifically could be divided into: (1) The owners or leaders that have been successful in sustaining the business are characterize as women on the middle ages (between 40 – 55 years old); have more than 10 years experience as the owners or leaders; and most of them are continuing family businesses from their parents that businesses have been establish more than 21 years. (2) The owners or leaders orientation to support innovation is a key mayor successful factor to sustain the business. Moreover most of them have been applying leaders orientation of innovation such as doing some local market research and attending innovation and new product development training programs; (3) Type of innovation that most used in the business is the product innovation specially in design and improvement in raw materials; (4) Source of innovation that involved to the business is external sources, especially that come from local competitors; (5) Level of innovation that achieved in the business is incremental innovation that focus on changing in raw material, design and empowerment human resources with training.

Recommendation for further research can be developed same objects and the addition of the new variables to find deeper innovation factors for songket handicraft home industries to grow and to sustain. More over, Regional government should take a good attention to the home industries with the training and education to empower human resources in connection with strategy innovation. More specifically, the government must be able to stimulate the leaders to be innovation oriented leadership that focus in paradigm innovation can be done with simple technology and does not need to be too expensive.

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