SME performance improvement and its effect on the poverty reduction in Bali

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ABSTRACT: *The aim of this research is to know the role of the partnership strategy in improving SME performance and it effect on poverty reduction. This research took Bali as its location and chose SME industry as its population target. The sampling technique used proportionate random sampling. Based on the Slovin's formula, the sample number taken for this research was 160 SMEs across regencies in Bali. The respondents of this research were the manager of those SMEs. Structural Equation Model (SEM) was utilized as the statistical analysis tool to test the hypothesis. The main finding of this research demonstrated that the sharper competitive intensity of industry decreased the SME's performance; yet, this negative effect could be reduced if the organizations were able to implement strong partnership strategy. Resource constraint of the organizations that got higher decreased the SME's performance as well; however, this negative effect could be overcome as the organizations were able to build strong partnership. Therefore, SME industry was expected to strengthen the implementation of partnership strategy by conducting cooperation with their suppliers (both for raw material and capital) as well as their customers. By implementing partnership strategy, the SME performance indeed elevated; it contributed positive role on the poverty reduction in Bali.*

Keywords- *competitive of industry, SME's resource, partnership strategy, SME performance, poverty reduction*

I. INTRODUCTION

In the purpose of enhancing Indonesian economics, the role of SME is highly needed. Even in the future, SME is expected to be able to be the backbone of the national economics. It also can be revealed from [76] research which demonstrated that SME is an industry that plays the economic activity for 99.9 percent and hires 92.6% labors in Indonesia. The evidence about the role of SME in enhancing a nation's economics to reduce poverty is also depicted in the research conducted by [17, [48], [64], [43], [1]. The development of SME has been supported by the government as reflected on the several efforts taken by the government to empower people economy at rural area. It was established by the government through infrastructure improvement, people economy development facility enhancement, providing subsidy in investment. This condition is indeed needed to be taken since the SME's characteristic faces many constraints; while, SME also plays a very strategic role. The similar phenomenon is also showed in the research conducted by Economic and Social Commission for Western Asia [19], [3], [24] and [62].

In addition to the resource constraint characteristic that is tied to SME, SME also faces external environment that does not support its development as the competition intensity gets tighter and tighter. It is explained in the research [22]. This condition surely becomes a constraint to develop SME industry; yet, the strategic role of SME is needed to support the economics growth of a nation.

The importance role of SME becomes the reason of this research to focus on the strategy formulation that can be properly implemented for the SME in Bali. Based on the SME's characteristics, such as facing tight competition [46] and experiencing resource constraint [20], the strategy that has been implemented so far is partnership strategy. One of the considerations in choosing partnership strategy is based on the former research result which proved that partnership strategy was able to improve the organizational performance achievement [6], [27], [52], [18], [40], [9], [70], [84], [14], [32], [71], [40], [13], [53], [35]. Besides, partnership strategy can create synergy among the associated organizations [15], [69], and [4].

Considering those phenomena, this research is aimed to know how partnership strategy is able to improve SME performance in facing the environment with tight competition as well as facing resource constraint and its effect on the poverty reduction. Poverty reduction will be observed from the growth of income rate among SME employees and labor absorption (employment) of the SME sector as well as the education level

of the employees. SME empowerment is one of the approaches utilized to equalize between rich and poor societies [28]. Also, based on Tri Bottom Line theory from Engkinton (1997), it stated that flourishing people or reducing the poverty was one of the responsibility pillars of an organization, including SME. Research on the SME's role in reducing poverty was done by [51] in Nigeria and by [39] in South Africa. In that research, SME in South Africa run its social responsibility by contributing to elevate public welfare. The similar finding was also revealed in the research conducted by [42] which mentioned that SME has a role to support the economics growth of a nation.

Based on the research background problem formulation, the research objective is defined to examine the following things: the role of partnership strategy implementation on organizational performance and the role of SME performance improvement on the poverty reduction in Bali (Indonesia).

The research finding is expected to be useful for knowledge enrichment, SME management, and decision maker of SME (Cooperation and SME Department) of Bali Province to enhance SME performance. 1) For the knowledge realm, this research will widen property of research in strategic management realm. This research is an integrated model to analyze the interaction between industry competition, organization's resource, partnership strategy, and performance, as well as poverty reduction so that it is expected to provide comprehensive insight. 2) For the SME management, the result can be a conception feedback for the leader or strategic/policy decision maker of an organization to improve the performance for surviving and growing in the tight competition era. This research will provide feedback about the importance of the resemblance between external condition (industry competition pressure), internal condition (organization's resource constraint), and the role of partnership strategy implementation to improve the SME performance. In addition, for Cooperation and SME Department, this research can be a feedback for the policy decision maker in government when making a policy related to partnership strategy between SME and suppliers as well as bank, and also between SME and customers in the poverty reduction program in Bali (Indonesia).

II.   LITERATURE REVIEW AND CONCEPTUAL MODEL

2.1 Literature Review

2.1.1 Competitive Intensity of Industry

According [55], there are five forces that influence competitive intensity of an industry, such as: (1) the threat of new entrants, (2) bargaining power of suppliers, (3) bargaining power of customers, (4) threat of substitute products, and (5) competitive rivalry within an industry. To arrange a good strategic planning and be able to take a competitive position in an industry, organization must be able to minimize the effect of those five forces. Competitive intensity of industry is also faced by SME Industry. This condition is also revealed in [46] and [66] research result. Then in 1990 [56] developed a model called as Porter's diamond to analyze the rivalry in an industry. Competitive intensity of industry in [50], [18], [35], and [76] research is an external factor of the organization that must be observed and analyzed continuously. Competitive intensity of industry always changes and is dynamic depending on the number of the existing players and government rule.

2.1.2 Organization Resource Constraint

Organization resource can be categorized into physical and non-physical resources. Physical resources are: the number of employees, capital, machine, building that the organization owns; whereas, the non-physical resources are organization's reputation and the knowledge of its human resources [83]. Organization resource in the context of SME is very limited; it becomes the weakness to develop SME industry. This phenomenon had ever been examined by some researchers such as: [74]; [47]; [78]; [10]; [2].

Another definition mentions that resource is an asset that becomes the raw material in producing goods and service for an organization. This asset may include individual's skill, ability, and managerial talent such as financial asset and manufacture facility within the operation realm. Organization that has resource constraint but wants to achieve competitive advantage will be able to obtain it by arranging partnership with other organization to strengthen its resource, speeding up its innovation and knowledge transfer processes among organizations [30], [60], [36]; and [37]. The similar idea is also revealed in the research established by [54] mentioning that resource constraint factor is the forcing factor for an organization to conduct partnership strategy or alliance strategy.

2.1.3 Partnership Strategy

The term of business partnership has become public attention in a long time; basically, it refers to a definition of cooperative relationship among entrepreneurs. [11] saw partnership as an interdependence of two parties. Some other experts have their own perspective to scrutinize the concept of partnership. For instance, [67] saw partnership as an agreement, interdependence, and trust; [80] explained partnership as an interdependent relationship with trust in it; [72] stated partnership as an interdependence in a long term; [29] saw partnership as a commitment, long term vision, information sharing, risk and reward sharing, and voluntary;

[23] perceived partnership as a commitment, information sharing, risk and reward sharing; [26] mentioned partnership as a commitment, focus on the continuous improvement, long term vision, information sharing, risk and reward sharing; [11] perceived partnership as an interdependent relationship; and [65] saw partnership as an exchange of resource and value from access to resource. Partnership strategy with supplier had been studied by [50]; meanwhile, the partnership strategy with customers had been examined by [18] and [35].

2.1.4 SME Performance
Performance is an ability to work that is proved by the work outcome. Organizational performance is something that is obtained by an organization in particular period of time by referring to the pre-determined standards. Organizational performance must be a measurable outcome and describes the empirical condition of an organization based on the several measurements which have been previously decided. To know the obtained performance, then organization conducts performance appraisal. In this research, performance measurement on the SME industry will apply functional approach. This approach is based on the existing functions that assess the SME performance based on the human resource management, operation management, marketing management, and financial management functions.

2.1.5 Poverty
The definition of poverty, based on World Bank, is a deprivation in well-being that can be in the form of physical and social aspects. Physical deprivation is a lack of basic needs related to the basic material and biological needs including insufficient nutrition, health, poor education, and housing. On the other hand, social deprivation is an occurrence of the life risk, dependent condition, powerless, and lack of self-confidence. Poverty definition can be perceived from economics, social, and political aspects. From the economics aspect, poverty is a deprivation in the usable resource to improve welfare. From social aspect, poverty is defined as the lack of social networking and structure to obtain chances in improving productivity. On the poverty cycle, there three things that become the main focus of poverty problem such as low purchase power that affects on the low level of nutrition and health status, which then also causes a low level participation in education. At the end, it also results on the low productivity. Meanwhile, according to Engkinton (1997), poverty reduction or achieving social welfare is one of the corporate social responsibilities. This corporate responsibility must be well-conducted both by the small and large enterprises; therefore SME also has social responsibility for the poverty reduction program. It is revealed in the research result of some researchers such as [63] and [39].

2.2 Conceptual Framework
In the research, the generic theory that becomes the main reference is strategic management theory, mainly the part that is related to partnership strategy. Based on the strategic management theory, the operation of an organization to achieve organization's objective will be affected by internal and external environments. The external environment influence can be either opportunity or threat for the organization; meanwhile, internal environment influence can be either strength or weakness for the organization in achieving its objective. If an organization finds negative influence from its environment, both from the internal and external environments, then it needs to arrange a strategy which is matched to the occurring environment condition so that it is feasible still to achieve the organization's objective. One of the proper strategies in the unfavorable environment when the competitive intensity is high, the internal environment is weak, and the resource is limited is partnership strategy [84].

This conceptual framework is also supported by the concept used in [46] and [20] research. In [46] research, it was mentioned that the pressure from a sharp industry competition brought negative effect on the organizational performance attainment. The negative influence was expected to be removed by strategy arrangement activity form the leader through strategy arrangement process (environment observation, adaptive decision making, and manufacture strategy implementation). The result of research [46] demonstrated that strategy arrangement activity was not yet able to remove the negative effect of the industry competition pressure; yet, it was only able to decrease the negative influence. Next, in this research, it is a notion to implement partnership strategy for some reasons, such as (1) partnership, according to [87] was perceived to be one of the organization's strategies in value creation process by involving customers, suppliers, competitors, and other organization that cooperated with the organization; (2) partnership is able to decrease competition pressure; (3) it creates synergy value; (4) partnership strategy, at this case is alliance strategy, based on [12], [77], [86], [49] is able to strengthen the ability of the organization's resource and leads the organization to achieve competitive advantage; and (5) as entering the globalization era, when organizations operate together in a wide business network, including with suppliers, customers, competitors, and distributors [80], [61]. Besides, this research also includes organization resource variable (resource constraint) as the variable that triggers partnership strategy based on the theory of partnership strategy and the concept of [21] research which mentions

that internal environment, which is organization resource, affects organizational performance achievement and contributes to the poverty reduction.

Based on the concept of the notion that describes the structural relationship of each variable, then it is arranged the following conceptual framework **(Figure 1).**
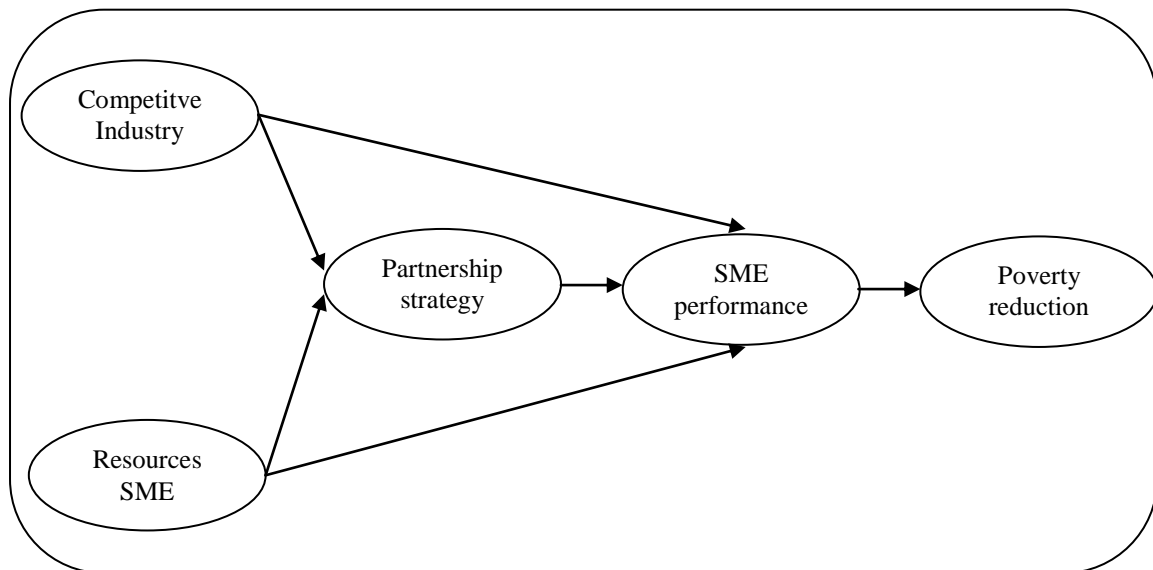

Figure 1: Research Conceptual Framework

The relationship among variables of the research is based on the developed model; it is statistically tested so that it is able to evaluate whether SME industry performance is affected by the partnership strategy or not by considering competitive intensity of industry and organization resource constraint. Next, the statistical test is also expected to be able to evaluate whether industry competitive strength, organization resource constraint, and partnership strategy affect SME performance in Bali. The finding is assumed to be able to develop the theoretical foundation from the aspect of partnership strategy implementation to improve business performance as the effort of making sustainable development of the SME as well as participating in the poverty reduction program.

2.3   Hipothesis

This part describes a hypothesis model from the role of competitive intensity of industry and organization resource constraint on the SME performance through partnership strategy implementation and its effect on the poverty reduction by identifying and testing the relationships that become the hypothesis of this research. The role of competitive intensity of industry and organization resource constraint on performance mediated by the partnership strategy is tested. The selection of the variables is developed from the prior research from [86, 87, 88, and 89], [20], [8], [30], [60], [38], [41], [46], [36], and [37], [9], [70], [14], [84], [32], [40], [13], and [53].

H1   :   Competitive intensity of industry positively and significantly affects partnership strategy implementation

H2   :   Competitive intensity of industry negatively and significantly affects organizational performance

H3   :   Organization resource constraint positively and significantly affects partnership strategy implementation

H4   :   Organization resource constraint negatively and significantly affects organizational performance

H5   :   Partnership strategy implementation positively and significantly affects organizational performance

H6   :   SME performance improvement is able to improve poverty reduction

III.   RESEARCH METHODS

This research was conducted in the region of Bali Province. Bali Province consists of Badung, Gianyar, Bangli, Klungkung, Karangasem, Tabanan, Singaraja, and Jembrana Regencies, as well as Denpasar City. The research population is all of formal SMEs in Bali. Each of SME is represented by one respondent who holds a

manager position. The reason to choose top level management is that based on the strategic management theory and the occurring reality, the authority to arrange a strategy is on the top level management.

The number of research sample is 160 SMEs. To define the sample number of this research, it utilized Slovin's formula (5 to 10 times the number of variables). The sample number was proportionally chosen at the SME industry in Bali Province from Badung, Gianyar, Bangli, Klungkung, Karangasem, Tabanan, Singaraja, and Jembrana Regencies, as well as Denpasar City. Therefore, the sampling technique used in this research is proportionate random sampling. The step to define the respondent is by classifying the population based on the city; and then for each city/regency, each respondent is taken proportionally. By this technique, it is expected that the all of the samples are representative to reflect the SME on each region by which those will represent the population of SME in Bali.

The indicators of competitive intensity of industry, organization resource constraint, and partnership strategy implementation variables are measured by using the perception of the SME managers. It utilized points of Likert's scale from strongly disagree = 1, disagree = 2, quite agree = 3, agree = 4, and strongly agree = 5. The indicators of organization resource constraint variable is measured by using the perception of the SME managers on the existing organization resource constraint by utilizing five points scale of Likert (strongly disagree = 1, disagree = 2, quite agree = 3, agree = 4, and strongly agree = 5). The SME performance variable also used the SME managers' perception by utilizing five points of Likert's scale. The variable measurement was conducted in July 2012 to August 2012.

This research utilizes two types of data: 1) Primary data; primary data are obtained from the questionnaire filling by the top level management, the formal SME managers, in Bali. The top level management of the SME has the authority and ability in the strategy formulation, 2) Secondary data; secondary data are obtained from other sources which support the research. The secondary data were obtained from the Cooperation and SME Department of Bali Province and BPS-Statistic Indonesia of Bali Province.

The data collection technique was conducted in two ways as follow: 1) Questionnaire; it was done by distributing questionnaire to the respondents as they were asked to answer and provide their perception on the questions which were related to this research, 2) Interview; it was done with the SME managers to obtain information in order to widen the insight related the research object, to identify the problems, and to confirm the analysis result/discussion.

Basically, conducting a research is doing measurement on the research phenomena. The tool to measure the phenomena is called as research instrument. The indicators of the research instrument were taken from the measurement that had ever been conducted by [46], [20], [38], [41] by making some modifications. Meanwhile, to measure organizational performance, this research used functional approach. The research instrument used in this research is questionnaire since this is a survey research that requires primary data. The utilized questionnaire was tested before the research was conducted. The preliminary test took 30 respondents as its sample to ensure that each region in Bali province was properly represented.

The utilized instrument is checked for its validity and reliability to be able to measure what is intended to be measured as well as to know the response consistency which is provided by the respondents. The instrument validity test used Pearson's product moment correlation technique with the minimum standard of r = 0.3; the instrument reliability test was conducted by calculating the Cronbach's Alpha coefficient reliability with the minimum standard of alpha higher than 0.6 [68:312], [44:282]. Both of the tests utilized SPSS computer software.

This research uses two types of analysis that are descriptive statistical analysis and quantitative techniques or inferential statistical analysis on the collected data from the field. The descriptive analysis was utilized to describe each of the research variable in-depth; whereas, the quantitative technique was utilized to see the strength of the influence among independent variables and dependent variables. The analysis was conducted by analyzing the data which had been scored based on the pre-determined measurement scale by using some statistical formulas.

This analysis is utilized to describe research variables without making generalization. The obtained data are then tabulated into table; next, it presents descriptive discussion. The descriptive measure is about providing number, related to the number of the respondents as well as the average score of the respondents' answer. Causal relationship that is formulated in this research uses complex model; the variables in the model creates a recursive relationship. This kind of causal relationship requires an analysis tool that is able to describe the model; thus the inferential statistical method used in this data analysis is Structural Equation Modeling (SEM).

IV. ANALYSIS AND RESULTS

Respondent's characteristic is an important statistical measurement tool of a population. The respondent's characteristic of this research is described based on the sex, age, job, income, and education background. The obtained respondent's characteristic can be seen in the following table.

Table 1 Composition of the Respondent's Characteristic (SME Managers) in Bali Provice

Characteristic Item	Frequency (People)	Percentage (%)
Age		
≤ 30	9	5.63
31 – 40	59	36.87
41 – 50	64	40.00
> 50	28	17.50
Total	160	100.00
Sex		
Male	118	73.75
Female	42	26.25
Total	160	100.00
Education Background		
Elementary School	28	17.50
Junior High School	21	13.12
Senior High School	98	61.25
Diploma	7	4.38
Bachelor - Master	6	3.75
Total	160	100.00
Marital Status		
Married	159	99.38
Single	1	0.62
Total	160	100.00
Family Member		
0 – 1	22	13.75
2 – 3	122	76.25
≥ 4	16	10.00
Total	160	100.00

Source: primary data, 2012

SEM Analysis Result and Research Hypothesis Testing

The theoretical model of the research conceptual framework is fit if it is supported by the empirical data. The test result of the goodness of fit overall model is conducted to reveal whether the hypothetical model is supported by empirical data; this result is presented in the Figure 2.
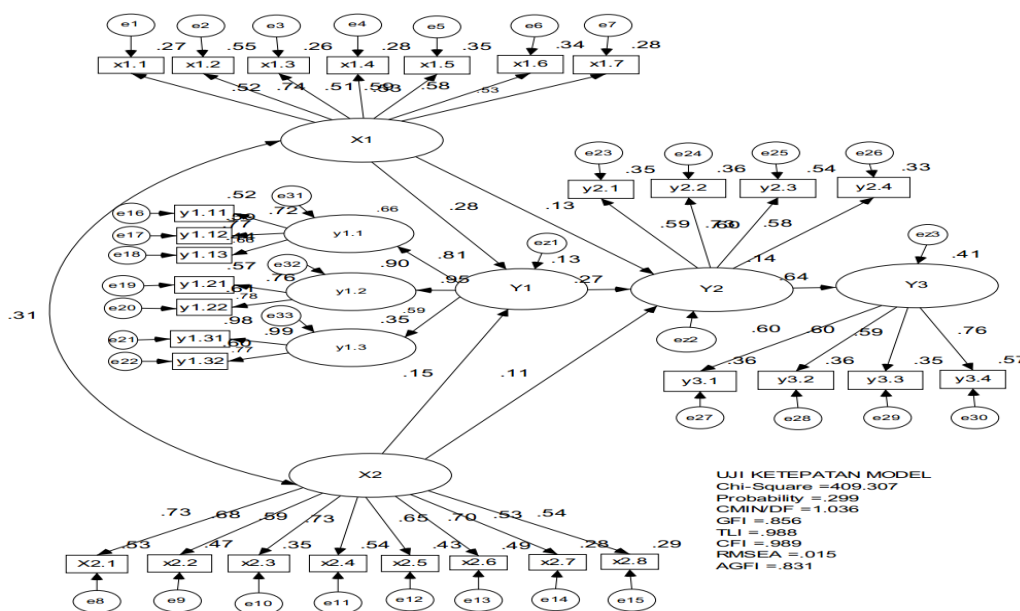

Figure 2: SEM Analysis Result

Table 2 Goodness of Fit Overall Model Test Result

Criteria	Cut-of Value	Model Result	Description
Chi-Square	Small	409.307	Good/Fit
p-value	≥ 0.05	0.229	
CMIN/DF	≤ 2.00	1.036	Good/Fit
GFI	≥ 0.90	0.886	Not quite good
AGFI	≥ 0.90	0.831	Not quite good
TLI	≥ 0.95	0.988	Good/Fit
CFI	≥ 0.95	0.969	Good/Fit
RMSEA	≤ 0.08	0.015	Good/Fit

The test result of the Goodness of Fit Overall Model based on the Table 2 can be concluded that from the seven criteria, almost all of the models are fit, mainly if those are seen from their CMIN/DF and RMSEA value; therefore, this model is proper to be used.

Hypothesis Test Result
The direct influence of the hypothesis testing result is presented in the Table 3 below:

Table 3 Direct Influence Hypothesis Testing Result

Independent Variable	Dependent Variable	Path Coefficient	p-value	Description
Competitive Intensity of Industry (X_1)	Partnership Strategy Implementation (Y_1)	0.2783	0.0203	Significant
Resource Constraint (X_2)	Partnership Strategy Implementation (Y_1)	0.1509	0.1665	Insignificant
Competitive Intensity of Industry (X_1)	SME Performance (Y_2)	0.1274	0.2691	Insignificant
Resource Constraint (X_2)	SME Performance (Y_2)	0.1089	0.2931	Insignificant
Partnership Strategy Implementation (Y_1)	SME Performance (Y_2)	0.2679	0.0293	Significant
SME Performance (Y_2)	Poverty Reduction (Y_3)	0.6398	0.000	Significant

Source: Primary data, 2012

From the SEM analysis result related to the role of competitive intensity of industry (X_1) on partnership strategy implementation (Y_1), it is obtained the path coefficient of the direct influence of 0.2783 and p-value of 0.0203. Since the p-value is less than 10%, **"Competitive intensity of industry (X_1) directly affects partnership strategy implementation (Y_1)"** hypothesis is accepted. Considering that the path coefficient is positive (0.2783), it implies that the relationship among those two variables is also positive. It means that the higher the competitive intensity of industry (X_1) is, the higher the partnership strategy implementation (Y_1) will be.

The result of the SEM analysis related to the role of competitive intensity of industry (X_1) on SME performance (Y_2) gets the path coefficient of the direct influence of 0.1274 and p-value of 0.2691. Since the p-value is higher than 10%, "Competitive intensity of industry (X_1) directly affects SME performance (Y_2)" hypothesis is rejected. Considering that the path coefficient is positive, it implies that the relationship of both variables is also positive. It means that the higher the competitive intensity of industry (X_1), the higher the SME performance (Y_2) will be; conversely, the lower the competitive intensity of industry (X_1), the lower the SME performance (Y_2) will be.

From SEM analysis result related to the role of organization resource constraint variable (X_2) on partnership strategy implementation variable (Y_1), it is obtained that the path coefficient of the direct effect is 0.1509 and the p-value is 0.1665. Since the p-value is higher than 10%, "Resource constraint (X_2) directly affects partnership strategy implementation (Y_1)" hypothesis is rejected. Considering that the path coefficient is positive (0.1509), the relationship between the two variables is positive. It implies that the higher the organization resource constraint (X_2), the higher the partnership strategy implementation (Y_1) will be.

The result of the SEM analysis related to the role of organization resource constraint (X_2) on SME performance (Y_2) gets the path coefficient of the direct influence of 0.1089 and p-value of 0.2931. Since the p-value is higher than 10%, "Resource constraint (X_2) directly affects SME performance (Y_2)" hypothesis is

rejected. Considering that the path coefficient is negative (0.1089), it implies that the relationship of both variables is positive. It means that the higher the organization resource constraint (X_2), the higher the SME performance (Y_2) will be.

From the SEM analysis result related to the role of partnership strategy implementation (Y_1) on SME performance (Y_2), it is obtained the path coefficient of the direct influence of 0.2679 and p-value of 0.0293. Since the p-value is less than 10%, "Partnership strategy implementation (Y_1) directly affects SME performance (Y_2)" hypothesis is accepted. Considering that the path coefficient is positive (0.2679), it implies that the relationship among those two variables is also positive. It means that the higher the partnership strategy implementation (Y_1), the higher the SME performance (Y_2) will be.

From SEM analysis result related to the role of SME performance (Y_2) on poverty reduction variable (Y_3), it is obtained that the path coefficient of the direct effect is 0.6398 and the p-value is 0.000. Since the p-value is less than 10%, "SME performance improvement (Y_2) directly affects poverty reduction (Y_3)" hypothesis is accepted. Considering that the path coefficient is positive (0.6398), the relationship between the two variables is positive. It implies that the higher the SME performance (Y_2) improvement, the higher the poverty reduction (Y_3) will be.

V. DISCUSSION

From the validity and reliability calculation, it can be revealed that each of the indicator is able to measure the dimension and concept that are tested; it also implies that among one to the other concept is independent. By conducting confirmatory factor analysis (goodness of fit test and factor inner weight significance), it has been proven that the observed variables are able to reflect the factors that are analyzed. By making the test of overall model fit (goodness of fit test and regression weight causality test), it has also been proven that the overall model fits and the constructed causality relationship can be tested.

Table 3 displays that competitive intensity of industry significantly influences partnership strategy implementation. This result is confirmed by the obtained p-value of 0.0203 which is less than 0.10. The relationship between competitive intensity of industry and partnership strategy implementation variables shows positive influence as the inner weight is 0.1509. This result can be interpreted that the higher the competitive intensity of industry, the SME's partnership strategy implementation in Bali will be more intensive.

Based on the Table 3, it can be revealed that competitive intensity of industry directly but insignificantly influences SME performance. This result is proven by the p-value of 0.2691 which is higher than 0.10. The relationship between competitive intensity of industry and SME performance variables demonstrates that there is positive influence as marked by the inner weight score of 0.1274. This result can be interpreted that the higher the competitive intensity of industry, it will improve the SME performance in Bali.

Table 3 shows that SME resource constraint does not have any significant effect on the partnership strategy implementation. This result is verified with the p-value of 0.1665 which is higher than 0.10. The relationship between SME resource constraint and partnership strategy implementation variables presents positive effect as signed by the inner weight score of 0.1509. This result can be interpreted that the higher the resource constraint of the SME, the partnership strategy implementation among SMEs industry in Bali will be more intensive.

Based on the Table 3, it can be revealed that SME resource constraint variable brings insignificant effect on the SME performance. It is proven by the p-value of 0.2931 which is higher than 0.10. The relationship between resource constraint and SME performance variables displays positive influence as marked by the inner weight score of -0.1089. This result can be interpreted that the higher the organization resource constraint, the higher the SME performance in Bali will be.

Table 3 demonstrates that partnership strategy implementation has significant effect on the SME performance. This result is confirmed by the p-value of 0.0293 which is less than 0.10. The relationship between partnership strategy implementation and SME performance shows positive influence as marked by the inner weight of 0.2679. This result can be interpreted that the more intensive the partnership strategy implementation, it will improve the SME performance in Bali.

Table 3 shows that the improvement of the SME performance brings significant effect on the poverty reduction. This result can be proven from the p-value of 0.000 which is less than 0.10. The relationship between SME performance and poverty reduction variables demonstrates that there is a positive influence as marked by the inner weight score of 0.6398. This result can be interpreted that the higher the SME performance, it will enhance the level of poverty reduction in Bali.

VI. IMPLICATION RESEARCH

Based on the empirical evidence that partnership strategy implementation, particularly partnership strategy with customers, affects performance; then this condition brings an implication that the SME industry management in Bali should encourage a policy that enhances the partnership with customers as well as with its suppliers. From the empirical evidence that the SME performance improvement is able to reduce poverty in

Bali, this condition brings an implication that government must take its effort to more empower the SME in Bali for the purpose of reducing the poverty in Bali

VII.   CONCLUSION, LIMITATIONS

Sharper competitive intensity of industry causes SME industry intensifying its partnership strategy implementation. Through partnership strategy that is intensively constructed with the suppliers, it can create a favorable competitive condition which is a condition when each of the organization still has a willingness to compete, deliver the best value to its stakeholder, but not eradicates each other. The tighter competitive intensity of industry does not cause a decrease on the SME performance. It is because competitive intensity of industry is not the only thing that affects performance. Even the competitive intensity of industry is sharp, SMEs in Bali commonly still have differentiation level among one SME with other SME. The elevating resource constraint pushes SME industry to intensify its partnership strategy implementation. It is encouraged by the resource availability which gets more and more limited so that it forces an organization to cooperate with other stakeholders (suppliers and customers); therefore, the partnership that is constructed will be more intensive and able to provide value to all of the parties that cooperate. The increase on the resource constraint does not make the SME performance decrease. It because the service delivered to customer, even with the limited resource, does not make the customers directly switch to large enterprise.

An intensive implementation of partnership strategy can improve the SME performance. The positive influence of partnership strategy on SME performance mainly is supported by the implementation of partnership strategy with customers. Based on the research finding, SME in Bali is supposed to cooperate with its customers by making regular contact, providing and sharing information of new product. All of the things are expected to provide value for the customers so that the product choice offered to the customers will be more various. This condition can bring positive effect on the SME performance achievement. The partnership strategy implementation in SME industry in Bali Province is indeed able to enhance the performance and decrease the negative effect of the competitive intensity of industry. The negative influence of the competitive intensity of industry toward the SME performance achievement in Bali will lessen. It occurs as the SME has already arranged partnership with its stakeholders so that the competitive intensity gets decreased and it creates a favorable competitive condition. The partnership strategy implementation for SME industry in Bali is also able to improve the performance and reduce the negative influence of the resource constraint. The negative effect of the resource constraint toward the SME performance is also lessened as the partnership strategy is implemented. It happens because the cooperation that takes place, with the suppliers of the product, the customers, and the capital suppliers, that makes the resource possessed by the SME is stronger. A stronger resource will bring positive effect on the SME performance achievement.

SME performance improvement is able to reduce poverty in Bali. It occurs because the improvement on the SME performance causes an increase on the income of the employees and an increase on the number of the hired employees (reducing the unemployment).

Several limitations are also found in this research, mainly because of the following points: 1) this research only utilized SME's managers who are also the owners of the SMEs as the respondents; therefore, the data collection session experienced time constraint. The data collection time took longer than the targeted time since those managers commonly were very busy and the appointment time was not punctual as the promise. 2) the SME business which became the object of this research consisted of several sectors so that the difference among those sectors were generalized. 3) This research was conducted only in Bali, so that its result cannot be generalized to the overall area of research. 4) This research only considered partnership strategy implementation with suppliers and customers; it has not yet considered partnership strategy with competitors or other stakeholders such as higher education institution or government.

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