Influence of Enterprise–supplier Collaboration, Government Intervention, and the Ethical Culture of Guanxi Applied through Paguyuban or Patembayan on Product Co-development: Empirical Studies on SMEs in D.I. Yogyakarta

Review of Integrative Business & Economics Research

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ABSTRACT

In emerging markets, partnerships in the supply chain can create a working relationship and build strategies for new product development, technology, packaging design, business models, and manufacturing processes. Collaboration between enterprises and suppliers contributes fresh ideas and knowledge. This study examines the influence of common knowledge and goal compatibility on product codevelopment. A unique institutional environment exists in emerging markets. Thus, we study how government intervention and the ethical culture of guanxi (applied through paguyuban and patembayan) moderate the results of existing collaborations. Data were obtained from 61 SMEs incorporated in paguyuban and patembayan in Daerah Istimewa Yogyakarta. This study found that government intervention weakens the positive impact of mutual learning and the ethical culture of guanxi has no significant effect. This study provides new theoretical and managerial implications for supply chain collaboration in emerging markets, especially in Indonesia.

Keywords: enterprise–supplier collaboration, guanxi, SMEs, product co-development.

1. INTRODUCTION

In emerging markets, partnerships in the supply chain can create a working relationship and develop strategies for new product development, technology, packaging design, business models, and manufacturing processes (Jean et al., 2014; Liu et al., 2013). Enterprise–supplier collaboration is a phenomenon that has attracted many researchers. Besides creating organizational effectiveness and efficiency, collaboration can also create competitive and sustainable advantage (Li, 2017).

According to Wang et al. (2016), two key qualities influence product codevelopment; these qualities are common knowledge and goal compatibility of enterprises and suppliers. It is a prelude to product codevelopment and can provide new

ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

insights to selected partners. In addition, an effective mechanism that can underpin product codevelopment, such as mutual learning, must be used. Mutual learning serves as a dynamic driver for improving technological performance and an innovative solution to problems (Petersen et al., 2005; Song and Di Benedetto, 2008). In the development and innovation of good products, enterprises and suppliers must apply value creation strategies that aim to share knowledge and establish a supply network that can motivate the competence of its members (Tuntariyanond et al., 2014).

However, product codevelopment in emerging markets differs due to the prevailing institutional environments (Rubera and Kirca, 2012; Wang et al., 2016). These enterprises face high levels of uncertainty and risk due to weak intellectual property protection (Jean et al., 2014), inconsistent government support (Sheng et al., 2011), and rapid institutional change (Chang et al., 2015). In institutional theory, organizations make decisions based on institutional rules, norms, and expectations (Scout, 2008; Wang et al., 2016). Enterprises seek social recognition and legitimacy through cooperation with others (Grewal and Dharwadkar, 2002).

It's occurs because of the ethical culture of guanxi. Guanxi is a cultural phenomenon in China and a combination of cultural norms and social, economic, and political situations (Luo, 2007; Wang et al., 2016).

Guanxi is related to social groups. In Indonesia, the ethical culture of guanxi refers to the concept of coherent sociological theories, namely, Gemeinschaft (paguyuban) and Gesellschaft (patembayan). These social groups gained an unofficial technical force in the general public (Tonnies, 1887). This relationship is the basis for building collaboration between enterprises and suppliers in the process of creating product codevelopment. Therefore, the present study aims to determine the effect of enterprise–supplier collaboration on product codevelopment of SMEs in Daerah Istimewa (D.I.) Yogyakarta. Through this study, successful product codevelopment can be achieved, effective mechanisms in product codevelopment can be understood, and the unique institutional environment in emerging markets in forming product codevelopment can be uncovered. Formal and informal institutional environments and their important roles in collaborative relationships between enterprise and supplier should be examined to obtain appropriate results. SMEs as research subjects are considered a successful business sector that contribute to economic development and total GDP and open new job vacancies (Tehsen et al., 2015) in Indonesia.

2. LITERATURE REVIEW AND HYPOTHESIS

2.1 Common Knowledge and Product Codevelopment

ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

Supply chain management integrates production operation with the goal of maximizing value for customers (Heizer and Render, 2015). These goals are useful for excellence and sustainable advantage (Li, 2007). Common knowledge is one of the efforts used in facilitating the involvement of enterprises and suppliers when creating new value for competitive spaces and helping companies compete effectively (Prahald and Ramaswamy, 2004).

According to Grants (1996) and Wang et al. (2016), common knowledge refers to the intersection of knowledge between enterprises and their suppliers. Knowledge within the organization can be seen as a resource that can provide competitive advantage because it is an unmatched and intangible asset. In relation to product codevelopment, common knowledge creates motivation that brings each side to work together on certain issues. Common knowledge creates patterns that arise in different practices, thereby resulting in collaboration in the process of creating solutions to complex problems (Edwards, 2010; 2011; 2012; 2015; 2016).

Enterprise and suppliers can identify a problem through common knowledge to create better operational activity than before (Cohen and Levithal, 1990; Lane and Lubatkin, 1998). Sharing resource-related information and knowledge creation increase the responsiveness of the supply chain network, whereas good communication affects competitive advantage (Pataraarechachai et al., 2017).

Wang et al. (2017) indicated that common knowledge showed a positive influence on product codevelopment. This finding confirms that the exchange of ideas promotes joint problem solving and harmonizes effects in production activities (Tsai and Ghoshal, 1998; Wang et al., 2017). The first hypothesis is formulated on the basis of previous research results.

H1a: Common knowledge of enterprises and suppliers has a positive influence on product codevelopment.

2.2 Goal Compatibility and Product Codevelopment

Common knowledge creates collaboration between enterprise and suppliers that affects goal compatibility (Cohen and Levithal, 1990). According to Tsai and Ghoshal (1998), goal compatibility is a shared vision that embodies the collective goals and aspirations of members of the supply chain network. When shared visions are present, enterprises and suppliers have similar perceptions of how they interact with one another. This interaction can build a shared understanding and exchange of ideas and resources aimed at achieving the goals of each party (Inkpen and Tsang, 2005). In the supply chain, goal compatibility maintains the perception that something is beneficial for one party, which will also benefit others.

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The aim of the relationship between goal compatibility and product codevelopment is to understand the purpose and means to achieve it and how it contributes to the supply chain. Codevelopment prevents coordination problems that arise from conflicts of interest (Wang et al., 2017). Therefore, the second hypothesis is formulated:

H1b: The goal compatibility of enterprises and suppliers has a positive influence on product codevelopment.

2.3 Mutual Learning and Product Codevelopment

Mutual learning activities are an interorganizational phenomenon. Networking relationships can develop a competitive advantage that identifies learning activity as an important key in creating benefits in a network (Dyer and Singh, 1998; Pepper et al., 1995). Through a relationship for mutual learning, two or more parties can identify ways to reduce or eliminate cost overruns, improve quality and ability, and increase speed and flexibility. According to Baron and Kenny (1986), shared learning can be interpreted as a mediating dimension and is related to a causal relationship. Alliance formation in mutual learning activities faces several financing and time constraints.

In product codevelopment, mutual learning with partners can broaden horizons related to operations and industry trends and trigger better ideas, solutions, and practices. Therefore, mutual learning activities serve as key mechanisms and provide benefits to product codevelopment. Based on Wang et al. (2017), mutual learning has a significant influence in mediating common knowledge and goal compatibility to product codevelopment. This finding suggests that mutual learning is important because it can spread skills and knowledge and their implementation. Collaborative learning can be considered a dynamic mechanism for improving technological performance and innovation solutions. The third and fourth hypotheses are formulated according to previous research.

H2a: The common knowledge of enterprises and suppliers has a positive influence on product codevelopment as mediated by mutual learning.

H3b: The goal compatibility of enterprises and suppliers has a positive influence on product codevelopment as mediated by mutual learning.

2.4 Government Intervention and Product Codevelopment

In Kamus Besar Bahasa Indonesia (Bahasa Indonesia Dictionary), “government intervention” can be defined as an intervention by an agency or group exercising authority and power over social, economic, and political life in a country. According to Tan and Litschert (1994), the three dimensions of the environment in the transitional

ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

economy influence government policy on economic activity; these dimensions are complexity, dynamism, and hostility from various aspects of the environment. The three dimensions form the main factors affecting uncertainty (Lawrence and Lorsch, 1967). Intervention of the Government of the Republic of Indonesia in the economic sector can be seen in Undang-Undang Republik Indonesia Nomor 20 Tahun 2008 (Indonesia's law) and Rancangan Pembangunan Jangka Panjang Nasional 2005–2025, where the government effectively and optimally maximizes its role as a facilitator of economic development in Indonesia.

However, on the basis of a research conducted by Tan (2004), government intervention in economic activities precisely limits the occurrence of joint learning activities and product development, which is due to restrictions and regulatory changes that lead to market uncertainty. The proponents of product development are dynamic and the process becomes gradual in the long run (Kaufman et al., 2008). Thus, the fifth hypothesis is formulated.

H3a: The mutual learning of enterprises and suppliers has a debilitating positive influence on the product codevelopment as moderated by government intervention.

2.5 Paguyuban or Patembayan and Product Codevelopment

Guanxi can be interpreted as the concept of connection for security and comfort rather than personal relationship. This relationship implicitly provides obligations, guarantees, and understanding of a social relationship, and this relationship is sufficiently long (Luo, 1997). Bian (1994) defined guanxi as the relationship between people who share group status or relate to common people. In Indonesia, guanxi can be likened to a paguyuban or patembayan. Ferdinand Tonnies (1887) explained that social groups acquire a technical force as a requirement in a coherent sociological theory. Social groups are divided into "Gemeinschaft" and "Gesellschaft." Gemeinschaft (paguyuban) can be understood as an organic community bounded by a general spirit, and its members share common ownership and a strong sense of cooperation within the group on the basis of family and land ties. Gesellschaft (patembayan) is an artificial aggregate between individuals who are connected by rational contract ties with communal ownership, have temporary transients, and have mechanical structures like machines.

To support product development, cultural orientation plays an important role in shaping entrepreneurial behavior and developing the competence of perpetrators. The existence of entrepreneurial competence can ensure the viability and growth of business units within small sectors, such as SMEs (Tehsen et al., 2015). Wang et al. (2017) found a positive influence of mutual learning between enterprises and suppliers on product codevelopment as moderated by the culture of guanxi. This effect creates effectiveness

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and efficiency in the production activities of a company. The sixth hypothesis is then formulated.

H3b: Mutual learning between enterprises and suppliers has a positive influence on product codevelopment as moderated by paguyuban and patembayan.

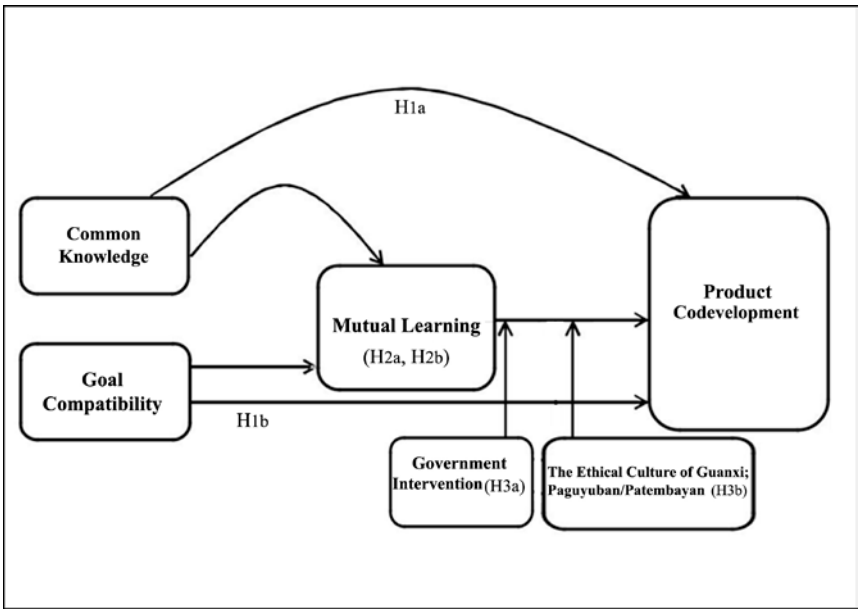
2.6 Previous Research

The previous research is entitled "Product co-development in an emerging market: The role of buyer-supplier compatibility and institutional environment," which was written by Jeff Jianfeng Wang, Julie Juan Li, and Jeanine Chang (2016). The present study examined a unique institutional environment that can influence the support of product development that resulted from collaboration between suppliers and buyers in China.

2.7 Conceptual Framework

The conceptual framework used in this study is sourced from the modified dissertation in a previous study of Wang et al. (2016), which can be illustrated through the following framework.

Figure 1 Conceptual Model



3. RESEARCH METHODS

The sampling method used is purposive sampling technique. The sample criteria are small and medium enterprise actors are incorporated in paguyuban and patembayan in D.I. Yogyakarta. Researchers use an analysis with structural equation model assisted with SmartPLS 3.0 software. The sample objects are SMEs incorporated in the paguyuban or patembayan in D.I. Yogyakarta with a minimum number of 30. After the questioner is

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created according to the indicator of each variable, the sample is distributed to 120 SMEs and filled by the party responsible for the business, either the owner, the manager, or an equivalent employee. A total of 70 questionnaires were returned. A total of 61 respondents meet the criteria.

4. ANALYSIS AND DISCUSSION

4.1 Validity Test

4.1.1 Convergent Validity Test

The testing phase uses the PLS method, i.e., outer and inner models. The test uses two graphical models in the case of the two variables. The graph in Figure 2 is used to test H1a, H1b, and H2a, whereas the graph in Figure 3 is used to test H2b, H3a, and H3b. The variable items in this study use the codes KP (Kesamaan Pengetahuan) for common knowledge, KT (Kesesuaian Tujuan) for goal compatibility, PB (Pembelajaran Bersama) for mutual learning, PPP (Pendukung Pengembangan Produk) for product codevelopment, IP (Intervensi Pemerintah) for government intervention, and BEG (Budaya Etik Guanxi) for the ethical culture of guanxi (paguyuban and patembayan).

We use the rule of thumbs with a loading factor of> 0.6, average variance extracted (AVE) > 0.5, and communality > 0.5. Meanwhile, to test discriminant validity, the rule of thumb > 0.7 was used for cross-loading. As shown in Figure 2, the existing loading factor is > 0.6, whereas in Figure 3, an item has a loading factor of <0.6, i.e., IP1 and BEG1. Thus, the item was dropped from the model.

Figure 2 Current Research Model

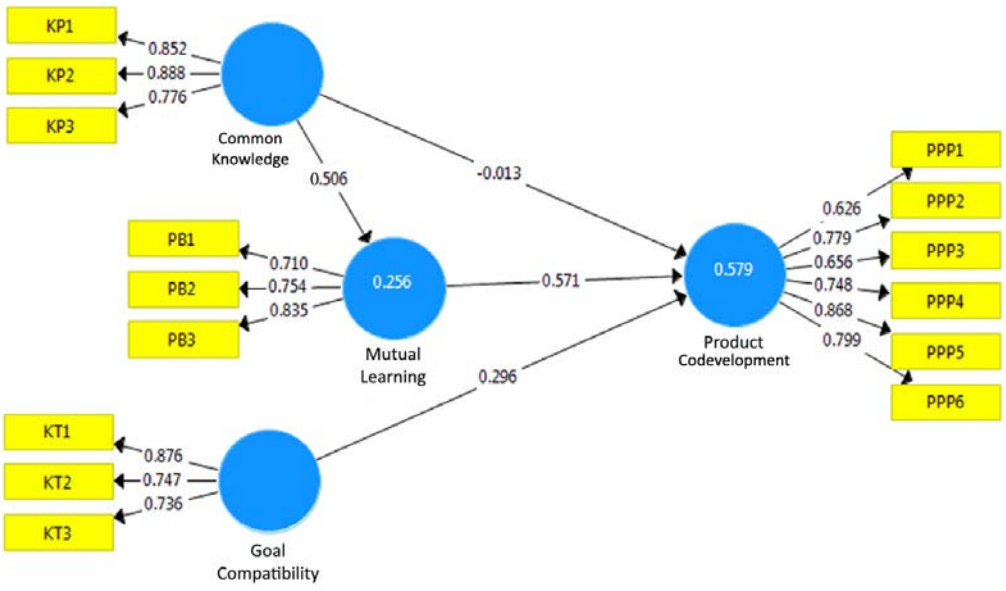

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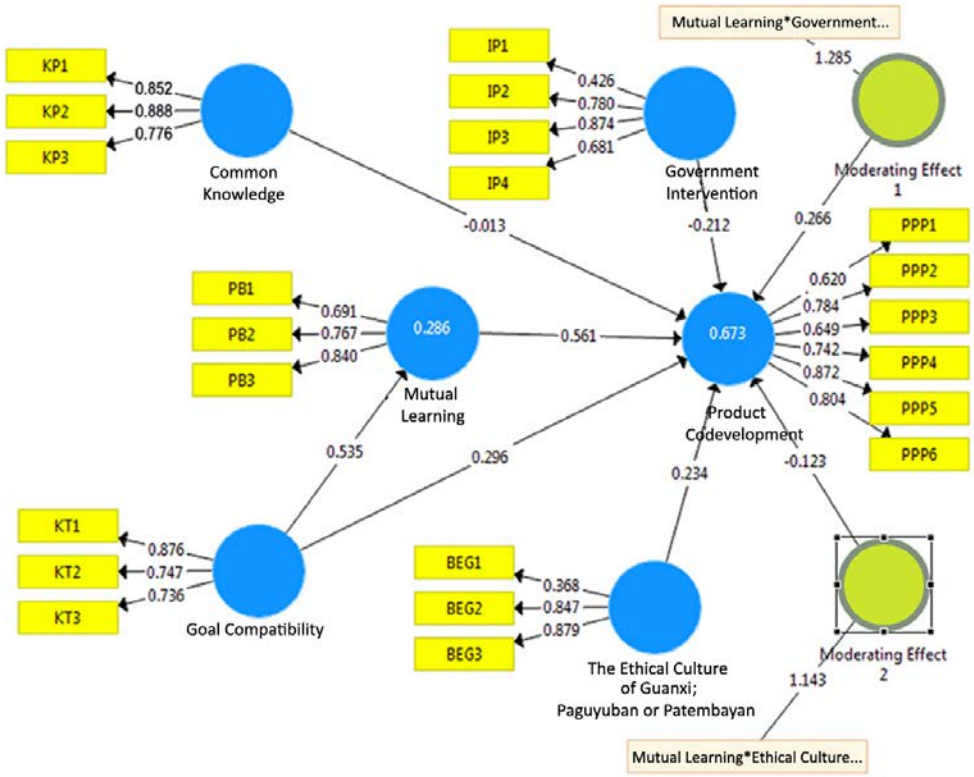
Figure 3 Current Research Model



4.1.2 Discriminant Validity Test

The AVE value of each construct should meet the minimum requirement, i.e., > 0.5. On the basis of the value of the test results, the instrument used in this study has an adequate degree of validity (Chin, 1998). In the second stage, the researchers conducted an assessment of the discriminant validity of the construct. This assessment is conducted by comparing the square of root of AVE to each construct with the correlation between other constructs. The result of the analysis shows that the model developed in this research has sufficient discriminant validity. The root of each AVE construct is greater than the correlation between other constructs (Fornel and Larcker, 1981).

Table 1 Discriminant Validity (Formel and Larcker, 1981)

	BEG	**IP**	**KP**	**KT**	**IP*PB**	**BEG*PB**	**PB**	**PPP**
BEG	0.863							
IP	0.331	0.783						
KP	0.049	0.247	0.840					
KT	0.288	0.430	0.622	0.789				
IP*PB	−0.030	0.341	0.027	0.028	1.000			
BEG*PB	0.188	−0.033	0.112	−0.005	0.354	1.000		

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PB	0.310	0.387	0.501	0.535	−0.022	−0.011	0.768	
PPP	0.384	0.337	0.457	0.588	0.209	0.024	0.717	0.750

4.2 Reliability Test

Reliability test was performed in two methods, namely, Cronbach's alpha and composite reliability (Hair et al., 2013). The results of the reliability test show positive results, because the value of Cronbach's alpha and composite reliability is above the predefined rule of thumb, i.e., 0.6 (Chin, 1998).

Table 2 Cronbach's Alpha and Composite Reliability

	Cronbach's Alpha	**rho_A**	**Composite Reliability**	**AVE**
BEG	0.650	0.655	0.761	0.542
IP	0.698	0.760	0.794	0.504
KP	0.803	0.873	0.879	0.708
KT	0.694	0.739	0.830	0.622
PB*IP	1.000	1.000	1.000	1.000
PB*BEG	1.000	1.000	1.000	1.000
PB	0.657	0.690	0.811	0.590
PPP	0.842	0.857	0.884	0.563

4.3 Inner Model Test (Structural Model)

4.3.1 Determination Test or Analysis of Variance (R^2)

Table 3 shows that BEG, IP, KP, and KT explain the variability of PB constraints at 28.3%; the remaining 67.3% are explained by PPP constraints.

Table 3 Analysis of Variance ($R^{2)}$

Item	**R Square**	**R Square Adjusted**
PB	0.286	0.274
PPP	0.673	0.630

4.3.2 Hypothesis Test

The rules of thumb used are t-statistics > 1.64 with a significance level or p-value of 0.05 (5%) and beta is positive. The result of the hypothesis test of the research is presented in Table 4.10.

H1a and H3b are not significant. Result shows that t-statistic values are 0.079 and 1.128, which are smaller than the predetermined value of 1.64, and the p-value is larger than the predetermined value of 0.05. Moreover, H1b, H2a, H2b, and H3a are significant.

According to the data presented above, common knowledge between enterprises and suppliers do not have a significant influence on product codevelopment. Similarly, mutual learning between enterprises and suppliers do not have a significant influence on product codevelopment as moderated by the ethical culture of guanxi. This finding contradicts Wang et al. (2017), who found that common knowledge and mutual

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learning between suppliers and buyers have a significant influence on product codevelopment.

Table 4 Path Coefficient

	Item	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
H1a	KP -> PPP	−0.013	−0.033	0.170	0.079	0.469
H1b	KT -> PPP	0.296	0.340	0.166	1.783	0.037
H2a	KP->PB->PPP	0.571	0.568	0.146	3.902	0.000
H2b	KT->PB->PPP	0.535	0.541	0.119	4.480	0.000
H3a	PB*IP->PPP	0.275	0.248	0.130	2.125	0.017
H3b	PB*BEG->PPP	−0.130	−0.148	0.116	1.128	0.130

According to Wang et al. (2017), common knowledge shows a positive effect when product development activity is low or medium and a negative result when product development activity is high. After being mediated by mutual learning, common knowledge has a positive effect on product codevelopment with t-statistics of 3.902. Furthermore, mutual learning between suppliers and enterprise has positive influence on product codevelopment as moderated by paguyuban and patembayan. Finally, government intervention has a debilitating positive influence on moderating mutual learning for product codevelopment. This finding is because the government does not optimally function in empowering SMEs (BPPN, 2015). H1b, H2a, H2b, and H3a show significant results.

5. CONCLUSION AND RECOMMENDATION

This study aims to find out how collaboration between enterprises and suppliers and unique institutional environment affect product codevelopment. The sample is composed of 65 SMEs, which are incorporated in paguyuban or patembayan in DI, Yogyakarta. The influence of common knowledge remains small despite awareness of the actors of SMEs in collaborating with suppliers in existing markets and innovation in production activities. In addition, the existing paguyuban and patembayan cannot make a positive contribution in operational activities. This situation gives a negative stigma to the existing paguyuban and patembayan, where organizations can only partially benefit. By contrast, goal compatibility has a positive impact on enterprises and suppliers. Mutual learning helps in common knowledge and goal compatibility in the support of product codevelopment.

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Government intervention is considered influential in undermining proponents of product codevelopment due to weak regulations made by the government and changing existing regulations.

The results of this study failed to represent the state of the market in Indonesia because of the lack of necessary samples and the narrowness of the location of the research (D.I. Yogyakarta). Given the wide and various sociocultural and economic conditions of people in Indonesia, the sample can be added and the location of the research can be expanded.

APPENDIX

Construct and item description	Outer loading	Cross Loading
Common Knowledge (Prahald and Ramaswamy, 2004 in Wang et al., 2016)		
We have a common understanding of the operating practices and procedures for the various activities involved in this tra - nsaction (manufacturing, logistics, inventory, raw materials).	0.368	0.854
We share the same language (terms and definitions) for communicating issues regarding the operating practices and procedures for the manufacturing on this product.	0.850	0.880
We know who is tasked to solve particular problems or to ask questions in each other's organization.	0.880	0.788
DV 0.840, Cronbach's a 0.803, CR 0.879		
Goal Compatibility (Jap, 1999 in Wang et al., 2016)		
We have compatible goals.	0.892	0.892
We support each other's objectives.	0.755	0.755
We share the same goals in the relationships.	0.709	0.709
DV 0.789, Cronbach's a 0.694, CR 0.830		
Mutual Learning (Zhou et al., 2005 in Wang et al., 2016)		
You have spent a great deal of time learning product or company specific knowledge from the supplier (buyer)	0.691	0.691
You have acquired company-specific or product-specific knowledge from the supplier (buyer) to adequately manufacture the product.	0.767	0.767
Your approach to the product has been custom-tailored based on the capabilities and resources of the supplier (buyer).	0.840	-0.840
DV 0.768, Cronbach's a 0.657, CR 0.811		

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Product Codevelopment (Atuahene-Gima, 2005; Zhou and Wu, 2010 in Wang et al., 2016)		
You and the supplier make incremental modification to the manufacturing or design of the product in an effort to improve it.	0.620	0.621
You and the supplier reorganize existing ways of making the product to make incremental improvements to the product.	0.784	0.784
You and the supplier routinely make incremental changes to improve the product.	0.649	0.649
You and the supplier try out relatively untapped materials and technologies to make improvements.	0.742	0.742
You and the supplier try out new approaches and methods to make unique changes	0.872	0.871
You and the supplier try out novel resources and approaches to make major changes	0.802	0.804
DV 0.750, Cronbach's a 0.842, CR 0.884		
Government Intervention (Child et al., 2003 in Wang et al., 2016)		
The government regulations change frequently.	0.426	E
The changes of government regulations greatly affect our business operation.	0.780	0.771
The changes of government regulations greatly affect our decision-making.	0.874	0.886
Relevant local authorities, such as Bureau of Tax and Bureau of Industry and Commerce Administration, have a great influence on our business operation.	0.681	0.677
DV 0.783, Cronbach's a 0.698, CR 0.794		
Guanxi Importance; Applied on Paguyuban or Patembayan (Child et al., 2003 in Wang et al., 2016)		
In this market, business depends on good connections with friends and family.	0.368	E
In this market, Guanxi is still very important.	0.850	0.848
In this market, Guanxi is a requirement for success.	0.880	0.879
DV 0.683, Cronbach's a 0.650, CR 0.761		

ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)

ACKNOWLEDGMENT

We express our gratitude to our family, Universitas Islam Indonesia, Kementerian Koperasi dan UKM of D.I. Yogyakarta, and other parties who cannot be mentioned for helping conduct this study.

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ISSN: 2304-1013 (Online); 2304-1269 (CDROM); 2414-6722 (Print)