

Firm's Diversification Strategy, Risk & Incentives (Viability Study on Indonesian SMEs)

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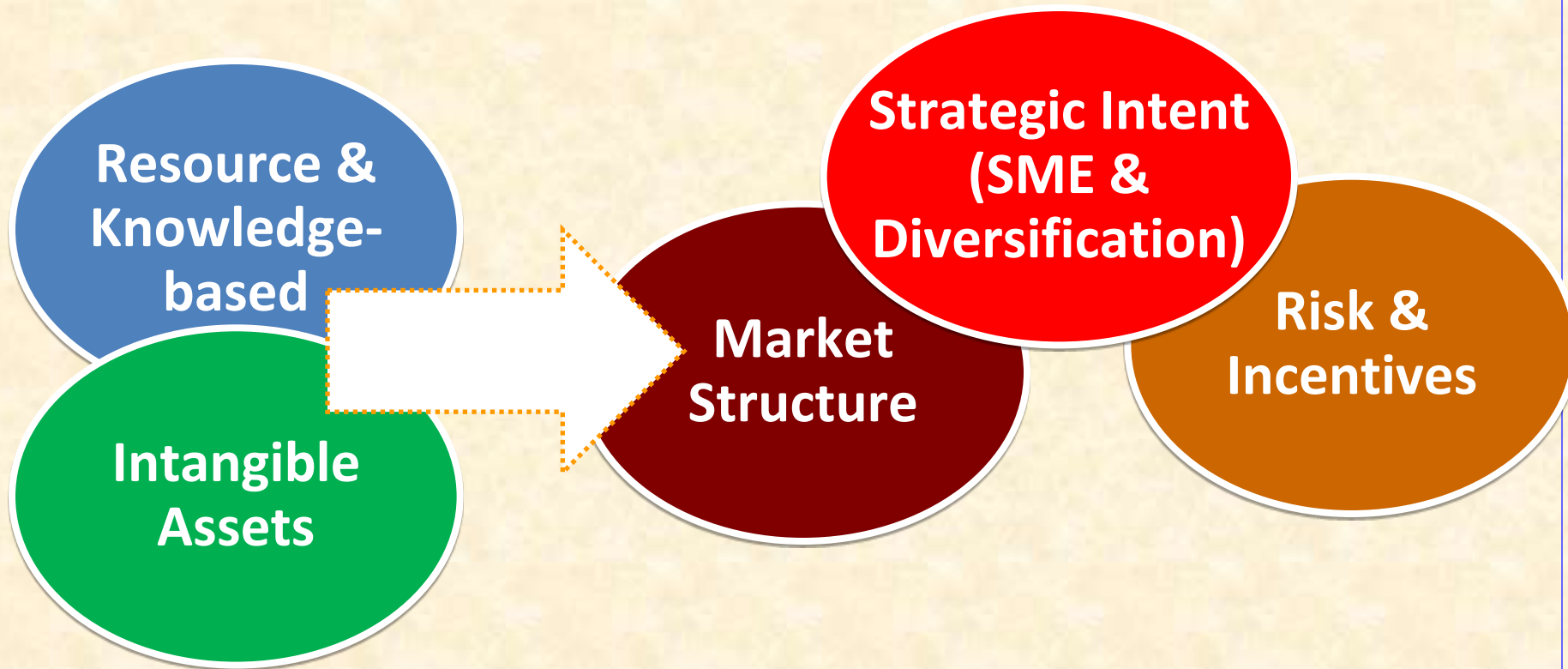
Introduction

- The rise of role on firm's intangible assets has certainly emerged

Intangible assets are used as the basis toward

- **firm's diversification strategy** (Besanko, et al, 2007; Mansi and Reeb, 2002; Thompson, et al, 2004)
- **achieving value-creation and value-added** (Tanaszi and Duffi, 2000)
- **evaluating risks and incentive** (Besanko, et al, 2007; Murthy and Deb, 2008)

Literature Review

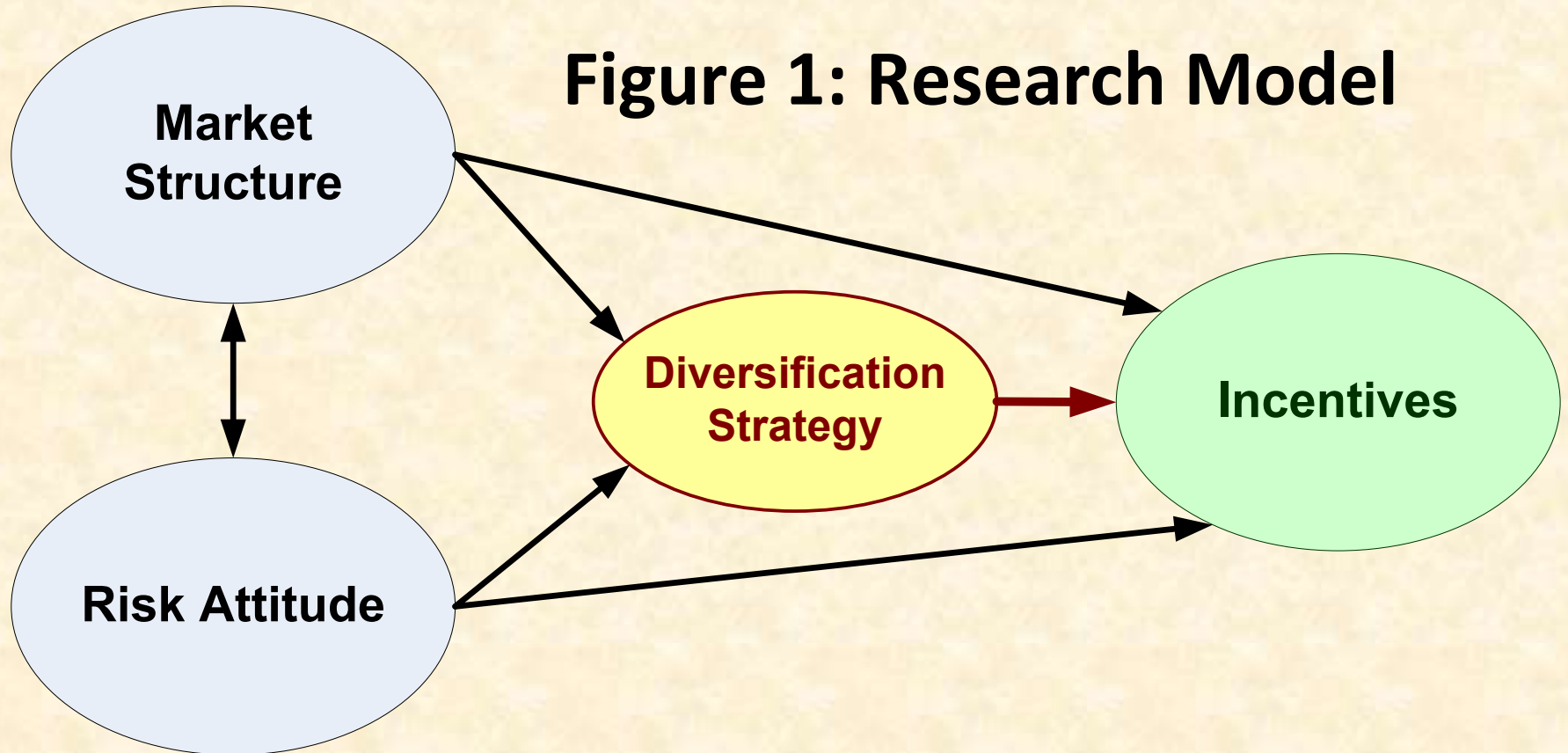


Research Hypothesis

- H_1 : Market structure strongly influences diversification strategy
- H_2 : BSC strongly influences the firm's performance
- H_3 : Market structure strongly influences risk attitudes, and vice versa
- H_4 : Risk attitudes strongly influences diversification strategy
- H_5 : Risk attitudes strongly influences incentives
- H_6 : Diversification strategy strongly influences incentives

Research Model

Figure 1: Research Model



- Descriptive & causal research (Ghauri and Gronhaug, 2005)
- Incorporates FGD & questionnaires
- Statistical analysis is based on SEM

Variables

- “Market structure” is based on monopolistic competition (Besanko, et al, 2007)
 - ◆ Similar products
 - ◆ Numbers of players
 - ◆ Product substitutes
 - ◆ Complimentary products
- “Risk attitudes” (Besanko, et al, 2007)
 - ◆ Innovation risk
 - ◆ Investment risk

- “Diversification”

- ◆ Growth strategy (Anantadjaya, et al, 2011a; Noe, et al, 2008)

- » Product/service development
 - » Innovation
 - » Ventures

- ◆ Concentration strategy (Anantadjaya, et al, 2011a; Noe, et al, 2008)

- » Market share
 - » Market niche
 - » Cost efficiency

- “Risks”

- ◆ Financial performance (Anantadjaya, et al, 2011a)

- » Sales
 - » Expenses
 - » Growth rate
 - » Product mix
 - » Product lines

- ◆ Economic indicators (Besanko, et al, 2007; Ebert and Griffin, 2005; Soekasah, 2009)

- » GDP
 - » Interest rates
 - » Foreign exchange
 - » inflation

Research Discussion

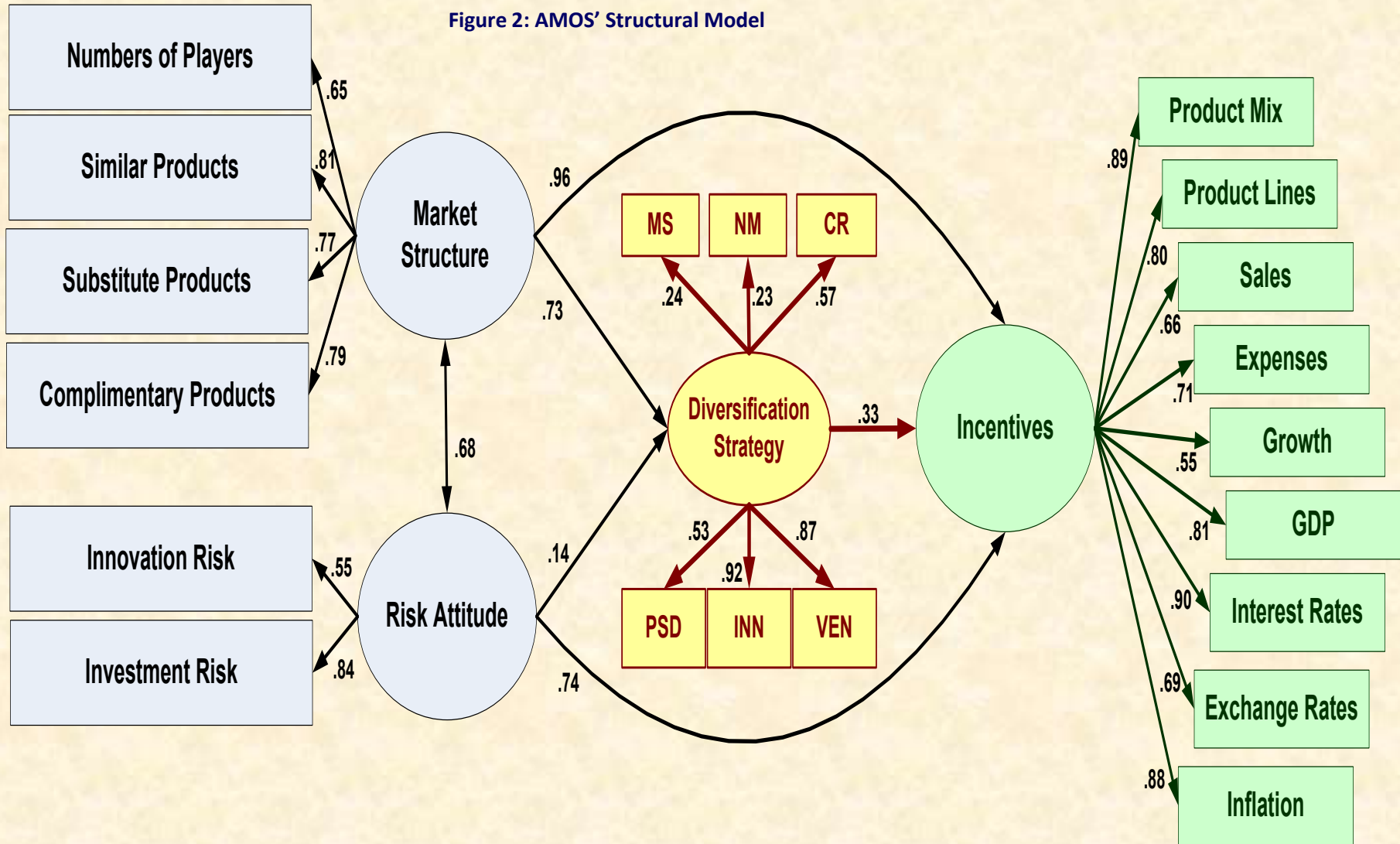
Table 1: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.457	.881	12
Source: SPSS		

Table 2: Validity Statistics

Model	RMR	CMIN/DF	GFI	AGFI	PGFI
Default model	0.412	1.364	0.891	0.871	0.888
Saturated model		1.000		1.000	0.000
Independence model	0.331	0.000	0.000	0.000	0.000
Source: AMOS					

Figure 2: AMOS' Structural Model



Conclusion & Recommendation

The linkage between resource-based and knowledge-based theory of the firm to firms' diversification provides a clear path for future development

Knowledge has become the priority for firms to secure their sustainability into the long future

The power of information from other firms and the marketplaces becomes indispensable

Conclusion & Recommendation

The study suggests that SME may have to concentrate in the following factors;

1. Engaging in complimentary products,
2. Investment,
3. Coming up with innovation
4. Establishing ventures
5. Taking advantage on the fluctuations on interest rates