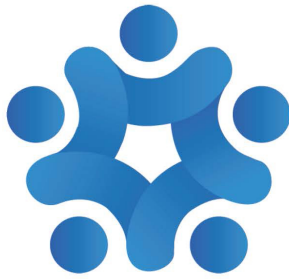




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ICFBE 2019

THE 3RD INTERNATIONAL CONFERENCE
ON FAMILY BUSINESS & ENTREPRENEURSHIP

Sustaining & Expanding Family Business
in Creative Industry 4.0 Era

PROCEEDING

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The Patra Bali Resort & Villas Indonesia, April 8th – 9th 2019

Foreword

The Global economic landscape is still recovering from the prolonged crisis which has significantly affected consumer's buying power, hit commodity prices, as well as hampered growth in general. However, in the midst of the crisis, research has shown that family business remains a strong and resilient force which helps propel the economy. A Harvard Business Review article argued that Family Businesses tend to be more frugal and enter the recessionary period with leaner cost structures.

According to McKinsey, in emerging economies, Family Business account for approximately 60 percent of the private-sector companies with revenues of \$1 billion or more, compared to less than one-third of the companies in the S&P 500. However, the upward trend for family businesses as a significant part of their national economies in emerging markets remain strong and will represent nearly 40 percent of the world's largest companies in 2025, up from 15 percent in 2010, which shows the growing importance of understanding Family Business and its sustainability in the long run in the midst of the current global scenario.

In this regard, the International Conference on Family Business and Entrepreneurship (ICFBE) 2019 is specifically established to be a leading international conference is championed by President University, a world-class higher education institution in Indonesia which was established to become a reputable research and development center in the region and to set a new benchmark in Indonesian higher education. This conference aims to gather researchers and practitioners to critically share and discuss the latest empirical, conceptual, as well as theoretical findings and trends in the field of Family Business, Entrepreneurship, Strategic Management, among others.

Unlisted but related sub-topics are also acceptable, provided they fit in one of the main topic areas as follow:

1. Sustainability of Family Business
2. Succession Planning and Family Conflicts
3. Professionalization and Family Culture
4. Entrepreneurship
5. Strategic Management

Bali, April 2019

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CONTENT	
Business Succession is Crucial but not easy: Study of Large Family Businesses in Indonesia <i>Hadi Cahyadi NG</i>	1 – 12
Influence of Socialization Tactics towards Employees Commitment through Relational Mechanism in Start-up Companies <i>Emeralda Aryuni, Riani Rachmawati</i>	13 – 26
The Influence of Work Schedule Flexibility to Enhance Employee Work-Life Balance at Start-up Companies in Indonesia <i>Zikra Fadilla, Riani Rachmawati</i>	27 – 39
The Role of Leadership and Organizational Culture on Succession Planning of Family Company in the DABN Corporation <i>Esti Nalurani, Shinta Nastiti</i>	40 – 52
The Effect of Visionary Leadership and Entrepreneurial Motivation toward Business Performance on Campus Enterpriser in the University of Jember <i>Esti Nalurani, Suwignyo Widagdo, Yuniorita Indah</i>	53 – 64
How Do Family Businesses Create Happiness? A Conceptual Model for an Indonesian Context <i>Wakhid Slamet Ciptono, Rocky Adiguna</i>	65 – 71
A Conceptual Model on the Impact of Organizational Structure and IT Capabilities on Corporate Entrepreneurship in Relation to Business Model Innovation Adoption and Business Model Performance in the Hospitality Sector <i>Eko Prasetyo, Anton W. Widjaja</i>	72 – 84
The Impact of Entrepreneurial Orientation and Market on SMEs Performance Orientation that Influenced by External Environment and Networking Capabilities <i>Ronald Sianipar, Anton Wachidin Widjaja</i>	85 – 99
Investigating the Role of Perceived Organizational Support on Prosocial Voice Behavior and Upward Safety Communication in Paternalistic Leadership Environment <i>Armando Yonathan, Aryana Satrya</i>	100 – 111
The Influence Ability of Personal Techniques and Training and Education Programs on the Performance of Information System with Top Manager Support as a Moderating Variable (A Case Study in Several Social Services in the Regional Government of Yogyakarta City) <i>Fran Sayekti, Lilis Endang WJjayanti, Siti Resmi, Abdul Muhamad Sumantri</i>	112 – 127
A Priority Strategy in Developing the Business of Cultivating Egg-Laying Ducks in Indonesia <i>M Mustopa Romdhon, Trisniarty Adjeng Moelyatie, Yetty Oktarina</i>	128 – 134

Developing Social Entrepreneurship through Entrepreneurship A Study of Community Perception in Indonesia	135 – 146
<i>Hardi Utomo, Sony Heru Priyanto, Lieli Suharti, Gatot Sasongko</i>	
Increasing Public Awareness on Climate Change: Integrating Intelligence Analytics to Edge Devices in Industry 4.0	147 – 153
<i>Muhammad Alfalah Fauzi, Harriman Samuel Saragih</i>	
Analysis of Road Map E-Commerce Policy in Feminism Perspective: An Effort to Empower the Rural Women as the Strategy to Enhance the Indonesian Digital Economy Vision 2020	154– 173
<i>Muhammad Ilham Razak, La Ode Rifaldi Nedan Prakasa</i>	
The Influences of Life Style, Perceived Ease Of Use, And Perceived Usefulness On The Interest In Using E-Money Card Mandiri Bank in Jakarta Indonesia	174 – 179
<i>Waseso Segoro, Sekar Ajeng Larasati</i>	
Backward Integration Strategy of An Automatic Gas Deck Oven Distributor	180 – 198
<i>William</i>	
Study of Entrepreneurial Intention Among Business Students	199 – 210
<i>Eric Ricardo Senjaya, Genoveva</i>	
The Influence of Supportive Learning Environment towards Employee Retention – Examining the Mediator Roles of Psychological Capital and Person-Organization Fit	211 – 230
<i>Mayadewi Istyawardhani, Budi Widjaja Soetjipto</i>	
The Influence of Risk Management and Good Corporate Governance toward Profitability of Indonesia Conventional Banks Category III	231 – 246
<i>Chandra Setiawan, Putu Raisa Laksmi Febriani</i>	
The Effect of Financial Performance and Corporate Social Responsibility toward the Firm Value of Commercial Banks Category in Indonesia	247 – 258
<i>Chandra Setiawan, Intan Permata Sari</i>	
The Influence of Entrepreneurial Passions, Competencies and Characteristics on Business Success in Micro, Small, and Medium-Scale Business of Strawberry Processing Industry at Rancabali District, Bandung Regency	259 – 276
<i>Puspita Cahya Arinda, Winda Widyanty, Achmad Hidayat Sutawidjaya</i>	
Toward the model of Green Commitment: The Influences of Egoistic, Altruistic, Biospheric on Green Satisfaction	277 – 292
<i>Erna S. Imaningsih, Prijono Tjiptoherijanto, Ignatius Heruwasto, Daniel Tumpal H. Aruan</i>	
Analysis of Customer Loyalty Program: The Case Study of Mypertamina, 2018	293 – 303
<i>Budi Mulia Panggabean</i>	

Online Consumer Behavior from the Perspective of Brand Ambassador, Web Design and Customer Trust Variables <i>Yennida Parmariza, Dede Afriani</i>	304 – 320
Course Comparison of Formal Institution and Non-formal Startup Using Kano Model <i>Kristina Sisilia, Yahya Peranginangin</i>	321 – 331
Opinion Voice Using Text Analytics to Understand Global Tourism Attraction <i>Herry Irawan, Ayu Ika Sukaesih, Andry Alamsyah</i>	332 – 352
The Links from Career Congruence, Commitment to Parents' Goal, and Goal Clarity to Career Aspirations and Distress in Students with Entrepreneurship Goal <i>Dian Ratna Sawitri, Ika Zenita Ratnaningsih, Mirwan Surya Perdhana</i>	353 – 362
Business Strategy and Competitive Advantage to Improve Organization Performance in Terms of Environmental Turbulence and Dynamic Capabilities (Case Study at PT POS in West Java) <i>Sir Kalifatullah Ermaya</i>	363 – 379
Quality Evaluation of Electronic Services on Train Passengers in Surabaya, Indonesia <i>Ratri Amelia Aisyah</i>	380 – 393
Price-Earnings Multiple as an Investment Assessment Tool in Analyzing Stock Market Performance of Selected Universal Banks in the Philippines <i>Antonio J. Dayag, Fernando Trinidad</i>	394 – 415
The Correlation of Digital Feature on Decision to Use Loyalty Program: A Case Study on Loyalty Program in Garuda Indonesia <i>Aryo Nugroho, Willem Makaliwe</i>	416 – 423
The Relation of Work Engagement, Organizational Identification and Job Involvement on Work Performance: Analysis Toward Drivers of Ride-hailing Services <i>Karen Sheila Gustin, Budi W. Soetjipto</i>	424 – 432
Language Varieties used in the Small Hotel Service Encounter: Violation to Scripting? <i>Ristiyanti Harsono, Sony Heru Priyanto, John Joi Ihalauw, Rooskities Andadari</i>	433 – 445
Prediction of Factors that Influence Complaint Handling Sentiment on Customer Using Logistic Regression (Case Study of an Online Shoe Company) <i>Sheila Kuslitasari, Gadang Ramantoko</i>	446 – 459
Analysis of Strategic Options on Garuda Indonesia Subsidiaries <i>Eryne Riptantya</i>	460 – 484

Investment Strategy of New Colorant Project at PT. YY	485 – 506
<i>Syuh Fuen, Maryat Nirwandi</i>	
Evaluation Users Response of Streaming TV Mobile Application Using Data Envelopment Analysis (DEA)	507 – 518
<i>Anggita Prameswara Putri, Gadang Ramantoko</i>	
Competences Development of Small Medium Business Actor in Utilizing Information and Communication Technology in Bandung Areas (Case Study: MSME Businessmen in Kabupaten Bandung, West Java)	519 – 532
<i>Vera Agustina Yanti, Arfani Sri</i>	
The Effect of Marketing Activities Using Social Media on Brand Equity and Man Customer Response to Watch Brands in Indonesia	533 – 556
<i>Akbari Jamalullail Faisal, Biakman Irbansyah</i>	
The Impact of Service Quality on Tourist' Trust Through the Reputation of Dive Trip Operators in Indonesia	557 – 569
<i>Jilmi Astina Anif, Ernie Tisnawati Sule</i>	
The Influence of Tourism Service Quality on Tourist Satisfaction and Tourist Loyalty: A study of foreign tourist in Indonesia	570 – 584
<i>Dewi Khumaeni, Filda Rahmiati</i>	
Competitiveness of Various Resource Typologies in Indigenous Tourism: A Resource-Based View Approach	585 – 598
<i>Antonius</i>	
The Influence of Burnout, Counterproductive Work Behavior, Job Involvement, and Organizational Identification on Work Performance: Analysis on Online Motorcycle Taxi Drivers	599 – 614
<i>Terra Andi Pasomah</i>	
Impact of Price, Promotion and Brand Image on Purchase Intentions in the Choice of a Low Cost Airline	615 – 630
<i>Ajay Chauhan, Innaya Vira Asyifa</i>	
The Relationship between Entrepreneurial Education, Family Background, Innovativeness, and Entrepreneurial Capabilities toward Entrepreneurial Intention	631 – 642
<i>Suresh Kumar, Dedi Kurniawan</i>	
The Influence of the Quality of Working Life on Employee Job Satisfaction, Organizational Commitment and Intention to Leave in the Small Medium Enterprises in Cikarang District	643 – 651
<i>Suresh Kumar, Dedi Kurniawan</i>	
Analysis of Generation Gap on Organizational Commitment	652 – 658
<i>Grace Amin</i>	

Analyzing Customer Lifetime Value Based on Frequent Flyer Member Transaction : The Case of Indonesian Airways <i>Andi Setiadi</i>	659 – 677
Recruitment in Digital Era, A Study on Job Seekers Perception <i>Erny Estiurlina Hutabarat, Ade Dwi Septiani Jusa</i>	678 – 696
Conditional C-Score: Conditional Conservatism Measure Based on C-Score <i>Widyahayu Warmmeswara Kusumastanti, Sidharta Utama</i>	697 – 714
Analysis of Stock Price Volatility in Indonesia: Dividend Policy and Earning Management <i>Ika Simbolon, Mery Kristiani</i>	715 – 724
Does Job Satisfaction Mediate the Relationship Between Opportunities and Organizational Commitment? <i>Imas Nurani Islami, Mutiara Anisa Azara Sidiq</i>	725 – 747
Analysis of the Effect of CEO Age, Gender and Work Experience on Family Business Sustainability <i>Helen Alexandra, Andrianantenaina Hajanirina</i>	748 – 766
The Analysis of Value of Risk (VaR): Companies Listed on LQ45 <i>Maria Yus Trinity Irsan, Ika Pratiwi Simbolon</i>	767 – 774
The Influence of Financial Performance, Intellectual Capital and Managerial Ownership toward Firm Value in Consumer Goods Manufacturing Sector <i>Jefri Ivando, Setyarini Santosa</i>	775 – 786
Indonesia SME Supply Chain Performance from SCOR Model Perspective <i>Andrias Andi, Kristina Sisilia</i>	787 - 795



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The Impact of Entrepreneurial Orientation and Market on SMEs Performance Orientation that Influenced by External Environment and Networking Capabilities.

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Abstract

Entrepreneurial and market orientation can positively affect the performance of SMEs (Small and Medium Enterprises), yet these two orientations are not enough to enable SMEs to perform well in a dynamic and uncertain business environment. SMEs in Indonesia are both facing challenges and opportunities from changes in the existing external environment. SMEs must have networking capacities to access external resources. The networks are expected to impact entrepreneurial orientation and market orientation to enable SMEs to perform better. This study aims to empirically examine the effect of entrepreneurial and market orientations on the performance of SMEs, influenced by external environment and networking capabilities. This study proposes a conceptual framework that integrates external environment, the network capabilities, entrepreneurial orientation, marketing orientation, and the performance of SMEs in an uncertain external environment.

Keywords: *entrepreneurship, networking, entrepreneurship orientation, market orientation, external environment, performance, SMEs*

1. INTRODUCTION

Strategic management literature generally argues that the selection of firm's strategies including SME (Small Medium Enterprise) depends on how closely a firm is aligned with external environment changes and requires quick respond to enable them to survive and compete with others (Desarbo et al., 2005) as uncertainties in environment can be a challenge or an opportunity for SMEs (Adeola, 2016). To respond to the uncertainties in the external environment, SMEs will build various types of collaboration with other organizations. Van Hemert et al. (2013) explained that companies in the current global economy prefer their action based on collaboration and Walter et al. (2006) showed that companies choose networking with other partners as an effective strategy in reducing costs and sharing resources.

The research of Atuahene-Gima & Ko (2001), Mirzaei et al. (2016), and Octavia & Ali (2017) showed that there is a strong relationship between entrepreneurial orientation, market orientation and/or a combination of entrepreneurial and market orientation with firm growth and performance. Jaworski & Kohli (1993) suggested that market-oriented companies can satisfy customers and achieve optimal organizational performance by identifying and responding to customer needs and preferences. To improve market orientation, companies must concentrate on providing good quality services, engage in formal market planning and must have inter-functional coordination within a strong company because it can help companies focus more on decision making, organizational learning within the company and understanding change that occurs in the external environment (Chahal et al., 2016). In general, the results of research to examine the causal relationship between market orientation and organizational performance provide the conclusion that market orientation has an impact on organizational performance (Jaworski & Kohli, 1990). On the other hand, Shirokova et al. (2016) stated that the inconsistency of the influence of entrepreneurial orientation on company performance can be justified from the point of view of contingency theory and strategic fit concepts where companies have better performance when they can manage and match the environmental conditions where the company operates.

Jutla et al. (2002) said that SMEs can be considered as the backbone of economic growth in all countries because they are responsible for 80% of global economic growth (as cited in Pongwirithon & Awirothananon, 2015), and SMEs play important roles in reducing poverty, creating employment, and contributing to economic growth especially those that are directly related to employment issues (Munoz et al., 2015). Yet, SMEs are more vulnerable compared to larger companies in an uncertain environment as they have limited resources and difficulties to raise fund. Scozzi et al. (2005) with reference to Buijs (1987), Freel (2000), and Rothwell (1994) highlighted that lack of financial resources, poor management and marketing skills, lack of skilled workers, weakness in business networks and in accessing external information, and difficulties in implementing government regulations are factors that limit the competitiveness of SMEs. In addition, despite its large role in the economy, SMEs in Indonesia also face problems such as low working capital, lack of access to resources, capabilities, supply chains, and lack of use of technology, unclear business prospects and unstable planning, vision and mission (Ratnawat et al., 2018) and limited access to markets and innovation which resulting in a smaller market demand (Ginting, 2014; Octavia & Ali, 2017).

Problems and research questions

Research problems that can be identified from explanation above are as follow: firstly, external environmental factors such as globalization, technological and scientific developments, economic growth and increase social welfare, changes in access to information, and the environment have changed competition's landscape between companies or industries including SMEs. External environment also has long been regarded as one of the important contingencies and the existence of entrepreneurial orientation in SMEs show that companies try to exploit and explore it (Mirzaei et al., 2016). At the same time, entrepreneurs and SMEs also need market orientation to exploit challenges and opportunities that exist in external environment such as market dynamism and heterogenism where needs and preferences of the customers are changing. The dynamics and complexity of external business environment also affect the capabilities such as networking and also performance of the SMEs where this must be studied to learn and to recommend how SMEs adapt with external environment and to enrich strategic and entrepreneurship literatures (Arshad et al., 2014). Therefore, studies relating to the external environment, capabilities, orientations and performance of SMEs along

with the factors that influence the success and failure of SMEs are still relevant and important including in Indonesia.

Secondly, Bowen et al. (2009) as cited in Kimatu & Bichanga (2015) found that there is still limited research related to SMEs in developing countries. Apart from the contribution of SMEs in Indonesia, as a developing country, SMEs still face some problems. However, SMEs can use their networks to access available resources and opportunities in external environment to help them perform better. Networks also increase the impact of entrepreneurship and market orientation on the performance of companies in the developing country (Boso et al., 2013). In addition, the phenomenon of open strategies for collaboration and networking has been carried out in strategies of business and has an influence on entrepreneurial and market orientation. Therefore, research on relationship of networking and market orientation and entrepreneurial orientation to help SMEs to cope with their problems is relevant and important.

Thirdly, previous researches have largely examined marketing activities and the entrepreneurial process separately (Webb et al., 2011). Yet, Boso et al. (2013) with reference to Morgan et al. (2009) and Stam & Elfring (2008) mentioned that researches related to integrated marketing and entrepreneurship such as market orientation and entrepreneurial orientation and their impact to company performance are needed as both of them are internal capabilities of the firm, and the impact of these two orientations are still questionable. It is also still unclear whether investments in entrepreneurial and market orientation are appropriate for all type of businesses and institutional frameworks where their effectiveness is also still poorly understood (Boso et al., 2013). At the same time, according to Kraus et al. (2012), the result of previous studies shows inconsistency in influence of entrepreneurial orientation towards the performance of SMEs. In addition, previous studies also recommended conducting research related to market orientation because understanding of market orientation is still unclear (Chahal et al., 2016). Therefore, a study on integration of both market and entrepreneurial orientation and their impacts on performance of SME are still important. Moreover, research on the relationship and influence of the external environment, networking capabilities, entrepreneurial orientation and market orientation on the performance of SMEs, especially in the Indonesian context as developing country which is carried out comprehensively and integratively are still needed.

This study will comprehensively analyse the influence of the external environment, networking capabilities, entrepreneurial and market orientation with the performance of SMEs in Indonesia, especially in the city of Tangerang. The research focuses on the city of Tangerang given the external environment on the outskirts of the capital city of DKI Jakarta which is very dynamic, hostiles, and heterogeneous. The key research question that will be answered by this study: Is there any impact of entrepreneurial orientation and market orientation that influenced by external environment and networking capabilities on the performance of SMEs? Therefore, this study generally aims to examine empirically the impact of entrepreneurial orientation and market orientation simultaneously that are influenced by the ability to manage networks and external environments on the performance of SMEs in the City of Tangerang in Indonesia.

2. LITERATUR REVIEW

External environment

Technological innovation, resources scarcity, rapid inflation, major changes in the business cycle and social values, and many other dynamic forces rapidly change the environment of various industries (Ward & Lewandowska, 2005) and they are the main drivers of a highly

competitive environment (Hitt, Ireland, & Hoskisson, 2009). Change in external environment is usually seen in terms of favorable and unfavorable situation because the external environment provides both opportunities and risks for the SMEs (Wiklund & Shepherd, 2003).

Miller & Friesen (1983) divided the external environment into three aspects, namely environment dynamism, environment hostility, and environment heterogeneity, while Gathungu, Aiko, and Machuki (2014) divided the external environment into the dynamics and complexity of the environment which has the potential to create environmental and market turbulence towards companies including SMEs. Neill & York (2012) divided the external environmental characteristics based on the community's perception on the market which consist of munificence, turbulence and complexity. Neill & York (2012) with refererence to Castrogiovanni (1991) described munificence captures market capacity that supports sustainable growth, turbulence measures the level of market instability in the customer's environment, competitors, and technology (Jaworski & Kohli, 1993), while Neill & York (2012) with reference to Huber & Daft (1987) defined complexity is the level at which there are many diverse and interdependent elements in the environment.

In detail, environmental characteristics based on Miller & Friesen (1983) with similar definition from some other studies are explained as follows:

Environment dynamism

Environment dynamism is a situation where the product has a short life cycle, a high level of innovation, change of customer tastes, and actions from competitors are unpredictable (Kraus et al., 2012; Wiklund & Shepherd, 2005). Miller & Friesen (1983) as cited by Shirokova, Bogatyreva, and Beliaeva (2015) explained that the characteristics of a dynamic external environment reflect the degree of uncertainty and speed of change in an industry. Ward Et al. (1995) as cited in Ginting (2005) stated that a dynamic environment is a condition of unpredictable environmental changes characterized by rapid change, discontinuity in terms of demand, competitors, technology and regulations such as inaccurate, unavailable and outdated information and uncertainty.

Environment hostility

Environment hostility refers to the extent to which a business environment create a threat to the survival of a company (Miller & Friesen, 1982)that includes challenges such as decreased of markets, barriers to access to necessary resources, scarcity of labour and material, restrictions by strict regulations, changing prices, products, technology and distribution competition in industry, and unfavourable demographic trends. In contrast to dynamism, hostility causes scarce resources, an increase of competition, smaller profit margins, and, generally reduces the manoeuvrability of the company, therefore, during the most threatening period; attention is needed more on resource conservation and strategy selection related to economic competitiveness (Miller & Friesen, 1983).

Environment heterogeneity

Environment heterogeneity describes the level of diversification of companies that offer different products and services to serve customer needs and behaviour (Miller & Friesen, 1982). Highly heterogeneous external environments have very significant differences in consumer preferences, competitor behaviour, and business model (Shirokova et al., 2015) which affect business operations and adoption by the company (Rosenbusch et al., 2013).

Mthanti (2012) stated that SMEs which compete in a dynamic environment must have the flexibility to adapt to the changing environments to ensure the survival of the organization (as cited in Gathungu et al., 2014). SME needs to react to dynamism, hostility and heterogeneity of the environment and selection of strategies must be appropriate and in harmony with po-

tential opportunities and business risks that can be explored and exploited (Shirokova et al., 2016). Adaptability can be in the form of ability in innovation, ability to collaborate (networking) with other stakeholders, and knowledge management for effectiveness and efficiency to perform well (Shirokova et al., 2015).

Networking capabilities

In a competitive environment, small and large companies deal with the same situation, but the pressures and challenges exist are heavier for SMEs because they have limited resources. To cover up the shortcomings, anticipate pressure from rivals, and to obtain alternative resources, the strategy undertaken by SMEs is to access resources outside by collaborating or building networks outside the environment. Kale et al. (2000) explained that strategy, cost, and learning are the three main reasons for the motivation of companies to form networks.

Martins (2016) with reference to Aldrich & Zimmer (1986) and Gulati (1998) defined that entrepreneurs are inherent in social networks and exchange relationships with other individuals who play an important role in the entrepreneurial process and entrepreneurs often use personal and professional relationships to obtain relevant information and advice in solving problems which affect company performance and understand the behaviour of employers and companies. Chetty & Patterson (2002) suggested that research on business networks can be divided into two streams (as cited in Schweizer, 2013). The first stream highlighted that social networks have influences on business networks and the second stream explained business networks is related to resources-based view (Barney, 1991). To support the first stream, business networks connect companies with customers, distributors, suppliers, and competitors who do business with each other and based on mutual trust and the existence of shared interests (Schweizer, 2013). The second perspective defined that companies participate in network in order to exchange resources and to reduce the threat of other actors in the industry. Ahuja (2000) defined that this perspective is based on that lack of resources encouraging companies to form relationships with other companies and Chetty & Patterson (2002) highlighted that an important implication of resource-based theory is involvement in relationships or networks is voluntary and companies intentionally decide to participate with the aim of benefiting from transactions that exist in the network (as cited in Schweizer, 2013).

Several benefits of networking are to provide additional and complementary resources and to gain access to resources (Buctowar et al., 2015), to give access to information, resources, markets and technology, and to support companies to achieve strategic goals, such as sharing risk and outsourcing stages or processes from value chains, organizational functions, and corporate behaviour. Performance can be better understood by examining the network of relationships where the company is attached. Gulati et al. (2000) and Saleh & Nububisi (2006) (as cited in Milovanović et al., 2016) stated that through business networks, companies can predict, prevent, and absorb uncertainties of external environment that affect their operations better and can jointly access markets through established business networks.

The dimensions of network capabilities are developed by Walter et al. (2006) originating from Keller & Holland (1975) and Mohr & Spekman (1994) which consist of coordination and resource activities, relational skills, partner knowledge, and internal communication. Coordination activities and resources can exceed company boundaries that connect each company with other companies and different individuals into mutually supportive networks of interactions (Walter et al., 2006). Good relational skills are important for building trust and confidence in network partners so that they are willing to share important resources (Hitt et al., 2009; Walter et al., 2006). Marshall et al. (2003) argued that relational skills include aspects such as communication skills, problem-solving skills, conflict management skills, empathy, emotional stability, self-reflection, a sense of justice and cooperation (as cited in Bengesi &

Roux, 2014). Knowledge of partners organizes and structures information about partners where it helps to utilize potential resources and constraints that exist in each potential partner. High partner knowledge indicates that the company have a lot of relevant information about their main partners, which allows them to avoid unnecessary transaction costs and to increase venture effectiveness (Walter et al., 2006). Internal communication is an important part of collaborative competence (Kale et al., 2000) which includes sharing strategic information, resources and agreements with all employees in the company to improve detection of synergy between partners and focus their efforts in areas that are more profitable for their company.

Entrepreneurial Orientation

Entrepreneurial orientation is the extent to which company owners or managers are willing to take business risks, to support changes, to innovate and proactively pursue new opportunities (Covin & Slevin, 1989) while Lumpkin & Dess (1996) commented on the extent to which employees are involved in the use of entrepreneurial activities that are supported (or vice versa) by the culture and structure of the company. Lumpkin & Dess (1996) highlighted that entrepreneurial orientation is related to behaviour, managerial philosophy, the practice of entrepreneurial strategic decision making, and it directs companies to enter into new or established markets with new or existing goods or services (as cited in Kraus et al., 2012). Slater & Narver (1995) stated that as a resource, entrepreneurial orientation has emerged as an important resource that can be widely exploited in the corporate entrepreneurship (as cited in Martins & Rialp, 2013).

Entrepreneurial oriented companies exploit and explore opportunities that exist or are created to build competitive advantage, which leads to company performance (Schindehutte et al., 2008). Proactive SMEs can be a pioneer by anticipating and pursuing new opportunities, participating in new markets, and can lead to innovations directed at marketing activities or producing new products that enable companies to keep pace with market changes and both react to and proactively address changes (Webb et al., 2011).

There are two opinions about dimension of entrepreneurial orientation; the first is Miller & Friesen (1983), who suggested the three dimensions namely, innovation, risk-taking, and proactivity. The second is, Lumpkin & Dess (1996) who added other two dimensions which made the five of dimensions of entrepreneurial orientation that consisted of innovation, risk-taking, proactive, autonomy, and competitive aggressiveness, yet Lumpkin & Dess also mentioned that the use of these five dimensions depends on the context and environment of the company. The dimensions used by Miller & Friesen (1983) consist of three dimensions with brief explanations as follows:

Uzkurt et al. (2012) defined that innovativeness has become a key component for business survival and competition in uncertain markets today and reflects the tendency of companies to engage in and support new ideas, novelty, experiments, and creative processes that can produce new products, services, or technological processes (as cited in Abdallah & Persson, 2014). The innovation can be product innovation, a process of opportunity for companies to gain new opportunities, and production methods and manufacturing processes (Lumpkin & Dess, 1996).

Proactively involves taking refers to processes aimed at anticipating problems and needs and following up on future needs by looking for new opportunities that may or may not be related to the current operating line, the introduction of new products and brands in front of the competition, which can strategically eliminate existing operations maturing or declining (Lumpkin & Dess, 1996)

Risk-taking. Miller & Friesen (1978) stated that risk-taking refers to the extent to which managers are willing to make commitments to large resources and risk the opportunities that exist and the potential for failure or involvement in strategies (as cited in Keh et al., 2007).

Market Orientation

Zhou et al. (2009) stated that the concept of market orientation began to be developed by Narver & Slater (1990) and Jaworski & Kohli (1990) in the early 1990s. Buctowar et al. (2015) with reference to Kohli & Jaworski (1990) and Narver & Slater (1990) defined that market orientation is the discovery and anticipation of customer needs and desires and coordinating cross-departmental organizational functions that leads to improved business performance, increasing employee commitment and team spirit. Kohli & Jaworski (1990) defined market orientation as a specific group of organizational behaviour or often referred to as behavioural approach, while Narver & Slater (1990) defined market orientation with organizational culture approaches or which is often referred to as a cultural approach. Ward & Lewandowska (2005) mentioned that the approach taken by Jaworski & Kohli (1990) emphasized further environmental scanning, while Narver & Slater (1990) included measures of competitor orientation.

Narver & Slater (1990) represented a cultural perspective by defining market orientation as the most effective organizational culture which creates the behavioural product innovations that focus on understanding and articulating customer needs which later leads to sustainable corporate performance. Narver & Slater (1990) added that the desire to create superior value for customers resulted in three organizational behaviours, namely understanding customer needs which is defined as sufficient understanding of target buyers to be able to create superior value for them continuously, understanding how competitors respond to the same customer needs by understanding short-term strengths and weaknesses and long-term capabilities and strategies of competitors, and functional coordination to utilize company resources in creating superior value for target customers.

On the other hand, Jaworski & Kohli (1990) with a behavioural approach suggested that market orientation becomes a unifying individual effort with departments within the organization so that it can lead to superior performance. According to this understanding, market orientation refers to generating market intelligence that is related to current and future needs that spread out within the organization and the organization's response to those needs and Jaworski & Kohli (1990) highlighted that market intelligence is much broader concept than customer focus (as cited in Verhees & Meulenber, 2004).

Market orientation enables SMEs to understand markets and competitors and manifest in various mechanisms and activities at all levels to support the understanding of customers. Market orientation also produces intelligence about competitors that provide valuable information that enables SMEs to differentiate their products in a better way (Kohli & Jaworski 1990) and Day & Wensley (1988) mentioned that market orientation provides opportunities for SMEs to create more value for the market compared to competitors (as cited in Webb et al., 2011). According to Verhees & Meulenber (2004) and Zhou et al. (2009), in general, the market orientation dimension can be referred to Kohli & Jaworski (1990) and Narver & Slater (1990), where Narver & Slater (1990) used three components of behaviour that are equally important, namely: customer orientation, competitor orientation, and coordination between functions.

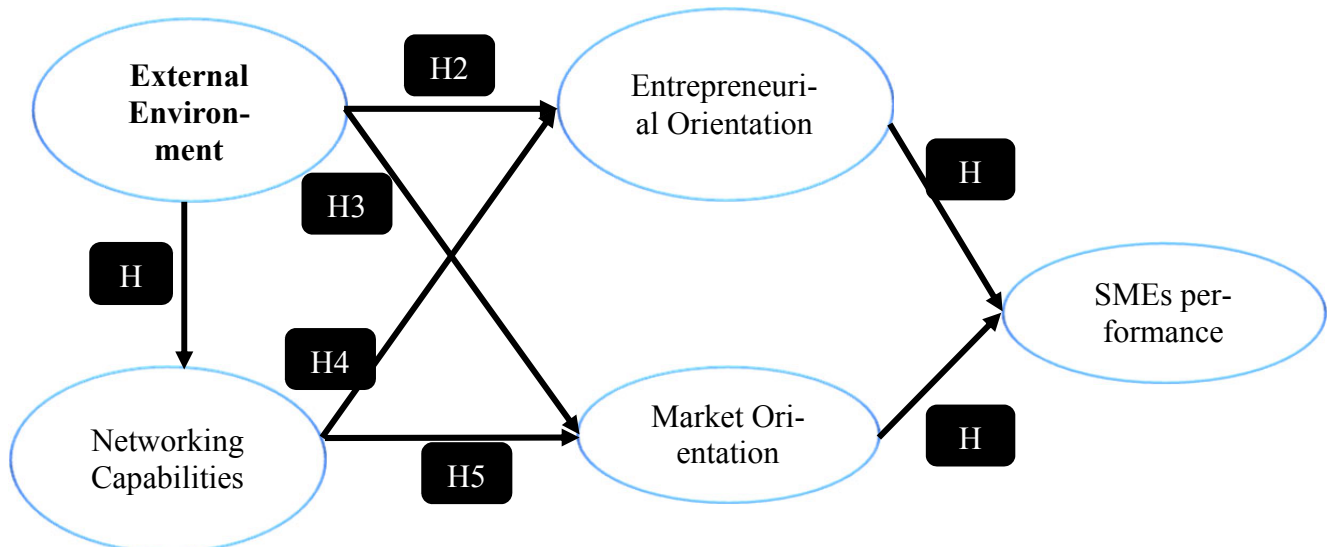
Firm's Performance

Rauch et al. (2009) explained the performance of SMEs can be measured as one or a combination of financial perceptions, non-financial perceptions and existing records or reports (as cited in Kraus et al., 2012). Perceived financial and non-financial performance is very helpful because SMEs may not have documents or financial statements when they do business or owners may not be interested in sharing documents. Some studies that use perceptions to measure company performance can be seen as follow:

Swierczek & Ha (2003) used high income, innovative leadership, creating jobs, business stability, high-profit rates, and contributions to society and business growth. Lakhali (2009) used market share, market share growth, sales growth, return on investment, and return on investment growth, sales profit margin, and overall competitive position. Kraus et al. (2012) used the level of sales growth, employee growth, gross margin, profitability and cash flow.

Research model and hypotheses

The researcher develops a research model from literature review that describes the relationships among variables within research. By using the research model, researcher then de-



velops hypotheses on relationship among variables. The research model proposed in this study is described below.

Figure 1: Proposed model

Saleh & Ndubisi (2006) stated that one of the impacts of environmental changes such as technology innovation is making easier, more flexible, and effective communication and networking, which increases network activities and various forms of connectivity among organizations (as cited in Milovanović et al., 2016). Increasing competitive pressure and the unprecedented pace of technological change make collaboration with other firms become more important for sustainable success in the market (Gathungu et al., 2014). Collaborative opportunities can be implemented with a network, either a personal network or business network by a firm to exploit opportunities, acquisition of resources, and learning from other parties. Networks help the firm to predict better, prevent and absorb the uncertainties in environment that affect their operations and can jointly access markets that were previously inaccessible through their business networks.

Hypothesis 1: The external environment has an influence on network capabilities.

Entrepreneurial orientation is needed in a competitive, dynamic and emerging environment and has new opportunities that create high risk and high returns for entrepreneurs (Shirokova et al., 2016). Shirokova et al. (2015) stated that flexibility and adaptability to heterogeneous environments will help SMEs to have a better idea about customer needs and ultimately improve company performance. Firms that invest in entrepreneurial orientation tend

to uphold and expand performance under dynamic environmental conditions and high market turbulence because these firms tend to maintain the ability to react to constant changes in the environment by exploring and exploiting new opportunities (Kraus et al., 2012).

Shirokova et al. (2016) with reference to Aaker & Day (1986) and Song & Chen (2014) stated that the company needs to become entrepreneurial when high growth market is driven by increasing customer demand that already exists or product adoption by new customers as consumers are willing and able to buy more goods and services. On the other hand, an environment with low market growth or a declining market makes competing companies more aggressive to look for new business opportunities. The firms must be more innovative to differentiate their products from competitors and attract more customers by offering new products or services and taking advantage of the ability to find and exploit new market opportunities that improve business performance.

Hypothesis 2: The external environment has an influence on entrepreneurial orientation.

The focus of market orientation is the collection and analysis of information and trends that occur in the external environment by scanning the environment (Didonet 2012). Market orientation is the ability to connect firms with their external environment (Schindehutte et al., 2008) and a firm that face a high uncertainty environment will tend to be more market-oriented (Lonial & Raju, 2001). Another study conducted by Cervera et al. (2001) showed that perceived environmental turbulence created by environment dynamics positively affects all dimensions of market orientation. This enables companies to compete by anticipating market requirements in front of competitors and creating sustainable relationships with customers, channel members and suppliers. Bonoma (1986) suggested that when the external environment becomes more dynamic and complex, the boundaries of marketing functions will be more flexible and will be driven by the available opportunities (as cited in Morris et al., 2015). When the environment is characterized by stronger interdependence between companies, marketing must focus more on anticipating and responding to the movements of competitors. However, if the environment is volatile, companies must be responsible for introducing a greater level of entrepreneurship to all aspects of marketing efforts.

Didonet (2012) stated that aspects of turbulence in the external environment specifically turbulence related to technology and opportunities for competitive advantage are related to higher levels of market orientation. Morris et al. (2015) added that the existence of turbulence raises fears, uncertainties, and doubts between sellers and buyers, but also causes companies to make decisions faster and take opportunities that exist in the market according to the wishes of customers.

Hypothesis 3: External Environment has an influence on market orientation.

Veciana (2007) stated that network theory explains entrepreneurial functions developed in networks of social relations (as cited in Thapa, 2015). While Aldrich & Zimmer (1986) added that networks play important roles in the process of entrepreneurship (as cited in Martins, 2016). Moreover, Gaudici (2013) said that many new and good ideas are created in heterogeneous corporate networks and thus increasing the entrepreneurial opportunities of the company (as cited in Gathungu et al., 2014).

Ripollés & Blesa (2005) stated that to encourage entrepreneurial orientation, entrepreneurs need to identify new opportunities, facilitate innovative and proactive performance, and a moderate risk-taking approach, where networks can be used to obtain these resources (as cited in Martins, 2016). For example, Voola & O’Cass (2010) with reference to Cassiman & Veuglers (2002), Hewitt-Dundas (2006), and Ramachandran & Ramnarayan (1993) stated

that even highly innovative companies tend to network to overcome resource constraints, accelerating activities innovation, providing access to complementary assets and resources and for sharing costs. Ripollés & Blesa (2005) also explained cohesive private networks have a positive effect on entrepreneurial orientation and enable companies to be more innovative, risks-taker and proactive, and thus describe the entrepreneurial orientation. Wiklund & Shepherd (2005) found that inter-company networks positively influence entrepreneurial orientation.

Hypothesis 4: A Network capability has an influence on entrepreneurial orientation.

Network capability enables firms to build strong relationships along the supply chain, where through upstream and downstream connections, SMEs can obtain new resources, reduce transaction costs, have access to information about consumers, be guaranteed about the quality and safety of raw materials, and ultimately improve marketing orientation of these SMEs. Carraresi et al. (2012) with reference to Cao & Zhang (2011) and Sheu et al. (2006) explained that supply chain agents can act together to focus on shared goals, which should be more easily to be achieved than by working alone. Companies learn a lot about networking in new markets, building strategic positions and trust with companies in the network and, also the possibility of creating new knowledge about business opportunities through interaction with companies in the network (Swierczek & Ha, 2003).

Hypothesis 5: Network capability has an influence on market orientation.

Rauch et al. (2009) stated that several previous studies have proven that companies who adopt a strong entrepreneurial orientation can have better performance, and Shirokova et al. (2015) stated that companies have better performance is due to entrepreneurial behaviour which helping them to deal with external threat and risks more effectively. Kraus et al. (2012) with reference to Wiklund (1999) defined that a strong entrepreneurial orientation is closely related to profit as the first driver and the tendency to take advantage of opportunities that arise, which in turn has a positive influence on performance.

Rauch et al. (2009) based on previous studies by Madsen (2007) and Aloulou & Fayolle (2005) also defined that entrepreneurial orientation is a special resource, an organizational capabilities that enable companies to develop competitive advantage and improve performance. Thus, the existence of entrepreneurial orientation and its characters (proactive, innovative, and desire to take inherent risks) make the entrepreneurial orientation have an influence on performance.

Hypothesis 6: Entrepreneurial orientation has an influence on performance of SMEs.

Verhees & Meulenbergh (2004) with reference to Deshpandé (1999), Jaworski & Kohli (1993), Narver & Slater (1990), and Pelham (2000) noted that market orientation has a positive influence on company performance. Voola & O'Cass (2010) added that although there was a debate about the direct effects of market orientation on company performance, their researches agreed with previous studies, which stated that there is a broad consensus regarding the positive relationship between market orientation and company performance. The findings of Jaworski & Kohli (1993) showed that markets are the attractiveness of a business and an important determinant of company performance regardless of the intensity of market competition turmoil from the environment so managers must strive to improve market orientation from their efforts to achieve higher performance. Market orientation is proposed to improve company performance because it seeks to track and respond and work in customer prefer-

ences and needs at a higher level. Market orientation is usually facilitated by top managers through constant reminders to employees that it is very important for them to be sensitive and responsive to market developments. Market orientation also seems to require a certain level of risk taking and the willingness to accept product and service failures as a normal part of business life.

Market orientation is an internal resource to explore and understand about the need of customer and strategy of competitor and put it to marketing strategy and action. Marketing ability is one of the fundamental elements to achieve good performance because it has a better position in meeting consumer preferences (Gellynck et al., 2012). Didonet (2012) mentioned that market orientation facilitates the importance of flexible planning that helps to improve their performance in a condition of uncertainty.

Hypothesis 6: Market orientation has an influence on the performance of SMEs.

3. RESEARCH METHODS

The study will use causal statistic methods where the information will be received from direct survey to unit of analysis. The data are primary obtained through deployment of questionnaires. Data collection will use face to face and on-line survey (if possible) by using software called KoBo Toolbox (<http://www.kobotoolbox.org>) and the data will be exported to Microsoft Excel, SPSS, and SmartPLS 3.0 software. SmartPLS 3.0 will be used for Structural Equation Modeling analysis. Unit analysis or target population for the study is the owner of ornamental plant business in Graha Raya Residential, South Tangerang Municipality, Indonesia. Base on consultation with the manager of Graha Raya Residential, it is estimated that approximately 300 registered SMEs run ornamental plant business in target location. Sampling methods for the study will refer to Issaac dan Michael formulation Sugiyono (2015), with approximately 115 people will be used as sample. Referring to Hussein (2015), number of samples of object for PLS (Partially Least Square)-regression method is between 30 to 100 samples. Therefore, with 115 respondents as sample, it is more than enough to do analysis using PLS-regression.

4. DISCUSSION

External environment provides both threat and opportunities to SMEs, that can be utilized by SMEs in order to improve their performance by using individual and firm's networking. Networking that embedded in the personal and business ties can be used to assess resources that are available in external environment and that will affect the market and entrepreneurial orientation. While market orientation has advantages to give superior value to the customer as it enables interaction between the firm with customer and competitors, entrepreneurial orientation shows inconsistent relationship with performance. Yet, entrepreneurial orientation is also needed by SMEs to scan risks, available opportunities and resources in external environment.

This study will analyse external and internal factors that influence performance of SMEs and will analyse those factors simultaneously and integratively. External environment as a representative of external factors of SMEs and networking capability, entrepreneurial orientation, and market orientation, and linked with the SMEs performance make this study as a comprehensive one.

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