

THE ROLE OF ENTREPRENEURS STRATEGIC ORIENTATION AND MANAGEMENT CHARACTERISTICS ON SMEs PERFORMANCE IN DISTRICT OF EAST ENDE, REGENCY OF ENDE.

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Abstract

Analysis of this paper has been viewed with using management characteristics of RBV (resource-based view) of SMEs according to strategic orientation of SMEs' owner or managers in District of East Ende and their impact on SMEs performance and their business efficiency. Strategic typologies that has been developed were from Miles and Snow typology. This typologies (-defender, prospector, or analyzer-) has important implication for SMEs' management and may give more focus on their business management extensification : technological position, innovation, organizational design, human resource management. Moreover, these management aspects may determine SMEs performance and business efficiency. Using an original data set of 100 owners/managers of SMEs in District of East Ende. Data collection used random sampling, and analytical tool used discriminant analysis and hierarchical moderated regression analysis to test the hypotheses

Key words : SMEs performance, business efficiency, strategic typology, strategic orientation.

Introduction

The presence of Small and Medium Scale Enterprises (SMEs) is not only significant in order to increase the revenue of people, but it is also meaningful to create equal distribution of income. It is very understandable because SMEs sector involves a lot of people with various business. Our government already has a commitment to empower people's economic capability, in this case SMEs and cooperatives. There are many government policies for developing SMEs which are intended to encourage their growth and development by providing facilities and assistance in various aspects that have been constraint such as marketing, production technology, organizational, managerial, and financial aspects .

SMEs play a decisive role in improving the local people economic capability. Therefore, it needs to be developed in the balanced and integrated ways by enhancing public participation actively and optimally and utilizing all natural, human, and funds resources available. They are leading and driving forces of economic development.

The movement of SMEs is also very vital to create growth and jobs opportunity. SMEs are quite flexible and They can easily adapt with conjuncture and direction of market demand. They are also able to create jobs faster than other business sectors. SMEs are also quite

diversified and able to give important contribution to export and trading activities. Overall, SMEs sector is estimated to contribute about 50% of GDP (mostly in agricultural and trading sectors) and about 10% of export volume.

In general, the classical problems faced by SMEs are (1) internal factors such as lack of capital and limited access to financing, human resources, business networks, and ability to penetrate the market, good mentality, and transparency. (2) external factors such as un conducive business climate, limited business facilities and infrastructure, extortion or illegal contribution demand, side effect of regional autonomy implementation, bad consequences of free trade, nature of products short durability, limited market access, and limited information access.

East Nusa Tenggara (ENT or Nusa Tenggara Timur in Indonesian language and it is abbreviated as NTT) is a province with the most area as infertile land, poverty in natural resources, and very dry climate. ENT is the driest province in Indonesia. Such ecological conditions make ENT difficult to rely on the results of cultivation, although this activity remains to be done as the livelihood of local people. Therefore, being civil servants is an ultimate choice for the people. This province is also well known as province of civil servants.

But, it does not mean that ENT does not have sufficient economic potentials. Some residents of ENT cultivate plantation and commercial crops such as chilli, coffee, cocoa and cashew. The results are sold to local middleman merchants or outside the island. Their other livelihoods are livestock breeding, especially cows and buffalos and weaving and carving handicraft making. Those livelihoods are generally done on a small and medium scale enterprises.

The number of SMEs in ENT is fairly great. In 2002, Central Bureau of Statistics reported that there were 11.767 SMEs in the province. The most are located in city of Kupang (2.737 units or 23,28 %), while there are 550 SMEs in city of Kupang (4,67%) and 501 SME in Ende (4,26 %). It does not include SMEs which are not identified. Here are the actual pulse of ENT economy. Generally, in city of Kupang SMEs are engaged in the manufacturing sector, such as furniture, silver handicraft, musical instruments, weaving, and con brick (batako). While Ende makes cashew, cocoa, and weaving handicraft as an excellence commodity. ([Http://www.andreasharsono.net/2005/12/media-ukm-dan-berita-seksi.html](http://www.andreasharsono.net/2005/12/media-ukm-dan-berita-seksi.html)).

The growth rate of large and medium manufacturing industry production in third quarter of 2015 increased by 1,39% higher than second quarter of 2015. While, the growth rate of micro and small scale enterprises manufacturing industry in the third quarter of 2015 decreased by 2,48% lower than second quarter of 2015 (endekab.bps.go.id , 2/02/2015). The latest data showed that in East Ende itself, there are about 817 SMEs engaged in various sectors and they already have business license. Almost all of those SMEs have the capital derived from internal sources. There are only a small portion of SMEs that utilize financial institutions and cooperatives capital sources.

Literature Review

The study and theoretical explanation of business competitiveness are two themes that have been repeatedly tested by academicians, business consultants, and practitioners. Internationalization of the economy, continuous changes and uncertainty, increasing competition among companies, needs for continuous innovations, and increasing use of information technology encourage companies to face the challenge to improve their competitiveness. The difficulties are faced more by many SMEs due to economies of scale and less resources owned than large companies. However, SMEs have high enough flexibility required to handle these

changes because They have simpler internal organization and quicker in adapting and responding changes (Sanchez & Sanchez, 2005) .

To face those changes, entrepreneurial companies (SMEs) will define some activities to identify opportunities for self-employment (entrepreneurial opportunities) (Singh, 2001), to attract, to allocate and exploit the strategic resources (Snow & Hrebiniak, 1980; Black & Boal, 1994; Borch, Huse & Senneseth, 1999) in order to transform and build their business specific capabilities (Brush, Greene, Hart & Haller, 2001) as core activities. Furthermore, those activities will be faced in a situation that is full of uncertainty (Grand, Von Krogh & Pettigrew, 1999; Gomez & Jones, 2001). Thus, in developing successful business activities, the companies needs to keep (respect) market condition changes, business opportunities and technological progress trend, the precision of potential business models, relevant strategic partner or future, and actual strategic competence (Hamel, 2000).

Such situations reveal that SMEs need advices/inputs to find more efficient management processes so that SMEs can implement strategies which can improve their business performance. In recent years, from strategic literatures described by theory of RBV (Resources Based View) introduced by Barney (1991), Prahalad and Hamel (1990), and Wernerfelt (1984) had always emphasized on the relevance of internal resources (especially for naturalness of intangible factors) as determinant factors of competitiveness (Hall, 1993, 1992 in Sanchez and Marin, 2005). Through increasing intensity of competitiveness, so the competence among SMEs can be increased in the industry. The intangible factors include changes and organizations, human resources management, innovation, and technological resources. According to Miller (1983, p.771),an entrepreneurial enterprise (SMEs) was one of those involved in product market innovation, make risky efforts (ventures), and it was the first to emerge through proactive innovation and able to overcome competitors.

But, there are still doubts about the competitiveness of SMEs. Is increase in company's management influence competitiveness? What strategies We must apply? What factors are really able to explain the success of competitiveness? Strategic orientation of a company can be considered as an essential element throughits implication in the management and efficiency of SMEs . Based on the adopted strategic orientation, a company can emphasize some aspects such as technological position, innovation, organizational design, and personal management. Such managerial aspects are crucial for the company's performance and business efficiency (Hambrick , Hrebiniak , 1983 ; Snow &Hrebiniak , 1980 in Sanchez & Marin , 2005) .

The strategic orientation related with main behaviorial patterns of a company, in this case the tendency of an organization to express, develop, and maintain a series of responses to environmental changes (Hofer and Schendel, 1978; Miles and Snow, 1978). Several studies had found that it was possible to classify the companies in a specific industry based on strategic orientation (Dess and Davis, 1982; Davig, 1986; Miles and Snow, 1978; Porter, 1980). According to Dess and Davis (1982), studying the strategic orientation of a subgroup within an industry could be more useful if We had strategic similarities, including their orientation.

Among various typology of strategic orientations, the typology of Miles and Snow (1978) was a typology of strategic orientation that got most attention (Connant, 1986; Davig, 1986; Hambrick, 1983 ; Miles, 1982; Smith, Guthrie and Chen, 1986; Venkatraman, 1986). Miles and Snow (1978) identified four strategic orientations, namely : to survive (defender), prospector, analyzer, and fast action (reactor). According to Miles and Snow, each organization in these categories summarized consistent behaviorial patterns in decisions related withvarious environmental forces. The description of each orientationis explained in

Table 1.
Miles & Snow Typology Model

Defender	<p>Organizations with this orientation tend to have a narrow domain/region or product market. The company will try to create and maintain a niche with a limited range of products or services. The company also has a limited technological base (as the region occupied is narrow).</p> <p>A company does not try to look for new opportunities outside its domain, so that it becomes very dependent on a limited area of market/product and it will protect its domain through lower pricing, higher quality, better product delivery (superior delivery) and others. Defender corporate structure is characterized as an elaboration of formal hierarchy and a high degree of centralization.</p>
Prospector	<p>A prospector company is continuously searching for new opportunities. It has a broad and flexible domain/territories or product markets and so has a comprehensive technological base. This type of company often creates changes and uncertainty in the business environment.</p> <p>Organizational structure has a low degree of formalization and routinization, decentralization, lateral, and vertical communication. Such a company has a quick response to early signs of new opportunities; emergence it is usually the first to enter the market area/new products. There is no need for success in all its efforts and the necessity of efficiency. Thus, the innovation of market/products becomes its main concern.</p>
Analysar	<p>The company has a typology as a defender and prospector. It tends to keep a restricted and stable domain. While at the same time, it very carefully moves into a new domain only after the possibility has been demonstrated by the prospector.</p> <p>The analyzer is an imitator in the way so that it takes the ideas of a prospector who is having a quite promising and successful market. It is urging flexibility and stability. It adopts a structure that can accommodate stability and change.</p>
Reactor	<p>The company does not have a well-established target (goals) or long-term strategy. Therefore, it does not have a consistent pattern of behavior.</p> <p>Its organization is passive in responding to various coming-up issues. The company does not attempt to keep market domain or its products, or it does not try to capitalize the opportunities that are useful for the environment.</p>

Source : adopted from Miles & Snow, 1978.

A study conducted by Davig (1986) had tested the existence of strategic orientation of Miles and Snow model in the context of small companies (SMEs). He used some samples of SMEs in garment manufacturing industry (apparel), cast iron (foundry), and steel products factory. The results of the study enriched and contributed to strategic management understanding in SMEs. But, there are still arising several questions. They are: "What contextual factors that influence SMEs to behave like the larger company?", "Are these concepts easier to implement in a large company?" But, furtherly, the study conducted by Bracker, Keats and Pearson (1988) had found that a SME/entrepreneurial company that uses good strategic planning practices is able to perform better performance.

Preceding Research

Based on the research we had done previously, it showed that entrepreneurial orientation dimensions (innovativeness, risk taking, and proactiveness) were also important in explaining the improvement of Batik SMEs business performance in Sragen. These dimensions (especially risk taking and proactiveness) will support the behavioral commitment in planning,

information collection, and use of information, human resources empowerment, and specific export structure.

Based on calculations, it was showed that the highest results which could improve the performance of Batik SMEs came from the influence of behavioral commitments, mainly to increase sales growth, profitability of SMEs, customer satisfaction, and goods and service quality. Entrepreneurial orientation improvement to increase performance of Batik SMEs in Sragen will be able to give greater results if it is done through increasing behavioral commitment, which in turn increasing commitments will improve the performance of Batik SMEs in Sragen because the behavioral commitments of manager/owner have the relationship with variability of cognitive process/diversity of environment and managerial aspects to improve the relationship between entrepreneurial orientations with the performance of SMEs (FitriLukiastuti, 2011).

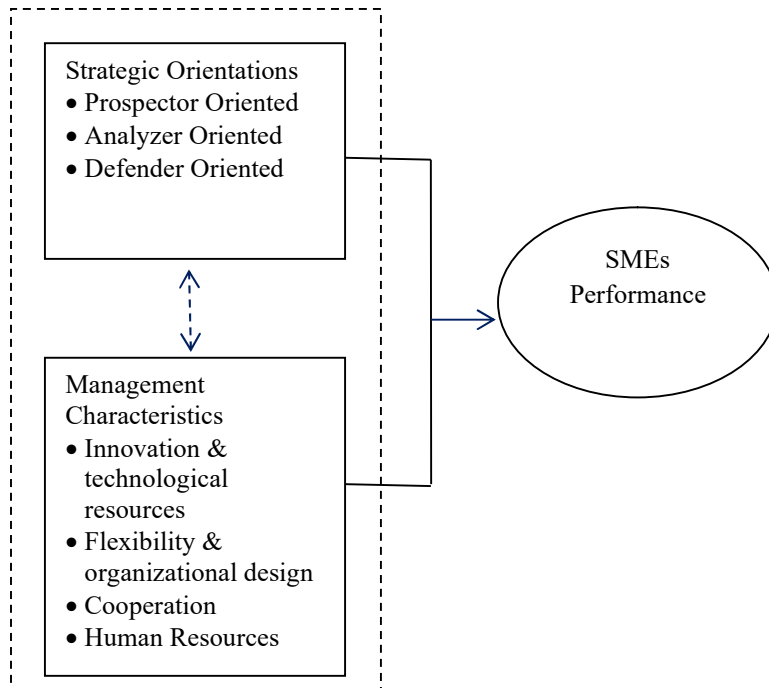
Related with variable dimensions of entrepreneurial orientations in the study, the calculation results showed that the entrepreneurial managers tended to consider proactive actions as the part of business opportunities exploitation. Thus, We could also conclude that the most of SMEs were likely to have a strategic orientation a analyzers and defenders, and a small portion were strategically oriented as prospectors.

Based on several arguments above, therefore seven hipottheses formulated were:

- H1 : SMEs with prospector oriented is more innovative and it has more consolidated technological position than SMEs with analyzer and defender oriented.
- H2a : SMEs with prospector oriented is implementing flexibility practices more than SMEs with analyzer and defender oriented.
- H2b : SMEs with prospector oriented is developing organizational structures more than SMEs with defender oriented.
- H3 : SMEs with prospector oriented is signing cooperation agreements more than SMEs with analyzer and defender oriented.
- H4a : SMEs with prospector oriented is emphasizing on human resources management development system more than SMEs with analyzer and defender oriented.
- H4b : SMEs with defender oriented is considering the importance of training more than SMEs with analyzer and prospector oriented.
- H5 : SMEs with prospector oriented is having better performance than SMEs with analyzer and defender oriented.

Figure 1

Research Model



Source : adopted from Sanchez & Sanchez (2005) for this study, 2016.

Methods of Research

Data Collection and Samples

Data collection was conducted through random sampling design in a limited population by in-depth interviews with 100 people members of the sample that were the owners and/or managers of SMEs. The population selected was 817 SMEs in District of East Ende.

From interviews and observations conducted in the field, We estimated that there were about 24 respondents as prospector oriented entrepreneurs, 56 respondents as defender oriented entrepreneurs, and 20 respondents as analyzer oriented entrepreneurs.

Table 2
Variables Measurement

Variables	Measurements	Sources
Strategic Orientation	Description of questions used for these types of strategic adaptation of Snow and Hrebiniak (1980) and Miles and Snow (1978) in Table 1 above, and it is intended for three types of strategic behavior, namely : defender, prospector and analyzer .	Snow and Hrebiniak (1980 in Sanchez & Sanchez, 2005).
Management Characteristics • Technological Position and Innovation	Technological position is measured by a scale of values among 1 to4 where 1 = weak , 2 = continuous (sustainable), 3 = good, and 4 = strong. Innovation is measured through two variables. The first is with regard to the extent of area management, purchasing, sales, products,	Sanchez & Sanchez (2005)

Variables	Measurements	Sources
	<p>processes and administration. Innovation is the company for the last two years. The scale is ranging from 0 to 6.</p> <p>Second, focusing on the use of information and communication technology used by the company (e - mail, web page, and contact with clients/suppliers via internet).The scale of assessment is ranging from 0 to 3.</p>	
<ul style="list-style-type: none"> Flexibility dan Organizational Design 	<p>Flexibility is the practical and flexible steps used by the company during the last two years (to make a deal or alliance cooperation with other parties, do subcontracting work, hire part-time workers, hire workers through labor agencies, and make work rules). It is assessed with the scores among 0 to 5 .</p> <p>Organizational design is evaluated by measuring the level of organizational structure development associated with a number of departments/divisions set (sales, production, purchasing, accounting/finance, human resources , computing, and R & D) with the scores among 0 to 7 votes.</p>	Sanchez & Sanchez (2005)
<ul style="list-style-type: none"> Cooperation 	<p>Cooperation is a variable that reflects the number of deals the company made over the past two years with respect to product marketing, production cooperation, purchasing and procurement, shared warehousing or the use of machines, and the development of new technologies. Assessment scores are among 1 to 5 .</p>	Sanchez & Sanchez (2005)
<ul style="list-style-type: none"> Human Resources 	<p>Variables of human resources are the activities of human resource management that is based on five activities (recruitment and selection, performance appraisal, training, promotion, and career planning, and compensation systems). Assessment scores are between 1 to 5 where 1 = minimum development and 5 = maximum development.</p>	Sanchez & Sanchez (2005)
Business Performance	<p>The study is using two measures of business performance. First is quantitative measurement measured through ROI (return on investment). Second is qualitative measurement (knowledge and experience in business, the ability to provide quality products or services, the capacity to develop new products and services, the ability to manage and work in groups, labor productivity, and corporate responsibility on environment).</p> <p>Assessment scores are among 1 to 5 where 1 = worse than our competitors, and 5 = better than</p>	Snow dan Hrebiniak (1980); Hambrick (1983) dalam Sanchez & Sanchez (2005)

Variables	Measurements	Sources
	competitors.	
Control Variables <ul style="list-style-type: none"> • Firm size • Managers/Owners Level of Education • Family firm 	<p>Firm size is measured by the number of sales.</p> <p>The education level of the managers/owners is measured with the scale of 1 to 4, where 1 = primary education, 2 = secondary education, 3 = college education, and 4 = post-graduate education.</p> <p>Family firm is a dichotomical factor and it was given by the value of 1 if the family group has 50 % of equity interest, and 0 if there are other cases.</p>	Sanchez & Sanchez (2005)

Source : developed for this study, 2016.

Results and Discussions

Table 3
Variance Analysis and Means Comparison

Management Characteristics Variables	Strategic Orientations of SMEs Owners/Managers			F	Means Comparison		
	Prospectors (1)	Analyzers (2)	Defenders (3)		1-2	1-3	2-3
Technological Position	2.41 (0.73)	2.34 (0.72)	2.67 (0.71)	41.07***	**	***	*
Innovation Area	3.09 (1.61)	3.14 (1.19)	2.17 (1.34)	26.43***	*	***	***
Information Technology	2.16 (0.79)	2.03 (0.85)	1.63 (1.00)	21.06*	***	***	***
Flexibility Practices	2.44 (1.16)	2.13 (1.19)	2.63 (1.06)	17.64***	**	***	***
Departement	4.74 (1.53)	4.27 (1.67)	2.15 (1.87)	19.52***	*	***	***
Cooperation With Another Companies	1.81 (0.98)	1.69 (0.87)	1.51 (0.76)	n.s.	n.s.	n.s	n.s
HRS System	2.97 (0.77)	2.69 (0.75)	2.14 (0.83)	15.37***	**	***	***
Investment on Training	41,137.13 (839,101.41)	21,143.15 (47,261.511)	7,142.71 (37,569.071)	5.72***	**	**	n.s
Number of Cases	24	20	56				

Source : Primary data processed, 2016.

^aMeans and standard deviation

^bScheffe's multiple comparison test

^cn.s = not significant

*p < 0.1

**p < 0.05

***p < 0.01

a. Strategic Orientation and Management Characteristics

Table 3 above shows analysis results of Anova and Scheffe's average comparison test for SMEs in District of Ende. As We expected before, SMEs management characteristics had various significance levels based on strategic orientation of the owners and / or managers.

SMEs with prospector oriented was characterized with excellent department position and innovation area, and so more excellent human resources than analyzer and defender oriented SMEs. Prospector oriented SMEs also implemented many flexibility practices and had better organizational development program than analyzer and defender oriented SMEs.

SMEs with analyzer oriented gave more attention to human resources management, departmentalization, and paid greater attention to innovation area and spent more budget for training activities than prospector and defender oriented SMEs.

The amount of defender oriented SMEs were most. They concerned more to flexibility practices and cooperation with other companies and gave less attention portion on training investment, had better attention than prospector and analyzer oriented SMEs in improving technological process in order to increase service quality to consumers. Shortly, based on hypotheses testing, H1, H2, H2a, H2b, H3, and H4 were accepted. But, partially H4 was rejected.

b. Strategic Orientation and SMEs Performance

Table 4
Means, Standard Deviations, and Correlation for Entire Variables

Variabel	Mean	S.D.	1	2	3	4	5	6
1. Firm Size ^a	11,2159.45	61,523.11						
2. Owners/Managers Training	2.1	1.03	0.09***					
3. Family Firms	0.71	0.34	-0.13***	-0.17***				
4. Prospector Oriented SMEs	0.23	0.36	0.06***	0.05	-0.04			
5. Defender Oriented SMEs	0.21	0.45	-0.08***	-0.16***	0.03	-0.27***		
6. Return On Investment	0.13	0.09	-0.02	-0.05	0.04	0.07***	-0.05	
7. Entire Indicators	3.69	0.61	0.08***	0.09**	-0.02	0.25***	-0.18***	0.09***

Source: Primary data processed, 2016.

^aThousands Rupiah

* $p < 0.1$

** $p < 0.05$

*** $p < 0.01$

Table 4 above shows the average value (mean), standard deviation, and correlation of entire variables used in subsequent regression calculation for all SMEs. Although inter variables correlation was significant enough, but the correlation was not too high, in which it indicated that there was no multicollinearity.

The strategic orientation was considered as a dummy variable : two categories-prospector and defender oriented SMEs. It was analyzed directly. While SMEs with analyzer oriented was considered as the reference category. H5 predicted that prospector oriented SMEs showed a higher value than analyzer and defender oriented SMEs. Table 5 shows calculation results of the regression analysis.

Table 5

Multiple Regression Analysis^a

Variables	ROI^b	Entire Indicators
Firm Size	-0.040 (0.000)	0.071*** (0.000)
Education Level of Managers	-0.051 (0.005)	0.041 (0.016)
Family Firm	0.019 (0.009)	0.005 (0.029)
Prospector Oriented SMEs	0.071* (0.008)	0.247*** (0.043)
Defender Oriented SMEs	-0.003 (0.007)	-0.073** (0.027)
F	1.572	14.442***
R ²	0.023	0.095

Source: Primary data processed, 2016.

^aStandardized coefficients and standard errors are in the bracket.

^bROI = Return On Investment

* $p < 0.1$

** $p < 0.05$

*** $p < 0.01$

Return on Investment (ROI) variable was dependent variable used in the measurement of multiple regression equation. It appeared that regression coefficient of prospector oriented SMEs coefficient was significant although overall empirical models were not significant (H5 was rejected). But, the opposite, when all performance indicators were used, the regression coefficient of prospector oriented SMEs showed significant and positive result. While defender oriented SMEs showed negative and significant result. It indicated that by not forgetting analyzer oriented SMEs, prospector oriented SMEs had a greater influence than defender oriented SMEs defenders. Therefore, H5 was confirmed.

Conclusions

Technological position and innovation had greater value when SMEs applied strategic orientation as prospector than defender or analyzer oriented strategic orientation. These results supported the conclusion of research by Miles and Snow (1978). They concluded that the companies with prospector oriented strategic orientation would place innovation as a major focus and had technological resources position better than the companies that applied defender oriented strategic orientation.

SMEs with prospector oriented implemented flexibility practices more than SMEs with defender oriented. They performed more differentiated organizational structure by developing organizational units more, too. Then, SMEs with prospector oriented also implemented good human resources management systems, but they still lack in training activities. Thus, SMEs with defender and analyzer oriented should pay more attention to training activities.

Suggestions

For SMEs with prospector oriented, They can do more human resources development programs including development of quality management, SMEs education and vocational training, apprenticeship programs, comparative study and applying book keeping and administration training education. All of these activities have been coordinated by the Ministry of Industry and Trade and Industry Department and many colleges that concern with the problems faced by SMEs. According to information given by Ende Regency Industry and Trade Department, human resources development program has received considerable attention for the period of 5 years later.

Later, SMEs with defender and analyzer oriented can do more marketing programs, for example the promotion through printed media of batik products, training of more attractive design making, evaluation of market taste, promoting the use of domestic products in collaboration with the some relevant parties such as Industry and Trade Department, local government, and mass medias and doing promotion in national domain and abroad. Moreover, SMEs are expected to develop their production technology in improvement of production technology, production machinery, and develop appropriate technologies, and technological innovation.

In the matter of capital assistance, present financial institutions or banks, state owned enterprises and regional owned enterprises should provide ease of loan procuring with low interest rate and the socialize of good role financial institutions. Cluster development through and industrial association must also be done.

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