



The Role of Entrepreneurship Orientation in Mediation of Social Capital and Innovation to Augment Marketing Performance of Small Medium Enterprises (SMEs)

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Abstract. In this study, we focus on the importance of entrepreneurship to mediate social capital and innovation, thus improving the marketing performance of Small and Medium Enterprises (SMEs). We took the research sample from exporting SMEs members of the East Java SMEs Facebook group with a total number of members of 19,100 accounts. In addition, we took 100 exporting SMEs as samples based on the Slovin formula. The partial Least Squares (PLS) method was used to analyze the research result. The study results are divided into two parts of a correlation: direct and indirect correlation. 1) Direct correlation analysis shows that from 5 correlations, 3 correlations have a significant effect: social capital variables on innovation and entrepreneurial orientation; the variable of entrepreneurial orientation on marketing performance. Furthermore, two correlations do not affect marketing performance: innovation and social capital. 2) The indirect correlation analysis shows two significant correlations: the social capital positive association with the marketing performance with the aid of both innovation and entrepreneurial orientation, and the social capital positive association with marketing performance solely via entrepreneurial orientation. Furthermore, there is 1 correlation that has no effect, namely: social capital variable in marketing performance through innovation. From these results, we can demonstrate that entrepreneurial orientation is crucial to enhancing the influence of innovation and social capital on marketing performance. This research finding has two implications: First, the research results can be used as a reference for applying innovation, social capital, and the entrepreneurial orientation of East Java's exporting SMEs. Second, the study results will guide local governments in making policies to assist exporting SMEs in improving their marketing performance.

Keywords: Social capital · Entrepreneurial orientation · Innovation · Marketing performance · East Java SMEs

1 Introduction

Through their export activities, small and Medium Enterprises (SMEs) are helping in creating job opportunities, maintaining economic growth, and being the source of foreign

exchange. Many local residents can find a job and livelihood through their economic activity. SMEs increase the number of regional products that support the national gross domestic products. SMEs are essential assets that increase financial strength and regional promotion [1]. To survive in the long term, they need to raise market growth, customer sales, and profits.

To enhance SMEs' development, the addition of social capital to financial capital is necessary. The social resource and a new resource from an investment in society is called a social capital [2]. Therefore, social capital is crucial to strengthening economic resilience in modern society [3]. However, optimizing the benefit of social capital requires excellent entrepreneurial skills.

Entrepreneurial skills such as innovation and creativity are necessary to be a successful SME entrepreneur [4]. Moreover, the ability to do innovative risk management, effective resource usage, and enhancement of enterprise's value to achieve and retain profitable customers is essential to develop a successful enterprise [5]. An entrepreneurial mindset consists of the envisioning fresh idea [6], daring to explore, risk-taker [7], innovation, and organizational creation [8] is also essential for SMEs. The well-developed entrepreneurial mindset and proficiency of social capital can increase customer satisfaction with their service and, as a result, enhance good marketing performance, indicated by higher sales growth and market share.

The company continues to innovate sustainably in line with the entrepreneurial orientation and developed social capital to maintain the interests of its customers and produce better performance. Rapid changes in the market environment and competition force companies to focus their strategies on innovation activities. Product innovation is needed to deliver high-quality products and satisfy its customers.

Previous finding shows that social capital affects marketing performance [9, 10], innovation [1, 11], and entrepreneurship [12]. However, another study showed that entrepreneurial orientation directly affected the company's marketing performance [13, 14]. Thus, we hypothesize that entrepreneurial orientation could mediate innovation and social capital to enhance marketing performance.

East Java is one of Indonesia's provinces populated by more than 40 million citizens and spread in 38 cities/regencies (Kompas.com, 2021). Many SMEs exist in this province, and some are successfully entering the export markets in various countries. The range of products they export is varied from textile and special clothing products such as premium batik to home decoration goods such as furniture, leather, and metal goods and premium foods such as chili, coffee, and processed fish [15]. However, to enhance their business development, SMEs need guidance to expand their resilience and minimize the existing obstacles. Thus, SMEs can improve their marketing performance and turn out to be the country's economic power.

2 Methods

2.1 Population and Sample

For this study, the population was taken from the Small and Medium Enterprises (SMEs)'s owners in the East Java region that specialized in the export market. We

utilize the MSME Facebook group with 19,100 active members to disseminate our survey questionnaire. The Slovin formula [16] was used to determine the minimum study sample:

$$n = \frac{N}{1 + Nd^2}$$

Note:

n = minimum sample size

N = population size

d = fault tolerance (sampling error)

We calculate the sample size based on that formula: $n = 19.100 / (1 + (19.100 \times d^2))$ and as result we got 99.48 rounded up = 100 minimum sample size.

2.2 Data Analysis

We used Partial Least Squares (PLS) for our analysis for several reasons: PLS needs a relatively small sample size and can produce robust causal analysis from very complex data with a lack of theory [17]. There are three sets of interrelation applied in our path analysis model of all latent variables: (1) weight relation, (2) outer model, and (3) inner model.

2.3 Research Concept Framework

This paper’s conceptual framework is a more advanced version of our previous conceptual framework [18]. In this paper, we prove the assumption that to optimize the social capital owned by SMEs, they must have entrepreneurial capabilities to improve marketing performance and innovation capabilities [19, 20] (Fig. 1).

2.4 Validity and Reliability Test

We used the PLS version 3 to analyze four variables, 15 indicators, and 50 items. The validity of an indicator was decided by its convergent validity with a minimum loading

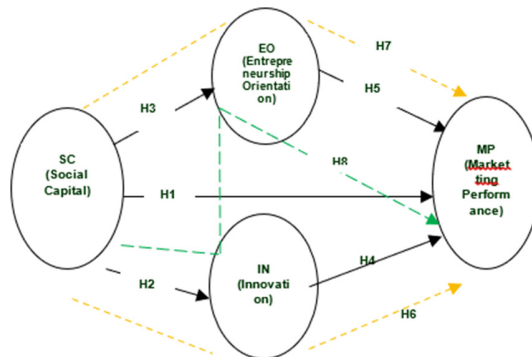


Fig. 1. Conceptual framework.

value of 0.7 [3]. Our analysis showed that all indicators are valid. Data reliability was determined by a Composite Reliability value above 0.70 and Cronbach's Alpha value of more than 0.70 [17]; our analysis showed that all of our variables have a value above 0.70, thus considered reliable.

3 Results

3.1 Frequency Distribution of Respondents

See Tables 1, 2 and 3.

3.2 Direct and Indirect Effects

Table 4 depicts coefficient value, t-statistic, and p-value (significant at = 0.05) resulting from testing the direct influence hypothesis between variables. We found four significant

Table 1. Frequency distribution by product

Kind of Product	Frequency (people)	Percentage (%)
Other	40	40%
Food and Beverage Products	31	31%
Garment	9	9%
Souvenir Craft	9	9%
Furniture	5	5%
Fruit Chips	3	3%
Cultivation	2	2%
Machinery	1	1%
Total	100	100%

Table 2. Frequency distribution by export destination

Destination of Export	Frequency (people)	Percentage (%)
Asia	95	63%
Europe	35	23%
Australia	17	11%
America	3	2%
Africa	1	1%
Total	151	100%

Note: one SME may have more than one export destination country

Table 3. Frequency distribution by export method

Method of export	Frequency (people)	Percentage (%)
Export by Intermediaries	65	65%
Export by own	33	33%
Both	2	2%
Total	100	100%

Table 4. Direct effects

Hypothesis	Correlation	Path Coeff.	t – Stat.	p- value	Remark	
H1	SC → MP	0.195	1.478	0.140	<i>Not Sig</i>	rejected
H2	SC → IN	0.682	10.168	0.000	<i>Sig</i>	accepted
H3	SC → EO	0.278	3.222	0.001	<i>Sig</i>	accepted
H4	IN → MP	0.155	0.836	0.404	<i>Not Sig</i>	rejected
H5	EO → MP	0.464	2.508	0.012	<i>Sig</i>	accepted

Table 5. Indirect Effect

Hypothesis.	Variable				Path Coeff.	t – Stat.	P- Value	Rem.	Char.
	Exo.	Med.	Endo.						
H6	SC	IN		MP	0.105	0.818	0.414	<i>Not Sig</i>	<i>Not Mediation</i>
H7	SC	EO		MP	0.129	2.182	0.030	<i>Sig</i>	<i>Mediation</i>
H8	SC	IN	EO	MP	0.218	2.118	0.035	<i>Sig</i>	<i>Mediation</i>

correlations in hypothesis 2–5 (H2, H3, H4, H5). Despite that, the hypothesis 1 (H1) showed a non-significant correlation, thus the hypothesis is rejected.

Table 5 presents the values for path coefficient and t-statistics, with their p-values (significant at = 0.05) for the statistical test of indirect effect for social capital and marketing variables performance via other variables. From that data, two hypotheses were accepted, namely hypothesis 7 (H7) and hypothesis 8 (H8), because they show a significant correlation. Nevertheless, there is one correlation with no significant result, and the hypothesis is rejected, namely hypothesis 6 (H6).

3.3 Research Hypothesis Testing

Hypothesis testing 1: The effect of social capital on marketing performance

The first hypothesis (H1) testing shows no significant impact of social capital on the marketing performance of exporting SMEs in East Java. The coefficient value is 0.195,

and the t-count value is 1.478, with a p-value of 0.140. The t-count is smaller than the t-table cut-off of 1.66088 pointing out the insignificant correlation. These results mean that whether the exporting SMEs in East Java change their strategy to develop their social capital does not affect their marketing performance.

This result contradicts the opinion from [7] that publishes a statement about the role of social capital in improving market function at a microeconomic level like SME. Theoretically, social capital affects the company's performance by reducing transaction costs, resulting from a higher trust, risk-sharing among social networks, and equal information distribution supporting collaborative problem-solving.

Moreover, the result of this study is not in line with the finding of Hongyun et al. [21] and Prakoso [22], which found that marketing performance is significantly affected by social capital. This finding also indicates that SME entrepreneurs in East Java cannot develop sufficient social capital to elevate their marketing performance.

Hypothesis testing 2: The effect of social capital on innovation

Hypothesis 2 (H2) testing shows that social capital positively affected the innovation of exporting SMEs in East Java, proven by a t-statistic value of 10.168, a p-value of 0.000, and a coefficient value of 0.682. In addition, the t-count is greater than the t-table cut-off of 1.66088, indicating a positive correlation. This study indicates that SME entrepreneurs can significantly increase their innovation efforts in processes, products, and administration by developing social capital.

SMEs develop more extensive social capital by building a more comprehensive network of relationships to strengthen the company, make the company more known, and open up more significant business opportunities. In addition, SME entrepreneurs also expand social networks by:

- Participating in social activities within entrepreneurs' community.
- Keeping in touch with each other.
- Strengthening solidarity and cooperation among entrepreneurs to strengthen social relations.

Furthermore, they also apply social norms relevant among the SME entrepreneur community, such as: implementing business practices according to prevailing social norms, agreed shared values, and mutually agreed on rules.

With a positive finding from this hypothesis testing, we support the similar conclusion drawn by Landry, et al. [23] and Yazdanifan, et al. [24], indicating the significant positive impact of social capital on innovation. However, the results of this study are inconsistent with the findings of Dastourian [25] and the research of Suyanto and Pratono [26], which concluded that innovation wasn't significantly affected by social capital. These results indicate that the improvement of SMEs' innovation may be supported by developing different social capital aspects such as social networks, their connection, social norms and cohesion, and trust.

Hypothesis testing 3: The Effect of Social Capital on Entrepreneurship Orientation

Hypothesis 3 (H3) testing shows a significant positive effect of social capital on east java exporting SMEs' entrepreneurial orientation with a t- value of 3,222, a p-value of 0.001, and a coefficient value of 0.278. In addition, the t-count is greater than the t-table cut-off of 1.66088, indicating a positive correlation. The development of entrepreneurial

activities could be enhanced through fairness, honesty, and prior sharing value agreement between fellow entrepreneurs to develop social capital. SME respondents acknowledge the regulations and conventions implemented by SMEs' communities.

Respondents believe that in order to accept and develop the goals of SMEs sustainably, the logical consequence is social capital implementation. Furthermore, the respondents believe that expanding the cooperation with their business partners could be fulfilled by having social capital. Successful entrepreneurial activities are needed social capital as their lever because of the importance of cooperation as social capital's core value.

This study's finding aligns with the findings in the other research Doh and Zolnik [27] and Ali and Yousuf [28], which support a positive effect of social capital on entrepreneurship. Furthermore, these results imply that robust social capital development such as social cohesion, network relationships, trust, social networks, and social norms can positively influence the orientation of SMEs' entrepreneur activities (i.e., courage to take risks, autonomous ability, proactive action).

Hypothesis testing 4: The effect of innovation on marketing performance

Hypothesis 4 (H4) results show no significant effect of innovation on the marketing performance of exporting SMEs in East Java. The coefficient value of 0.155, and the t-count value of 0.836, with a p-value of 0.404. The t-count is smaller than the t-table cut-off of 1.66088 pointing out the insignificant correlation. The results of this study on exporting SMEs in the East Java region show that good marketing performance cannot be obtained solely through innovation using equipment, products or services, systems, laws, new planning programs, new production process technology, or administrative systems. As a result, East Java SME entrepreneurs cannot increase sales value growth, company profits, market share growth, and the number of customers growth solely by innovating.

This result negates the opinion of Ahmed and Shepherd [29], who presented the benefit of new and different methods and technologies in improving product quality at lower production costs. Furthermore, Rogers [30] said that innovation should provide benefits, including improving the quality of life, increasing sales and profits, increasing distribution capabilities, and increasing product diversity in the market. However, in this study, innovation does not provide these benefits to the SMEs' marketing performance. Exporting SME entrepreneurs in East Java have appeared confident in their innovative processes, products, and administration, but in reality, these efforts are not significant in enhancing SMEs' marketing performance. This finding is also inconsistent with the opinion of Zimmerer et al. [31], which suggests that product innovation should be something that has the potential to expand new customers through the induction of people's creativity and imagination.

The results of this study are not consistent with the findings in the studies of Afriyie et al. [32], Efrata et al. [33], Agyapong [34], Handoyo [35], Suendro [36], Hsieh & Lin [37], and Keh et al. [38], who found that the implementation of innovation had a significant effect on marketing performance. However, the insignificant effect of innovation variable on marketing performance provides evidence that although exporting SME entrepreneurs in East Java is good at innovation, if they were still dependent on large

intermediaries (65%), then the innovation effort does not affect marketing performance because the intermediaries have an absolute determination of all product orders.

Hypothesis testing 5: The effect of entrepreneurial orientation on marketing performance

The fifth hypothesis (H5) depicts a significant positive correlation between entrepreneurial orientation and marketing performance. The coefficient value is 0.464, and the t-count value of 2.508, with a p-value of 0.012. In addition, the t-count is greater than the t-table cut-off of 1.66088, indicating a positive correlation. This correlation explained the importance of entrepreneurial-oriented activities for exporting SMEs in East Java, such as implementing autonomy encouraging risk-taking, considering business failure as a lesson, and supporting proactive action.

Around 65% of exporting SMEs in East Java have still relied on a broker to distribute their product. Good Entrepreneurial activities will teach them how to be more courageous in entering unknown market areas, treating uncertainty as a challenge, and accepting failures as learning opportunities. Moreover, the SMEs' entrepreneurs should act proactively when looking for new opportunities, responding to market challenges or business opportunities, and introducing new inventions. SME owners can enhance their marketing performance through carrying out after mentioned entrepreneurial-oriented activities, and may eventually be more independent.

The result in this study is agreed with research from others Liliyan [39], Hadiyati and Lukiyanto [40], and Keh et al. [38] that also proved a significant positive correlation between marketing performance and entrepreneurial orientation. However, the result of this study contradicts findings from another group [41], which proclaims that entrepreneurial orientation is a non-significant factor for marketing performance. Previous studies on this topic have agreed with the positive correlation presented in this study. One study highlights the importance of taking risks and uncertainties to create new businesses and achieve high performance [42]. Another study emphasizes the importance of pursuing prospective chance to create value and fulfilling the company's goals [43].

Hypothesis testing 6: The effect of social capital on marketing performance through innovation

Testing on hypothesis 6 (H6) shows no significant effect of the capital variable on marketing performance through innovation—the coefficient value of 0.105, and t-statistic value of 0.818, with a p-value of 0.414. The t-count is smaller than the t-table cut-off of 1.66088, pointing out the insignificant correlation. These results prove that innovation indicated by: process innovation, product innovation, and administrative innovation cannot mediate social capital to significantly affect marketing performance.

The persistence of exporting SMEs to take advantage of innovation by introducing new equipment, products or services, production process technology, systems, regulations, administrative systems, and planning programs is not able to encourage social capital to influence marketing performance. Even though innovation mediates the social capital of SMEs, which consists of a social network, a relationships network, social cohesion, social norms, and trust, it is not enough to influence the marketing performance of SMEs.

This study's results, however, are not in line with research from Rass et al. [44] and Nguyen and Ha [45], that social capital significantly affects marketing performance

through innovation. Furthermore, the results of this study are not in line with the opinion of Feiock [46], which suggests that social capital can form joint business forces to build networks collective action to work together in business organizations to maximize organizational interests. Meanwhile, the results of this study indicate that the innovations carried out cannot maximize the company's performance which is in the interest of the organization.

Hypothesis testing 7: The effect of social capital on marketing performance through the entrepreneurial orientation

Hypothesis 7 (H7) testing results in the positive effect of social capital on marketing performance through the entrepreneurial orientation with a t-statistic value of 2.182, a p-value of 0.030, and a coefficient value of 0.129. In addition, the t-count is greater than the t-table cut-off of 1.66088, indicating the positive correlation. These indicate that even though social capital does not direct correlated to marketing performance (hypothesis 3), the entrepreneurial orientation variable can mediate a significant influence.

This finding explains the importance of entrepreneurial activities (autonomy, risk-taking, and proactivity) to leverage social capital and achieve a higher marketing performance. The entrepreneurial activities may help SMEs to maximize its social capital to boost profit, market control, sales value and the quantity of consumer.

Various previous studies have proven the influence of entrepreneurial orientation on enterprise performance. Studies from Prakosa [47] and Hongyun [21] have similar findings that support social capital positive influence through entrepreneurial orientation to the marketing performance. Those publications strengthen the results found in hypothesis 7 of this study. Another study emphasizes that the entrepreneurial mindset characterized by a proactive attitude, good work ethic, full of motivation, ability to seize a good opportunity, and self-efficacy positively influence business development [48].

Hypothesis testing 8: The effect of social capital on marketing performance through innovation and entrepreneurial orientation

The eighth hypothesis (H8) demonstrates that social capital is positively correlated with marketing performance via innovation and entrepreneurial orientation. The coefficient value of 0.218, and t-statistic value of 2.118, with a p-value of 0.035. Moreover, the t-count is greater than the t-table cut-off of 1.66088, indicating a positive correlation. The results of this study prove that entrepreneurship activities can mediate social capital to influence marketing performance. If previously without entrepreneurial mediation, the innovation variable did not affect marketing performance, then after the entrepreneurship variable became a mediator, innovation would affect marketing performance. So, in sum, social capital holds an indirect effect that enhances marketing performance through innovation and entrepreneurial activities.

The results of the hypothesis 8 analysis are consistent with the results of Rass [44] and Nguyen and Ha [45], that social capital play an important role on marketing performance through innovation. Furthermore, this study agrees with the opinion of Feiock [46], who suggested that social capital can form joint forces to build collective action networks to work together in business organizations to maximize organizational interests.

On the other hand, the findings in this study related to the importance of entrepreneurship as an intermediary of social capital and marketing performance show a consistent opinion with the research findings of Prakosa [47] and [21], which found that marketing

performance was significantly affected by social through entrepreneurial orientation. Furthermore, various previous studies have proven entrepreneurial orientation's contribution to company performance. Therefore, these studies strengthen this study result, where entrepreneurial orientation is an essential intermediary of innovation and social capital variables on SMEs' marketing performance in East Java. Lastly, a previous study on this topic [48] stated that the entrepreneurial mindset depicted with an enterprise inclination, good work ethic, seizing good opportunities, self-efficacy, and full of motivation positively affects business growth.

4 Conclusions

This study demonstrates that entrepreneurial orientation determines the social capital in supporting marketing performance. Moreover, we also found that social capital positively affects entrepreneurial orientation and innovation. Although, it has no impact on marketing performance. It is also shown that entrepreneurial orientation but not innovation positively affects marketing performance.

Other results show that social capital indirectly affects marketing performance positively through entrepreneurial orientation as a mediator but not through innovation. Lastly, we demonstrate that social capital affects marketing performance through mediatory variables such as innovation and entrepreneurial orientation.

Overall, the results of this study indicate that when social capital and innovation cannot influence SMEs' marketing performance, then entrepreneurial orientation could act as a mediator that could enhance their positive effect on marketing performance.

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