



Entrepreneurial Orientation for Enhancement of Marketing Performance

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Received: 01 March 2020

Accepted: 24 April 2020

DOI: <https://doi.org/10.32479/irmm.9670>

ABSTRACT

The purpose of this research is to fill a research gap in entrepreneurial orientation and marketing performance by using differentiation strategy and network capabilities. The research conducted by involving 135 creative small medium enterprise categorized in handcraft, fashion, and printing and design in Pontianak, West Borneo, Indonesia. Five hypotheses are being developed and tested. For data analysis this research using statistic software called SEM AMOS 24. The findings of the research, it emphasizes the importance of supported differentiation strategy by entrepreneurial orientation in improving marketing performance. Furthermore, it confirms that network capabilities are a predictor of marketing performance.

Keywords: Entrepreneurial Orientation, Differentiation Strategy, Network Capability, Marketing Performance, Indonesia

JEL Classifications: L26, M31, L14, L25

1. INTRODUCTION

In Four C Diamond concept stated by Kertajaya (2006), the four important elements in business such as Company, Customer, Competitor and Change driver are the main actor which affecting market dynamics. The harmonic relationship between company and customer is not always calm and without turmoil. Customer (value demander) have a lot of problems and demands, also they need solution from product that offered by the company. Meanwhile the Company (value decider) is not fully following customer's demand, but they put consideration in the future consequences especially from profit and cost aspect. The existence of competitor is aggravating the condition between company and customer. Competitor (value supplier) with every offers, always make serious effort to looks interesting and steal the customers from company. This condition increasingly clouded by Change Driver which act as value migrator affecting company, customer, and competitor by shifting the business landscape from calm to flaring up condition caused by uncertainty in change of technology, economic, politic and law, socio-cultural, taste, market, and others.

Customer can leave anytime (loss customer) when the demanding value is not fulfilled, thus they seek for another producer which have a value that can solve their problem. Customer retention now become the main focus and all at once become tough challenge for company (Ascarza et al., 2018).

An uncertainty condition affecting the small medium enterprise (SME) which is the backbone of Indonesia's economic. Global development causes the improvement of technology, communication and transportation, even global value chain that precisely affecting business development. In this quick change era of business, SME should be capable to adapt by being creative, innovative, and proactive in making strategic decisions so they can survive and improve in business development. This problem should be immediately dealt with, because aside from uncertainty change of external environment like business prospect that being attacked by domestic and international products, SME should be able to solve internal problem like how they can make value-added to their product, so they can compete and expanding information and market network, eventually maximize company performance.

Entrepreneurial orientation is strategic orientation which can be selected by SME, so be able to have business development focus to make the business more precise and directed. Based on passion to be more proactive, take action, and risk taking, also searching and taking advantage of market opportunities, company can obtain first mover advantage that can improving company performance. Research about entrepreneurial orientation has conducted a lot by researchers (Jogarathnam, 2017; Núñez-Pomar et al., 2016; Solano et al., 2018; Vega-Vázquez et al., 2016; Wolff et al., 2015). So many researcher's findings that stated positive influence of entrepreneurial orientation to company's market performance improvement in various business fields like SME (Linton and Kask, 2017), manufacture (Zehir et al., 2015), banking (Acar et al., 2013), service industries (Liu and Lee, 2019), export (Acosta et al., 2018), and others.

However, the research that has been done by Frank et al. (2010) stated that entrepreneurial orientation benefit toward company's performance improvement yet can't be manifested. They found that entrepreneurial orientation role isn't significantly affecting company's performance improvement in certain cases. Baker and Sinkula (2009) stated entrepreneurial orientation indirectly affecting company's performance. The same findings also stated by Patel et al. (2015) that entrepreneurial orientation not by itself improving company's performance. Statements above show us inconsistent result of entrepreneurial orientation's role toward company's performance. Thus, leaving a research gap that can be further explored about entrepreneurial orientation's role in improving company's performance especially in this uncertainty environment.

Based on business phenomena, and to fill the gap in further exploration of entrepreneurial orientation's benefit toward company performance's improvement, this research is conducted by integrating differentiation strategy and network capabilities from two main theory perspectives which are management strategy and network theory.

In this turbulence condition, company should improve their sensing, seizing, and reconfiguring of resource and capabilities. Strategic orientation like entrepreneurial orientation as company's response toward the change of business landscape should be directed to exploitation of market opportunities. Not only that, to gain maximum benefit from potential opportunities, company should be able to make customer engage with company. For this purpose, company can't do business as usual, but should have differentiation with unique ultimate selling proposition that gives better extra value compared to another competitor, so company have attractiveness in customer's point of view and can leave the competition. In the end it is expected to be able improving company's market performance.

The change of business landscape also causing company to adapt with a new business model concept, new technology, and should be able to speed up their business process. Company ability to performing fast response, convenience, and speed delivery will be deciding business success. However, company often facing obstacles especially limitations of their own internal resources. Eventually because of this, company deciding to focus on external

resources exploration. In this case, company can take advantages and collaborate with their business network, so they can generate business process productivity and improve market performance (O'Cass and Sok, 2013; Rahman et al., 2016).

The purpose of this research is to propose a new conceptual model approach about entrepreneurial orientation role which is more strategic oriented toward market performance improvement by elaborating two lever variables which is more tactical oriented, that are differentiation strategy (Zehir et al., 2015) and network capabilities (Acosta et al., 2018) in converting potential market to market share. This research contributes in enrichment of literature especially about entrepreneurial orientation strategic role to improve market performance through the role of variable mediation which is more tactical oriented, in this case that are differentiation strategy and network capabilities focused on SME.

2. LITERATURE REVIEW AND HYPOTHESIS

2.1. Entrepreneurial Orientation and Market Performance

Entrepreneurial orientation is regarded as strategic behavior which comprise of action taken by the company in implementing strategic innovation, initiative and proactive, also risk management (Covin and Slevin, 1989). Moreover, Dess et al. (1997) find that entrepreneurial strategy positively affecting company performance. Another research by Wiklund (1999) related to interrelationship between entrepreneurial orientation and company performance with three dimensional entrepreneurial orientations (Miller, 1983) which are innovation, proactiveness and risk taking by using performance measurement comprise of financial performance and company growth that show us there is a positive relationship between entrepreneurial orientation and performance.

Entrepreneurial orientation makes company act more proactively, so they be able to adapt with environmental change and market, also endeavor to be the first in offering a new product than their competitors. Besides, being proactive it pushing the company to be more creative innovate by taking advantage of any technology development in improving itself as well as the products, also dare to take risk for the advantages of market opportunities. Linton and Kask (2017) suggests that three elements of entrepreneurial orientation which consist of innovation, proactive, and risk taking can be precisely elaborated, so it can give an impact to company performance. Entrepreneurial orientation can be adapting with market trend and taking advantage of the opportunities faster than their competitor, so it gives an impact of improvement for company performance (Jogarathnam, 2017).

H₁: There is a positive relationship and significant between entrepreneurial orientation and company's performance.

2.2. Entrepreneurial Orientation and Differentiation Strategy

In a business environment full of turbulence, chaos, and heterogeneous, company can't undergo business as usual.

Company should be out of box or out of normal business pattern so they can survive and grow up. Company needs advantages in competition so they can do better than their competitors. One of competitive advantage strategy element based on Porter (1985) is differentiation strategy which is a company ability to produce unique offers and valued by customer. Differentiation hold an important role for company's competitive advantage (Grant, 1991). On the other hand, differentiation should be able to produce value-added which beneficial for customer. Not only different, but it should give appropriate value-added for customer. Other than that, outdated differentiation will be obsolete and loss their uniqueness due to technology development, also differentiation can be emulated by competitor. For this purpose, entrepreneurial orientation is a driving variable which is fit for differentiation strategy.

Entrepreneurial orientation that brings excitement to always be innovative, proactive, in anticipating trend market change, and make bold initiative to take the risk in market opportunities advantage should become the core of company. Thus entrepreneurial orientation should become basic footing in formulating strategy like differentiation, so company be able to compete, survive, and sustainable. Entrepreneurial orientation has close relation with competitive advantage strategy like differentiation (Linton and Kask, 2017). The boldness of company to take a risk by offering their new products or new features will be driving factor for differentiation strategy success. Differentiation quality that produced by company gradually will be better with company support by proactively understanding customer's need and desire, also continuous innovation from company to make unique and superior product (Dess et al., 1997; Lechner and Gudmundsson, 2014). Based on this explanation, then it can be formulated into this hypothesis:

H₂: Entrepreneurial orientation has positive effect and significant toward differentiation strategy.

2.3. Entrepreneurial Orientation and Network Capabilities

Beside of internal factor, company's external factor such as company's external network is very impactful to business management and company's development which is sustainable. Focus of company's strategic orientation such as proactive entrepreneurial orientation, risk taking and innovative will empowering company capabilities to search, find, and to take advantage of potential network based on the mutual benefit in empowerment of their own resource. In this turbulent business environment, the company should be proactive, not only depend on resource and company's internal capabilities, but company should explore and maintain potential external resource for company's productivity improvement.

Entrepreneurial orientation role stated by Wang et al. (2013) that it can become company's strategic posture in respond and adapt to environment change by seeking and finding strategic resource and needed capabilities from potential company that can be collaborated. Jiang et al. (2018) emphasized that company which focused on entrepreneurial orientation has better opportunities to get external resource from their business network, so that they

can take advantage of available opportunities. On the other hand, companies in the same network tend to collaborate and sharing resource among them, because they feel comfort and safe in potential environment caused by high entrepreneurial orientation.

H₃: Entrepreneurial orientation positively affecting and significantly toward network capabilities.

2.4. Differentiation Strategy and Marketing Performance

Differentiation is a company's tactic element which highly related to company's turnover (Chen et al., 2014). Differentiation play a role as stimulus enhancer which can conversing prospective customer to be real customer by offering attractive and unique product, also the value-added which make the company different from their competitors. This matter becomes company's attractive offer which is hard to be rejected by customer. Differentiation can be done through content or body (product and price), as well as context (place or distribution and promotion) to customer, by using marketing mix company have a superiority from competitors (Msinga et al., 2018). Differentiation will make efficiency and effectiveness which affecting sales and income (Semuel et al., 2017). Reliable product quality, reasonable price, and various payment method, speed and delivery, fast response, better service or flexible business process to fulfill customer's expectation are attractive stimulus for prospective customers and this matter potentially improving company's market performance.

Based on this explanation, then it can be formulated into hypothesis below:

H₄: Differentiation strategy positively affecting and significantly toward market performance.

2.5. Network Capabilities and Marketing Performance

Wang et al. (2013) found that there is a close relation between company's performance and network capabilities. Network capabilities gives resource advantage which isn't owned by other companies, resulting in improvement of company's capabilities such as technology utilization, business process, marketing ability and others that gives company's marketing drive performance. Besides resources access, network also gives insight and new knowledge for company (Naudé et al., 2014). This matter absolutely gives benefit to company, and be able to improve their business. Research that has been conducted by Ferdinand and Killa (2014) found that interrelationship between network advantages especially company's network which have distribution network with sales gain and marketing performance. Empiric Model of relationship between entrepreneurial orientation, differentiation strategy, network capabilities, and marketing performance is presented in Figure 1.

Based on the explanation, it can be formulated into hypothesis below:

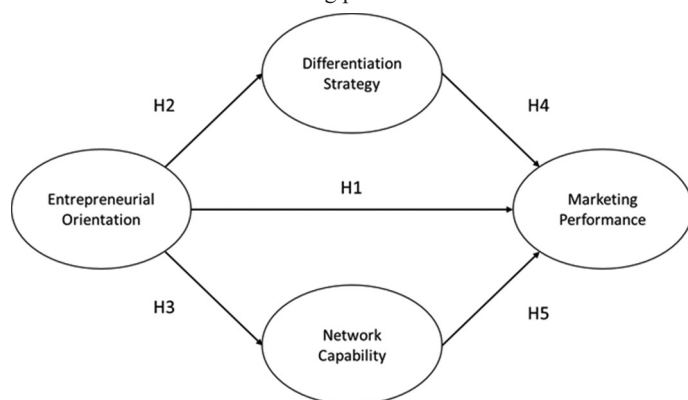
H₅: Network capabilities positively affecting and significantly toward marketing performance.

3. METHODOLOGY AND RESULTS

3.1. Sample and Data Collection

Data in this research was obtained by in-depth-interview with questioner which is collected from 135 samples from creative SME sub-sector such as handcraft, fashion, and printing and design in Pontianak, West Borneo, Indonesia with convenience sampling method. As for consideration in the election of creative SME as the sample that this sector has appeal point given its superiority in flexibility and adapt ability toward dynamic business environment change. On the other hand, this sub-sector is grow and thrive rapidly and be able to contribute in economic growth and decrease in unemployment significantly because they have huge impact and relation towards other business fields.

Figure 1: Empiric model of relationship between entrepreneurial orientation, differentiation strategy, network capabilities, and marketing performance



3.2. Measurement of Variables

This research implicates four variables which consist of entrepreneurial orientation, differentiation strategy, network capabilities, and marketing performance. Measurement of each variable taken and elaborated from some published research through journals which is used as reference. Measurement of entrepreneurial orientation elaborated from Jogaratnam (2017) which is we always try our best to take advantage of market opportunities, we always trying to anticipate industry trend caused by market changes, dare taking risk to initiative for better result, always commitment to take advantage of new technologies in competition, usually we become the first that introducing a new innovation in our market field.

Differentiation strategy measurements were taken and elaborated from Zehir et al. (2015) which we always try to offer products with better quality than competitors, we always develop our products on an ongoing basis, we offer products with features that make us different, could provide satisfaction to different customers in different markets different, could offer products according to our customers' special needs. Network Capabilities Measurements were elaborated and adapted from measurements made by Acosta et al. (2018) that we have the ability to build good relationships with our business partners, we adjust the use of resources in every business relationship with partners, we routinely communicate for information exchange, we are familiar with the products and services of our business partners, we are able to solve problems with business partners constructively (positively). Marketing Performance Measurement was elaborated by Ferdinand and Fitriani (2015) and Jogaratnam (2017), namely sales volume growth, customer growth higher than competitors, market coverage, and market share growth. Furthermore, these

Table 1: Variable, indicator, loading factor, significance, convergent validity, construct reliability

| Variable and indicator | Reference | Std. loading factor | Critical value of unstandardized loading factor $\geq \pm 2.00$ | Convergent validity (Average variance extracted) ≥ 0.50 | Construct reliability ≥ 0.70 |
|---|-------------------------------|---------------------|---|--|-----------------------------------|
| Entrepreneurial orientation | Jogaratnam (2017) | 0.789 | 9.176 | 0.65 | 0.90 |
| Proactive in persuing market opportunities | | 0.795 | 9.694 | | |
| Anticipating changes in industry trends | | 0.798 | 9.466 | | |
| Support high-risk innitiatives | | 0.872 | 10.565 | | |
| Committed to acquiring and deploying and deploying new technology | | 0.780 | 9.176 | | |
| First to introduce new innovation | | 0.803 | 10.170 | | |
| Differentiation strategy | Zehir et al. (2015) | 0.828 | 10.665 | 0.68 | 0.91 |
| Offering better quality products | | 0.844 | 10.458 | | |
| Continuous products improvement | | 0.812 | 9.773 | | |
| Offering in differentiating features | | 0.836 | 10.170 | | |
| Satisfying needs of different customers | | 0.836 | 10.170 | | |
| Offering products according to special needs | | 0.785 | 7.992 | 0.60 | 0.88 |
| Network capability | Acosta et al. (2018) | 0.880 | 10.649 | | |
| Ability to build good relations with partners | | 0.777 | 8.956 | | |
| Adjust the use of resources in relations | | 0.704 | 7.973 | | |
| Regular exchanged information | | 0.711 | 7.992 | | |
| Know the products/services of partners | | 0.710 | 7.147 | 0.55 | 0.83 |
| Solve problems with our partners | | 0.777 | 7.399 | | |
| Marketing performance | Ferdinand and Fitriani (2015) | 0.759 | 7.254 | | |
| Sales growth | | 0.719 | 7.147 | | |
| Customer growth | | | | | |
| Growth in market share | | | | | |
| Scope of market coverage | | | | | |

measurements were developed into a questionnaire which became a guideline for interviewing respondents.

3.3. Data Analysis

Empirical studies are conducted by testing hypotheses based on data obtained through surveys and subsequently the data are analyzed in Structural Equation Modeling (SEM) with AMOS version 24 to measure the suitability of the model and the relationship between variables in research. There are 7 respondents who are outliers so they must be excluded from the data analysis process, thus the data analysis process is conducted with reference to 128 respondents' data. Measurement of loading factor, convergent validity and construct reliability can be seen in Table 1 below:

The results of the confirmatory factor analysis show that the loading factor of each variable in the model has exceeded the minimum value of 0.50 with a critical ratio value >1.96 (Arbuckle, 2016) which means each indicator is able to represent its construction variables properly for further analysis from these indicators can be done. Furthermore, it is necessary to measure the construct validity and reliability to ensure that each variable and indicator used in this study is valid and reliable for further processing. Construct validity measurement is done by referring to the value of average variance extracted ≥ 0.50 . The results of the analysis show that the construct validity has been fulfilled, namely entrepreneurial orientation of 0.65, differentiation strategy of 0.68, network capability of 0.60 and marketing performance of 0.55. Measurement of construct reliability with a cut-off value of 0.70 (Arbuckle, 2016) has also been fulfilled by all construct variables which are entrepreneurial orientation at 0.90, differentiation strategy at 0.91, network capability at 0.88 and marketing performance at 0.83. Structural model analysis shows that the model is well confirmed by referring to several criteria (Gaskin and Lim, 2016) presented in Table 2.

The structural model is presented in the following Figure 2 with a summary of the hypotheses testing results in Table 3. The results show that all our hypotheses are supported with a critical ratio >1.96 with a significant level below 0.05, except the hypothesis of the effect of entrepreneurial orientation on performance marketing is insignificant, thus this hypothesis is rejected.

3.4. Effects of Mediation Differentiation Strategy

The results of the calculation of the mediation effect with online sobel test value on the website <http://www.danielsoper.com> as presented in Figure 3 results in a sobel test value or z value of 2,596 >1.96 with a P-value of one tailed of 0.004 and P-value two tailed at 0.009 at the level of significance P = 0.05. The results of the calculation of the mediating role of the differentiation strategy show that the differentiation strategy has an important role in bridging the gap between entrepreneurial orientation and marketing performance.

3.5. Mediation Effects of Network Capability

The results of calculating the role of network capability mediation as can be seen in Figure 4 shows that network capability has a weak mediating role on the effect of entrepreneurial orientation on Marketing Performance. This can be seen from the result of Sobel Test value which is 1.857 with a p-value of one-tailed probability of 0.031 and a two-tailed probability P = 0.063 at a

Table 2: Goodness of fit

| Measure | Estimate | Threshold | Interpretation |
|---------|----------|-----------------|----------------|
| CMIN | 196.625 | -- | -- |
| DF | 147.000 | -- | -- |
| CMIN/DF | 1.338 | Between 1 and 3 | Excellent |
| CFI | 0.963 | >0.95 | Excellent |
| SRMR | 0.077 | <0.08 | Excellent |
| RMSEA | 0.052 | <0.06 | Excellent |
| PClose | 0.413 | >0.05 | Excellent |

Figure 2: Full structural model

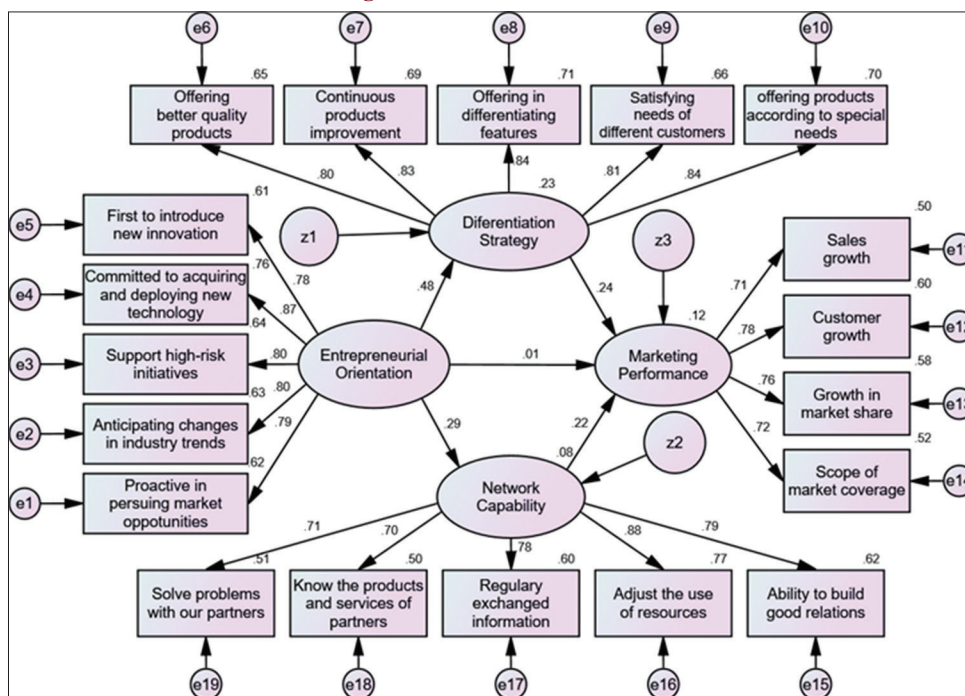
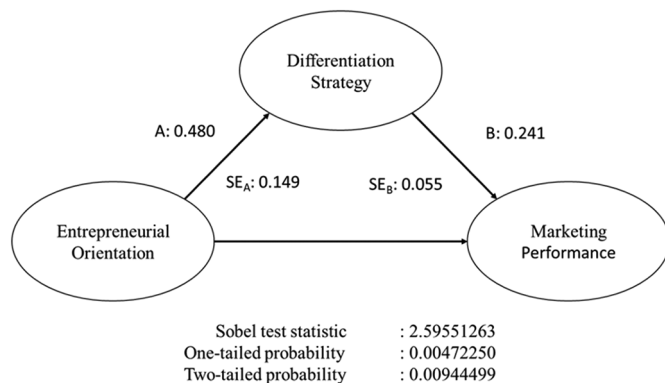
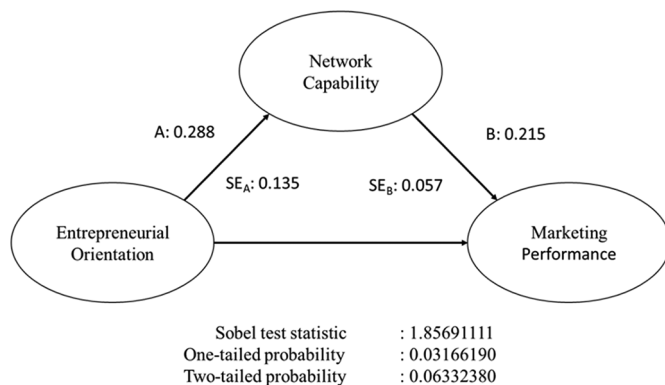


Table 3: Hypotheses testing criteria

| The hypothesized relationship | Std. estimate | Estimate | S.E. | C.R. | P | Conclusion |
|--|---------------|----------|-------|-------|-------|------------|
| Entrepreneurial orientation → Differentiation strategy | 0.480 | 0.717 | 0.149 | 4.798 | *** | Accepted |
| Entrepreneurial orientation → Network Capability | 0.288 | 0.378 | 0.135 | 2.808 | 0.005 | Accepted |
| Differentiation strategy → Marketing performance | 0.241 | 0.11 | 0.055 | 1.998 | 0.046 | Accepted |
| Network Capability → Marketing performance | 0.215 | 0.112 | 0.057 | 1.974 | 0.048 | Accepted |
| Entrepreneurial orientation → Marketing performance | 0.009 | 0.006 | 0.080 | 0.078 | 0.938 | Rejected |

Figure 3: Results of calculation of the role of mediation strategy differentiation on the effect of entrepreneurial orientation on marketing performance**Figure 4:** Results of calculation of the role of network capability mediation on the effect of entrepreneurial orientation on marketing performance

significance level of $P = 0.10$. The results of this test indicate that network capability as a mediator on the effect of entrepreneurial orientation on Marketing Performance, but the effect is weak in the sense that only partially mediated.

4. RESEARCH CONTRIBUTIONS AND CONCLUSIONS

This study aims to fill the gap in order to dig deeper into what strategic steps must be taken to be able to empower the role of entrepreneurial orientation towards improving marketing performance. The conceptual model that we propose in this study includes 5 regression hypotheses and 2 mediation hypotheses. The results of testing the regression hypothesis showed 4 regression hypotheses were confirmed and 1 regression hypothesis was rejected, namely the effect of entrepreneurial orientation on

marketing performance. While the mediation hypothesis regarding the role of the differentiation strategy is accepted, the mediating role of the network capability is rejected. Based on the formulation of hypotheses in the model and the relationship between variables, several findings can be presented as follows:

The first path in improving marketing performance is through strengthening entrepreneurial orientation so as to be able to improve differentiation strategies so that it will ultimately encourage increased marketing performance. This is evidenced by the acceptance of the mediation hypothesis which shows the important role of differentiation strategies for improving marketing performance as the study of Chen et al. (2014) and Semuel et al. (2017). The strategic role of proactive entrepreneurial orientation not only in utilizing every available market opportunity but also aware of changes in market trends, always striving to be the first and dare to take the initiative to take action and risk takers and be able to utilize technology, are important factors for the company in formulating a differentiation strategy that is qualified by developing and producing superior offering products along with unique features and differences from competitors on an ongoing basis that is able to meet the needs and provide satisfaction for customers so that it will ultimately be able to improve marketing performance with sales volume growth, customer growth and market share and increasing wider market coverage.

The second path is to strengthen entrepreneurial orientation to improve the capabilities of the company's network to further improve marketing performance. DNA entrepreneurship orientation which includes proactive, risk taking and innovative is an important fuel for enhancing network capabilities in building relationships, communication, negotiation skills and constructive problem solving, as well as better recognition of business partners so that this collaboration will ultimately have an impact on increase marketing performance. The results of testing the mediation hypothesis of the role of network capabilities are significant at the level of $P = 0.10$ or only partially mediated. But the role of network capabilities in improving marketing performance is still important. Testing the regression hypothesis shows that network capability is a predictor of marketing performance. This is in accordance with the study of Wang et al. (2013) and Ferdinand and Killa (2014) that the capabilities of a company's network play an important role in the company's marketing performance.

This study shows the important role of differentiation strategies and networking capabilities in strengthening the strategic process of entrepreneurial orientation to improve marketing performance. The entrepreneurial orientation must be empowered to explore various market opportunities with all the risks so that the company in this case creative MSMEs can enjoy the first mover advantage by making the most of technology. This is driving creative MSMEs to be able to

optimize the company's differentiation strategy to tie up customers by converting potential markets to 1st time buyers or even repeat customers. Practically, differentiation strategies can be carried out using computerized systems, using applications in order processing, using the latest machine technology, utilizing computers in the design process, automated machines, updating the latest models, following market trends, understanding customer needs better based on market information, fast response, customized production with specifications that can be tailored to the wishes of the customer, orders are completed on time, and even accepts designs directly from customers and many more differentiation strategies that can be explored further to improve marketing performance thanks to the empowerment of orientation entrepreneurship.

Increased marketing performance can also be done by creative MSMEs by utilizing the company's external resources through its business networks such as in terms of access to market information, resources, and technology optimally thanks to the ability to build business relationships and a good understanding of business partners thanks to communication and flexible business processes. High-quality business networks that have high sales volumes and extensive business networks can be used by creative SMEs to increase the scope of markets such as multidomestic marketing areas, addition of marketing areas, and adding new customers, which in turn will increase the company's marketing performance. Practically, networking capabilities enable creative MSMEs to expand, look for new market segments, add resellers, open new branches, find new business partners for marketing in new areas, find new strategic locations for marketing area that covers areas inside and outside the city, Pontianak and other big cities, local or national, or even abroad by utilizing digital or online marketing by empowering business networks owned by cooperating, conducting new work contracts with distribution networks. big companies such as modern retailers, governments, large corporations, associations, and even market places. All of this is possible thanks to the capability of a capable network.

This study still has several limitations including, first, limitations on the scope of the sample in the study. This study only involved 135 samples of MSMEs engaged in the creative field in the city of Pontianak, West Kalimantan. Second, the limitations on the products, and creative MSME businesses in the city of Pontianak that are used in this study are still limited to the fields of crafts / crafts, fashion, printing and design. Third, this research only focuses on the company's perspective. This study uses data taken from a company perspective and does not use data that involves a consumer perspective. Assessment of product quality for example needs to be viewed from the perspective of consumers. This problem is a limitation in this study and can limit the generalization of research results.

Future studies should increase the number of samples in order to increase the generality of research results. In addition, future research can also be scheduled to test these variables in the context of other products and companies. This can be considered in order to further improve the generalization of research results. Finally, related to the data used to analyze this research, it is oriented to examine from the perspective of the company. In future research

to consider dyadic data analysis involving research data taken from the perspective of the company and consumers

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