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PREFACE

Thanks to God Almighty for His blessings and grace so the International Conference on Economic and Information Systems Management (ICE-ISM) 2014 can be held by STIE MDP collaboration with STMIK / AMIK MDP and Dayeh University of Taiwan. The purpose of this conference organized as a forum to bring together academics, researchers and practitioners in the fields of economics, and Information Systems Management from various countries. ICE-ISM 2014 is expected to serve as a forum for discussion and dissemination of knowledge and information, especially about the economy and Management Information Systems. Expected results of ICE-ISM 2014 can contribute to the improvement of science in the future.

In ICE-ISM 2014, the committee received more than 90 papers. But after through a review process by committee of experts by field involved in the ICE-ISM 2014 corresponded to the topic ICE-ISM 2014, then not all selected articles would be presented in this conference. Papers accepted then categorized into two areas, namely Business Economic Accounting and Information Systems Management.

On this occasion, the committee would like to thank profusely to the reviewers :

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The committee would like to thanks all the speakers and attendees as well as those who have helped support the implementation of ICE-ISM 2014 STMIK / AMIK / STIE MDP so these activities can take place smoothly and successfully. Especially we thanks to Dayeh University of Taiwan who become Co Host. Hopefully, the ICE-ISM 2014 could provide benefits to all parties.

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Entrepreneurship Orientation and Social Capital in Pricing Strategy: A Case of Small Enterprises in East Java

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Abstract— This study examines the impact of entrepreneurship orientation and social capital to pricing strategy in small firms in East Java. A mix qualitative and quantitative research method is applied to 168 small firms. The key findings from the qualitative method is that small firms tend to set a low price for their products, price discount is provided for loyal customers, cost-based transfer pricing is adopted, close relationship between owners and workers and among workers are maintained, and aggressiveness is not a nature of entrepreneurship orientation in the small firms. The findings of quantitative method complement the qualitative method by showing three key results: (1) aggressiveness in innovation and autonomy in risk taker are two important entrepreneurship orientation factors influence the capability of the observed small firms in setting price for new products; (2) both aggressiveness in innovation and autonomy in risk taker determine the marketing program (one of the pricing strategy) in the small firms; (3) sharing goals is a key factor in social capital that affecting the good communication with customers.

Keywords— Entrepreneurship orientation, social capital, pricing strategy, small enterprises, East Java.

I. INTRODUCTION

The competition in pricing strategy among small enterprises has increased considerably in Indonesia and elsewhere. Small enterprises face market complexity while settling down themselves for survival in competition. Price strategy becomes important as the consumers are price sensitive. The lack of mediating roles from the internal factors, such as formalization, centralization, cross-functional integration, and organizational commitment, force small enterprises to find alternative factors in supporting their capability in pricing strategy (Rubera and Kirca, 2012). Entrepreneurship orientation and social capital has gained attention as two pivotal variables in determining price strategy (Al-Swidi and Mahmood, 2012; Berzina, 2011; Liu and Zhang, 2013). As small business often suffer from performance enhancement due to economies of scale and group reputation effects, entrepreneurship orientation and social capital are alternative solutions for winning price competition (Carney et al., 2011; Liozu et al., 2012).

Unfortunately, researches on entrepreneurship orientation and social capital are rare, as the two topics are relatively new and just developed in the early 2000. Empirical studies on the effects of the two variables on pricing strategy are even harder to find. A study by Liozu and Hinterhuber (2013) provides a ground for the possibility to examine price strategy from factors rather than value chain variables. This current study fills the gap in the literature by examining in a comprehensive perspective, through not only quantitative method but also qualitative method, on the impact of entrepreneurship orientation and social capital on the pricing strategy. By taking a case on small enterprises in East Java, Indonesia, it might shades a light on the importance of entrepreneurship orientation and social capital in improving the capacity of small firms in pricing strategy.

II. REVIEW OF RELATED LITERATURE

Three groups of literature are related to this current study. These groups are literature on pricing strategy, literature on entrepreneur orientation, and the literature on social capital. Although studies that specifically focuses on the impact of entrepreneurship orientation and social capital on pricing strategy are sparse, a brief review on literature that focus on pricing strategy or entrepreneurship strategy or social capital provides an important conceptual background for conducting an empirical study on the relationship.

A. Pricing Strategy

Pricing capability is a component of market power (Limehouse *et al.*, 2012). Price capability determines a firm to set price for new products, communicate its products to customers, and develop marketing programs (Murray *et al.*, 2011). The way of firm to implement its capability in determining prices is well-known as price strategy.

According to Liozu *et al.* (2012), there are at least three types of pricing strategy, namely competitor-based pricing, value-based pricing, and cost-based pricing. Its type of pricing strategy has its own advantages and disadvantages, which is well-known in the literature.

The cost-based pricing calculates the selling price by adding up all costs including profit. Many firms adopt this

strategy in their intra-company trade and treat the inter-company trade as cost-based transfer pricing. Pfeiffer *et al.* (2011) indicates a range of different methods for cost-based transfer pricing, which are based on either standard or actual costs including mark-ups. While the rules and procedures of these methods have been extensively described, yet the efficiency and the precision of these methods are not well-informed. So that, the application of the cost-based pricing strategy is implemented under the condition that internal transfer pricing are included.

The competition-based pricing refers to prices of competing products, which used as a benchmark for setting a price. In a recent literature, Liu and Zhang (2013) introduces dynamic pricing competition between two firms that offer vertically differentiated products to potential customers whose are intertemporer utility maximizers. This dynamic competitive pricing is well-known as skimming pricing, arising from a unique pure-strategy Markov perfect equilibrium in the game under a simple condition. Kartono (2011) indicates that a relative aggressive pricing might be adopted by a firm when its products have fewer competitors. However, according to Liu and Zhang (2013), asymmetric effect of customer behaviour on quality-differentiated firms might causes customers to prefer lower price, with low-quality products in the short-run. Only when customers have time to compare the quality, then the high quality products will be preferable. In this case, the low-quality firms suffer more than the high-quality firms in the form of losing profits.

The Value-based pricing is defined as a price that depends on the customer willingness to pay (Liozu *et al.*, 2012). The conceptualization of value-based pricing varies from firms to firms. Mostly, this pricing strategy influences by market knowledge and customers knowledge, which related to the deep understanding of customers' mind and competition (Piercy *et al.*, 2010).

B. Entrepreneurship Orientation

Entrepreneurial orientation (EO) is associated with the way to run a business in the long term, in which firms may be able to enhance business performance. The theoretical and empirical inquiry of EO phenomenon has been emerging for over 30 years (Covin and Wales, 2012). This concept is different from entrepreneurship, which is about how to set up a new business (Wang and Shi, 2009). Although both concepts cover opportunity and resource effectiveness, the EO focuses more on responsive behavior upon market environment, which is consider to be opposite behavior to traditional and adaptive market orientation (Renko *et al.*, 2009).

In entrepreneurship theory, there are at least two dominant strands. There are Kirznerian and Schumpeterian. Sundqvist *et al.* (2012) highlight that Kirznerian considers discovery process over business possibilities, while innovation is associated with Schumpeterian entrepreneur. For Schumpeter, external variables are considered as uncontrollable factors at the micro-level, while the idea to seize opportunities spring from internally-induced change

(Bertta and Latham, 2010). In entrepreneurial orientation, the concept of Schumpeter's innovation becomes factor of entrepreneurial orientation, while discovery process proposed by Kirznerian is considered as proactiveness. The factor and items in the entrepreneurial orientation is summarized in Table 2.2. These items are used in formulating the questionnaire in this current research.

TABLE 1
FACTOR AND ITEMS OF ENTREPRENEURIAL OREINTATION

Factors	Items	Sources
Autonomy	<ul style="list-style-type: none"> • Work autonomously • Best result with autonomy decision • Without constantly referring to supervisor • Managers identify and select the opportunities 	Lumpkin <i>et al.</i> (2009)
Risk-taking behavior	<ul style="list-style-type: none"> • Proclivity for high risk project • Bold and wide ranging act • Obtain financing for new business • Without adequate resource • Aim to high growth • "wait and see" posture (R). • Study problem carefully (R) • Quick to spend resource 	Kropp <i>et al.</i> (2008), Gürbüz & Aykol (2009), Lumpkin <i>et al.</i> (2009).
Innovative ness	<ul style="list-style-type: none"> • Creative in using resources • Develop new product • Emphasis on R&D • Many new lines of new products • Changes in product 	Kropp <i>et al.</i> , (2008), Fang <i>et al.</i> , (2008), Lumpkin <i>et al.</i> (2009).
Proactive	<ul style="list-style-type: none"> • Initiates actions to which competitors then respond • .A competitive "undo-the-competitors" posture • The first business to introduce new products/services • Get "right people" to identify market trends • Avoid competitive clashes (R) • To "follow the leader" in introducing new products (R). 	Kropp <i>et al.</i> , (2008), Lumpkin <i>et al.</i> (2009).
Aggressiv eness	<ul style="list-style-type: none"> • Very aggressive and intensively competitive to take business from the competition. • Make no special effort to take business from the competition (R). • Adopts a bold, aggressive posture to exploit potential opportunities. 	Lumpkin <i>et al.</i> (2009)

C. Social Capital

The central proposition of social capital theory is that networks of relationships constitute a valuable resource (Putnam, 2000; Oldroyd and Morris, 2012). Social capital goes beyond ordinary networks. Broadbridge (2010) highlights that social capital prevails when networks become a key resource for grasping opportunities and benefits. Bernades (2010) indicates that network-relational-embeddedness represents the degree of closeness and reciprocity between a focal firm and its relevant supply networks. The networks, norms and trust play pivotal roles in facilitating information sharing, collective decision-making, and collective action (Wolz *et al.*, 2011). Hence, social capital is expected to be able to enhance organization culture (Lin and Steven, 2010).

From the enterprise perspective, social capital can be defined as investment in social relations with expected returns in the marketplace (Berzina, 2011). Social capital can be a major key for firm performance through innovation as well as supply management channel (Alguezaui and Filieri, 2010; Bernades, 2010). Social capital at the firm level has a significant influence on both knowledge acquisition and innovation, which part of marketing capacity (Martínez-Cañas *et al.*, 2012). In addition, Lim and Putnam (2010) indicate that social capital is associated with life satisfaction. However, Pirolo and Presutti (2010) notice the negative link between the development of strong ties and the growth of a start-up's innovation performance. Bernades (2010) points out that social capital affects on firm performance with complexity development of social capital.

Social capital at the firm level has a significant influence on both knowledge acquisition and innovation, which part of marketing capacity (Martínez-Cañas *et al.*, 2012). However, Pirolo and Presutti (2010) notice the negative link between the development of strong ties and the growth of a start-up's innovation performance. Bernades (2010) points out that social capital affects on firm performance with complexity development of social capital. Ahmadi *et al.* (2011) indicate that the link between social capital of the community and innovation performance of the SMEs doesn't seem to be straightforward on account of absorptive capacity. In social capital while social capital can be a major key for firm performance through innovation as well as supply management channel (Alguezaui & Filieri, 2010; Bernades, 2010).

The role of social capital in firm performance is dynamic at different phases within the organizational growth. Ahmadi *et al.* (2011) indicate that the link between social capital of the community and innovation performance of the SMEs doesn't seem to be straightforward on account of absorptive capacity. In social capital while social capital can be a major key for firm performance through innovation as well as supply management channel (Alguezaui & Filieri, 2010; Bernades, 2010). There are many ways to explore social capital. Entrepreneurial social capital constitutes three elements: view of networks, which closely related to entrepreneurial social networks; view of resource, which is

about resource-based management, and view of integration, which refers to shared resourced with common goal (Wang & Shi, 2012). Warner (2012) draws distinction between internal and external focus in social capital. The external focus can be supply chain relationship, which lay on trust. Laeequddin *et al.* (2010) indicate that supply chain relationship refers to characteristics trust, rational trust and institutional security system. From the internal perspectives, Gupta *et al.* (2011) outlines seven elements of internal focus in social capital, i.e. shared vision, cohesion, and trust. Another approach considers social capital constitutes three dimensions, i.e. structural, relational, and cognitive dimensions (Wu, 2009; Mačerinskienė & Aleknavičiūtė, 2011).

III. RESEARCH METHOD

The research applies a mix method, which using both qualitative and quantitative approaches. The decision in using the mix method for this study is to provide a holistic view on the impact of entrepreneurship orientation and social capital on pricing strategy in small enterprises. A quantitative method enables researchers to find indication of a statistical relationship from entrepreneurship orientation and social capital on pricing strategy. It is in a purpose to answer the question of "how and what". A qualitative method enables researchers to dig deeper through the interaction with the owners of firms in finding the relationship between entrepreneurship orientation and social capital to pricing strategy. This method is in a purpose to answer the question of "why". By conducting these two methods, comprehensive findings are expected to be achieved.

The quantitative approach involves validity test, reliability test, and exploratory factor analysis using Kaiser-Meyer Olkin index, Bartlett's test of sphericity, and confirmatory factor analysis. The qualitative approach involves interview, narrative (transcribing), and coding. The following is the brief description of the methods.

A. Quantitative Approach

When data are obtained from questionnaires, the data are analysis by following three steps. The first step is to check validity of the result from questionnaires using the validity test. The second step is a test for the reliability of the measurements under Cronbach's alpha. The third step is exploratory factor analysis.

1) Validity Test

Validity test aims to check and balance whether the questionnaires is understandable. The test refers to item analysis, i.e. difficulty and discrimination index. Both indexes provide p-value, with expected minimum value of 0.50. To make sure that the questionnaires meet the validity requirement, three steps are involved. First step is content validity, which involve experts to judge the representativeness of the items on the test. This involves some professors and experts in statistics. Second step is face validity, which involves some observed respondents to examine whether the respondents can understand the

questionnaires. The last step is construct validity to ensure there is no overlapping among measures with similar theoretical concept.

2) Reliability Test

Reliability test is used to measure reliability of data or consistency of measurement. Reliability Alpha was developed by Lee Cronbach in 1951 to provide a measure of the internal consistency of a test or scale; it is expressed as a number between 0 and 1. Internal consistency describes the extent to which all the items in a test measure the same concept or construct, and hence it is connected to the inter-relatedness of the items within the test. Internal consistency should be determined before a test can be employed for research or examination purposes to ensure validity. In addition, reliability estimates show the amount of measurement error in a test (Tavakol & Dennick, 2011).

Vehkalahti *et al.* (2006) define reliability as the ratio of the true variance to the total variance of the measurement, which does not include the variance of the random measurement error. There are two reliability tests, namely Composite Reliability and Cronbach's alpha. Both Composite Reliability and Cronbach's alpha have similarity. Both measurements vary from 0 to 1 and value larger than 0.6 are considered as accepted reliability. The reason lies behind

$$\text{Composite reliability } (\rho) = \frac{(\sum_i \lambda_{ij})^2}{(\sum_i \lambda_{ij})^2 + \sum_i \text{var}(\epsilon_{ij})}$$

$$\text{Cronbach's alpha: } \alpha = \left(\frac{N}{N-1} \right) \left(1 - \frac{\sum_{i=1}^N \sigma_i^2}{\sigma_t^2} \right)$$

the similarity measurement level refers to the ratio of the true variable to the total variance of measurement.

From the two equations, it is clear that Composite reliability focus more on loading of indicator variable and error variable, while Cronbach's alpha consider variance of indicator *i*. Cronbach alpha is individual item reliability, while composite reliability examines the construct or latent variable. Cronbach's alpha is a traditional reliability measure under the assumption that all factor loadings are constrained to be equal, and all error variances are constrained to be equal. Raykov (1998) indicates that Cronbach alpha may over-or underestimate reliability. This may become serious when the test is multi-dimensional. Then, CR is developed to deal with multi-dimensional data.

The λ represents the loading of indicator variable of *i* from a latent variable, ϵ_i represents error of variable *i*, and *j* is the flow index across all reflective measurement models. *N* is the number of indicators assigned to the factor, σ is variance of indicator *i*.

3) Exploratory Factor Analysis

Exploratory factor analysis is used to identify the underlying factors or latent variables for a set of variables. The analysis accounts for the relationships (i.e., correlation, covariation, and variation) among the items (i.e., the observed variables or indicators). Exploratory factor analysis is based on the common factor model, where each observed variable is a linear function of one or more common factors (i.e., error- or item specific information) Harrington (2008). Exploratory factor analysis can be performed separately for each hypothesized factor. This indicates the uni-dimensionality of each factor. One global factor analysis can also be performed in order to assess the degree of independence between the factors (Gatignon, 2011).

3.a) Kaiser-Meyer Olkin

KMO is an index value that is used to test the accuracy of factor analysis. In addition, the KMO is an index of the distance between the correlation coefficient comparison with the overall partial correlation coefficients. The Kaiser-Meyer_Olkin measure of sampling adequacy is used to compare the magnitudes of the observed correlation coefficients in relation to the magnitudes of the partial correlation coefficients. Large KMO values are good because

$$KMO = \frac{\sum r^2}{\sum r^2 + \sum a^2}$$

correlation between pairs of variables (i.e., potential factors) can be explained by the other variables. the formula of KMO is :

Where $\sum r^2$ is the sum of the observed correlation coefficients, and $\sum a^2$ is the sum of the partial correlation coefficients between all pairs of variables.

3.b) Bartlett's Test of Sphericity

Bartlett's test is used to test if *k* samples have equal variances. Cramer and Howitt (2004) highlight that the test aims to identify simultaneously problem among the variables, which one of assumption in regression method. Equal variances across samples is called homogeneity of variances. The Bartlett test can be used to verify that assumption. Bartlett's Test of Sphericity used to test hypotheses variables which not correlated with the population. If the number is smaller than α significance ($\alpha < 0.05$), then variables can be accepted to used on further analysis. The Bartlett's test formula is :

$$\text{Bartlett's test} = -\ln |R| \left(n - 1 - \frac{2p + 5}{6} \right)$$

Where $|R|$ is Correlation Matrix, p is the number of variables, and n is numbers of data/observations.

3.c) Confirmatory Factor Analysis

Confirmatory Factor Analysis aims to assess overall fit of the entire measurement model and to obtain the final estimates of the measurement model parameters. Barbara (2010) highlights that a first-order CFA model designed to test the multidimensionality of a theoretical construct, which is preliminary test for structural model evaluation. If goodness-of-fit is adequate, the model will be reliable to explain the postulated relations among variables. Hence, there are some tests for goodness of fit, i.e. Chi-square test, Goodness of Fit Index, RMSEA, TLI.

B. Qualitative Approach

1) Interviewing

Interviews provide a useful way for researchers to learn about the world of others, although real understanding may sometimes be elusive. Even when the interviewer and the interviewee seem to be speaking the same language, their words may have completely different cultural meanings. Thus, communicating becomes more difficult when people have different world views. However, done with care, a well-planned interview approach can provide a rich set of data (Qu and Dumay, 2011).

The researcher should make every effort to protect the participants from any potentially harmful effects of participating. Specific areas to which participants should pay particular attention are issues of informed consent, maintenance of full confidentiality of all records, and prevention of disclosure of identities (Yang and Lee, 2008).

Another critical aspect of the methods used in this study was the use of multiple interviews within the organization as well as multiple interviews with some of the informants. As a result, the initial interview conducted with each organization's senior executive to ascertain the structure and responsibilities across the organization was critical to the identification of the appropriate people for interview. Further, this preliminary discussion proved fruitful in not only identifying internal structures but also management philosophies. Often, the views of the different managers were not aligned, which provided an interesting insight into the organization (Stravos and Westberg, 2009).

The power of listening is the second asset of qualitative research (Branthwaite and Patterson, 2011). Active listening is achieved through key interviewer skills in (1) building an atmosphere and relationship with the interviewee, of trust and acceptance (positive regard); (2) cultivating intrigued curiosity about other people's lives, and what they tell us; (3) scanning continuously for alternative meanings or ambiguities in the conversations that may cover-up hidden motives, pleasures or dissatisfactions; (4) acute awareness of non-verbal expressions of values, feelings, and the over- (or under-) tones in attitudes;

Each interview was conducted by the author with a research assistant to ensure that both would have a first-person understanding of the interview so as to facilitate the subsequent analysis. The interviews were conducted in the offices of the interviewees or at venues designated by them. An interview began with introducing and explaining the purpose of the interview, asking the interviewee's permission for voice recording, and a few general questions in order to establish a brief understanding of the nature, start-up and development of the business. The focus of the interview was on exploring the critical incidents in which learning has occurred during the stages of planning, launching, developing, and managing the business through asking a number of open-ended questions. For example, one of the key questions was: "When you launched your business, were there any particular events or moments in which you have learnt something critical? You may illustrate either positive or negative examples". First, the neopositivist view sees the research interview as a tool to be used as effectively as possible by capable researchers establishing a context-free truth about objective reality producing relevant responses, with minimal bias (Qu and Dumay, 2011).

2) Qualitative Analysis

A variety of textual forms provide a basis for interpretation, such as recorded and transcribed interviews, notes of observations, transcribed conversations, speeches, and archival documents. Generally, the interpreter relies on some form of thematic, content-based analysis (Kleinberg and Easley, 2010). The interpretive ethnographer tries to understand cultural knowledge through the "lived experience" of the observed community helps guide observed recurrent, patterned cultural behavior (Yagi and Kleinberg, 2010).

2.a) Storytelling or Narrative

Barnham (2008) suggest step of definition should commence first before goes to the art of discovery step. After we have identify the definition or a means of distinguishing it from every other thing, we need to apply this same rule to the consideration of each condition or pre-requisite entering into this means, and consider all the prerequisites of each prerequisite. And that is what I call true analysis or distribution of the difficulty into several parts. (3) When we have pushed the analysis to the end, that is, when we have considered the prerequisites entering into the consideration of the proposed thing, and even the prerequisites of the prerequisites, and finally have come to considering a few natures understood only by themselves without prerequisites and needing nothing outside themselves to be conceived, then we have arrived at a perfect knowledge of the proposed thing.

When conducting data analysis, Palmberg (2012) outlines two approaches to examine the material: relying on theoretical propositions, and developing a case description. In this paper, case descriptions were developed as a means of presenting the material for the readers. The case descriptions are based on transcripts of the interviews and notes from observations. The comparative case descriptions have been

analyzed using the frame of reference presented in the earlier sections with results from previous, mainly empirically based, research (Palmberg, 2010).

2.b) Narratives

Narratives are one of the processes by which we organize and make sense of the world (Czarniawska, 1998; Herman *et al.*, 2007; Weick, 1995). Narrative considers individual experiences as historical events, and involves thinking about events in terms of chronological sequences based on actions, intentions, purposes, and results. Within narrative, everyday activities are organized into plots with beginnings, middles, and endings, as well as projections into possible futures. While scholars note narratives are related at the macro-, meso-, and micro-/personal levels, research generally focusses on one type or level of narrative (Hermann, 2011).

2.c) Coding

The words of a transcript are the data, but lack meaning without the researcher’s theoretical lens or mental framework. Words are understood in a context, in a setting, in relationship to other words, to other ideas, to other theories. Researchers develop coding schemes, read and re-read texts, and identify patterns (Plowman and Smith, 2011). Much of the data analysis involved breaking down the answers to open-ended questions manually into manageable blocks in order to classify them under each code/grouping. It provided insightful understanding of cultural and behavioral aspects of small enterprises by capturing the interface between the socio-cultural characteristics of the entrepreneurs and the economic, political and socio-cultural contexts in which their firms operate (Altinay & Wang, 2011).

IV. RESULTS

A. The Quantitative Results

The quantitative analysis is divided into three parts, analysis of the reliability test, factor analysis, and regression analysis.

1) Results from Reliability test

The results of reliability tests are presented in Table 2. The Cronbach Alpha (CA) coefficients shows that variables of pricing capability and social capital have items with an underlying (or latent) construct, as the coefficient is higher than 0.600 (the minimum requirement level of CA test). In contrast, entrepreneurial orientation variable has poor reliability, as the coefficient Cronbach Alpha is lower than 0.600. One might need to bear in mind that the high alpha doesn’t directly imply that the measure is unidimensional. CA coefficient shows only reliability.

TABLE 2
ESTIMATION RESULTS OF RELIABILITY TEST

Variables	Cronbaca Alpha	Number of items
Pricing Capability	0.780	13
Social Capital	0.647	28
Entrepreneurial Orientation	0.382	24
Overall	0.731	65

Source: Authors’ calculation from data in questionnaires.

2) Results from Factor analysis

Factor analysis provides items, which are linearly related to unobserved variables. Factor analysis is a means by which the regularity and order in phenomena can be discerned. As phenomena co-occur in space or in time, they are patterned; as these co-occurring phenomena are independent of each other, there are a number of distinct patterns.

Results from factor analysis are presented in Table 3. After removing some items with factor loading less than 0.500, the factor analysis shows that each latent variable has at least three or two items and comes up with new factors. The pattern of market power refers to capability of setting price for new products which comprises into four items (P21, P12, P23 and P24), while the other items (P11, P32, P13) are considered as pattern of relationship with customers. The rest of the pricing strategy items refers to pattern of marketing program (P34, P33, P22, P31).

Each item in pricing strategy for the three patterns are recorded in Table 3.

TABLE 3
PRICING STRATEGY

Code	factor loading	items	Patterns
P21	.701	produced new product(s) this year	capability of setting price for new products
P12	.571	setting competitive price	
P23	.725	our new products were successful	
P24	.563	we sold our new product successfully	
P11	.689	we respond competitors’ pricing tactic	communicati on with customers
P32	.592	we have public communication skill	
P13	.684	we informs the cost structure to our customers	

Code	factor loading	items	Patterns
P34	.639	involved in marketing training	marketing program
P33	.726	developing brand	
P22	.775	developing new products with R&D	
P31	.739	developing advertising program	

Source: Authors' calculation from questionnaires.

Next step is factor analysis on items for social capital variables. With higher level of KMO of .689, factor analysis on social capital indicates discerned regularities and order in phenomena. These co-occurring phenomena are independent of each other, there are three distinct patterns. The first pattern called as staff relationship, the second one refers to relationship with suppliers and the third is associated with sharing goal among the workers.

TABLE 4
SOCIAL CAPITAL

Code	factor loading	Items	pattern
S51	.621	our staffs help among those who have problems	staff relationship
S52	.735	our staffs have integrity	
S53	.758	our staffs are friendship	
S61	.536	our staffs are eager to achieve the goal of our firm	
S63	.722	our staffs understand the vision of our company	
S13	-.649	our firm relies on flexible supplier in operation	supplier relationship
S31	.757	our firm builds relationship to reliable suppliers.	
S32	.791	our firm builds relationship to suppliers who have ability to manage asset as our request.	
S44	.746	Our staffs share their dream	sharing goal
S64	.669	Our firm has ideal goal	
S65	.661	Our staffs understand the target	
S11	.678	Our firm relies on one supplier	distribution
S24	.718	Our firm relies on other company to manage on time distribution.	

TABLE 5
ENTREPRENEURIAL ORIENTATION

Code	factor loading	Items	Pattern
EO32	.673	Over the last year, our firm has no new product (R)	proactivity of innovation process
EO03	-.561		
EO31	.581		
EO33	.678	In our firm, marketing is more important than innovation (R)	
EO44	.571	Our product has a bit differences from the previous one (R) We avoid conflict with competitors (R)	
EO04	.564	Our owner manager sets the target to our employees	aggressiveness of innovation process
EO34	.645		
EO35	.667		
EO53	.667	Our firm never copies the solution from competitors. Our firm prefers to establish new method than copy from others Our firm creates the first idea, then followed by competitors.	
EO52	.667	Our firm is quite aggressive to seize opportunity	aggressiveness to deal with competitor
EO41	-.823		
EO43	.665		
EO07	.739	Our firm responds to what the competitors did (R) Our firm is using a new technology this year.	
EO21	.601	Owner manager plays pivotal role to seize opportunity	autonomy, risk taker, proactive
EO45	.679		
EO01	.602	Our new products follow the market trend.	Autonomy with risk taker
EO24	.703		
EO22	-.632		
		In our firm, supervisor from senior staff is important. Our firm is flexible to provide resource to deal with problems. Our firm is running naturally (R)	

3) Regression Analysis

The result of regression analysis on the market power of SMEs in East Java is presented in Table 6. The market power is measured using three variables: the capacity of setting price for new products (MC1), the communication with customers (MC2), and marketing program (MC3). These three variables are estimated separately under three different equations, and the estimates are presented in Table 6.

TABLE 6
REGRESSION RESULT

Variables	Model 1: MC 1	Model 2: MC 2	Model 3: MC 3
Const	-1.595	2.349	3.496*
EO1	-0.072	0.082	0.005
EO2	0.377***	0.088	0.062***
EO3	0.254	0.224	-0.153
EO4	0.129	-0.151	-0.174

EO5	0.342***	0.153	0.011**
SC1	0.110	-0.033	-0.117
SC2	-0.203	-0.222**	0.183
SC3	0.202	0.232**	0.202***
SC4	0.185***	-0.051	0.076
R	0.560	0.443	0.350
R-Squared	0.310	0.196	0.122

Note: MC1 is the capability of setting price for new products; MC2 is communication with customers; MC3 is marketing program.

In the first model with capability of setting price for new products as a measure for market power (dependent variable), the aggressiveness in innovation process (EO2) has a positive significant effect on market power. The same also picture in the autonomy with risk taker (EO5), which has a positive and significant effect. A good relationship with distributors (SC4) also provides a positive significant effect to the capability of setting price for new products. This model has goodness of fit (R) of 0.56, which is a little bit greater than other two models.

Model 2 highlights the communication with customers as a measure for market power (the dependent variable). The estimation result indicates that social capital plays important roles in market power. The relationship with supplier (SC2) has a negative effect on communication with customers. This finding is contradicting the conventional belief that good relationship with suppliers might increase communication with customers (supply chain), as noted by Algezau & Filieri (2010) and Bernades (2010). However, the finding is in line with Ahmadi et al.(2011) that the complexity of social capital in SMEs doesn't seem to be straight forward influencing the market power. In contrast, the sharing goal among workers within a firm (S4) has a positive and significant impact on the communication to customers. This finding implies that if all workers share the same vision, then the relationship from firm to customers can maintain positively, which is in line with arguments by Martínez-Cañas *et al.* (2012).

Estimates from model 3 in the last column of Table 6 show that both entrepreneur orientation (EO) and social capital (SC) play important roles on marketing program. The entrepreneur orientation variables that have important effect on marketing program are aggressiveness of innovation process (E2) and autonomy with risk taker (E5). The social capital variable that has positive and significant effect on marketing program is sharing goal (S3).

V. CONCLUSION AND SUGGESTION

A. Conclusion

Three important conclusion can be drawn from the analysis.

1. Market power or ability to set price is a sensitive issue among the observed small medium firms. The firms refuse to admit that they have market power for some reasons. Firstly, the way a firm raise price will devastate their consumers. They would rather to argue that they try to decrease the price for their consumer satisfaction. In

fact, the prices never go down but keep on increasing. Secondly, when firms increase the price, they argue transfer-cost based pricing, such as expected oil price or transport cost, as the main reason to increase their prices.

2. Market power is specifically associated with one of the competitive advantage elements, namely bargaining power with buyers. Moreover, the relationship between social capital and market power is unique. This current research provides evident that relationship with distributors (SC4) has positive impact on market power. Even when the service provider can't immediately fix the problem, customers can tolerate it if the employee explains to them the problem in a good manner. The employee needs to provide excellent service to the customers.
3. Among the elements of entrepreneurial orientation, there are two main concepts which affect on market power, which are aggressiveness to deal with competitor and autonomy with risk taker. Unless a firm takes aggressive position, poor market power will come to a place and the firm follows other. Autonomy to the front liner staff also determines to the market power with a risk of consumer satisfaction.

B. Suggestion

The suggestion of this research based on the results is that social capital is essential for market power, which indicates that SMEs must enhance specific networks. The following is the detailed suggestions for the stakeholders.

For policy makers who aim to promote affordable price to customers or strengthen the market power of SMEs, the chain networks management needs to be taken into account. The networks with distributors and supplier play pivotal role to the market power of SMEs. Unless the public can handle this chain, the possibility of cartel price will remain high.

Among the SME managers who are eager to strengthen their market power, building a strong relationship with distributor is the most challenging to foster market power. The relationship has advantages and disadvantages for the SMEs since the hawk-dove game embedded in such relationship. It appears that once a party takes advantages for short-term benefit, the long run opportunities will be missed.

For scholars who are interested in social capital and market power, it is appear that social capital has limitation to strengthen market power. Hence, the future research can handle the extent to which firms can manage social capital which enable to strengthen the market power. The future research with aim to measure market power should take into account the sensitive issue in which the consumers disregard anyone who has market power.

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LEMBAR
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Surabaya, 13 Mei 2016

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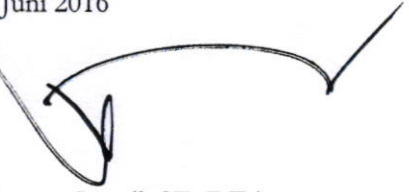
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Total = (100%)		---	10	5,1
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Entrepreneurship Orientation and Social Capital in Pricing Strategy: A Case of Small Enterprises in East Java

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Abstract— This study examines the impact of entrepreneurship orientation and social capital to pricing strategy in small firms in East Java. A mix qualitative and quantitative research method is applied to 168 small firms. The key findings from the qualitative method is that small firms tend to set a low price for their products, price discount is provided for loyal customers, cost-based transfer pricing is adopted, close relationship between owners and workers and among workers are maintained, and aggressiveness is not a nature of entrepreneurship orientation in the small firms. The findings of quantitative method complement the qualitative method by showing three key results: (1) aggressiveness in innovation and autonomy in risk taker are two important entrepreneurship orientation factors influence the capability of the observed small firms in setting price for new products; (2) both aggressiveness in innovation and autonomy in risk taker determine the marketing program (one of the pricing strategy) in the small firms; (3) sharing goals is a key factor in social capital that affecting the good communication with customers.

Keywords—Entrepreneurship orientation, social capital, pricing strategy, small enterprises, East Java.

I. INTRODUCTION

The competition in pricing strategy among small enterprises has increased considerably in Indonesia and elsewhere. Small enterprises face market complexity while settling down themselves for survival in competition. Price strategy becomes important as the consumers are price sensitive. The lack of mediating roles from the internal factors, such as formalization, centralization, cross-functional integration, and organizational commitment, force small enterprises to find alternative factors in supporting their capability in pricing strategy (Rubera and Kirca, 2012). Entrepreneurship orientation and social capital has gained attention as two pivotal variables in determining price strategy (Al-Swidi and Mahmood, 2012; Berzina, 2011; Liu and Zhang, 2013). As small business often suffer from performance enhancement due to economies of scale and group reputation effects, entrepreneurship orientation and social capital are alternative solutions for winning price competition (Carney et al., 2011; Liozu et al., 2012).

Unfortunately, researches on entrepreneurship orientation and social capital are rare, as the two topics are relatively new and just developed in the early 2000. Empirical studies on the effects of the two variables on pricing strategy are even harder to find. A study by Liozu and Hinterhuber (2013) provides a ground for the possibility to examine price strategy from factors rather than value chain variables. This current study fills the gap in the literature by examining in a comprehensive perspective, through not only quantitative method but also qualitative method, on the impact of entrepreneurship orientation and social capital on the pricing strategy. By taking a case on small enterprises in East Java, Indonesia, it might shades a light on the importance of entrepreneurship orientation and social capital in improving the capacity of small firms in pricing strategy.

II. REVIEW OF RELATED LITERATURE

Three groups of literature are related to this current study. These groups are literature on pricing strategy, literature on entrepreneur orientation, and the literature on social capital. Although studies that specifically focuses on the impact of entrepreneurship orientation and social capital on pricing strategy are sparse, a brief review on literature that focus on pricing strategy or entrepreneurship strategy or social capital provides an important conceptual background for conducting an empirical study on the relationship.

A. Pricing Strategy

Pricing capability is a component of market power (Limehouse et al., 2012). Price capability determines a firm to set price for new products, communicate its products to customers, and develop marketing programs (Murray et al., 2011). The way of firm to implement its capability in determining prices is well-known as price strategy.

According to Liozu et al. (2012), there are at least three types of pricing strategy, namely competitor-based pricing, value-based pricing, and cost-based pricing. Its type of pricing strategy has its own advantages and disadvantages, which is well-known in the literature.

The cost-based pricing calculates the selling price by adding up all costs including profit. Many firms adopt this strategy in their intra-company trade and treat the inter-company trade as cost-based transfer pricing. Pfeiffer *et al.* (2011) indicates a range of different methods for cost-based transfer pricing, which are based on either standard or actual costs including mark-ups. While the rules and procedures of these methods have been extensively described, yet the efficiency and the precision of these methods are not well-informed. So that, the application of the cost-based pricing strategy is implemented under the condition that internal transfer pricing are included.

The competition-based pricing refers to prices of competing products, which used as a benchmark for setting a price. In a recent literature, Liu and Zhang (2013) introduces dynamic pricing competition between two firms that offer vertically differentiated products to potential customers whose are intertemporer utility maximizers. This dynamic competitive pricing is well-known as skimming pricing, arising from a unique pure-strategy Markov perfect equilibrium in the game under a simple condition. Kartono (2011) indicates that a relative aggressive pricing might be adopted by a firm when its products have fewer competitors. However, according to Liu and Zhang (2013), asymmetric effect of customer behaviour on quality-differentiated firms might causes customers to prefer lower price, with low-quality products in the short-run. Only when customers have time to compare the quality, then the high quality products will be preferable. In this case, the low-quality firms suffer more than the high-quality firms in the form of losing profits.

The Value-based pricing is defined as a price that depends on the customer willingness to pay (Liozu *et al.*, 2012). The conceptualization of value-based pricing varies from firms to firms. Mostly, this pricing strategy influences by market knowledge and customers knowledge, which related to the deep understanding of customers' mind and competition (Piercy *et al.*, 2010).

B. Entrepreneurship Orientation

Entrepreneurial orientation (EO) is associated with the way to run a business in the long term, in which firms may be able to enhance business performance. The theoretical and empirical inquiry of EO phenomenon has been emerging for over 30 years (Covin and Wales, 2012). This concept is different from entrepreneurship, which is about how to set up a new business (Wang and Shi, 2009). Although both concepts cover opportunity and resource effectiveness, the EO focuses more on responsive behavior upon market environment, which is consider to be opposite behavior to traditional and adaptive market orientation (Renko *et al.*, 2009).

In entrepreneurship theory, there are at least two dominant strands. There are Kirznerian and Schumpeterian. Sundqvist *et al.* (2012) highlight that Kirzenerian considers discovery process over business possibilities, while innovation is associated with Schumpeterian entrepreneur. For Schumpeter, external variables are considered as

uncontrollable factors at the micro-level, while the idea to seize opportunities spring from internally-induced change (Bertta and Latham, 2010). In entrepreneurial orientation, the concept of Schumpeter's innovation becomes factor of entrepreneurial orientation, while discovery process proposed by Kirznerian is considered as proactiveness. The factor and items in the entrepreneurial orientation is summarized in Table 2.2. These items are used in formulating the questionnaire in this current research.

Table 1: Factor and items of Entrepreneurial Orientation

Factors	Items	Sources
Autonomy	Work autonomously Best result with autonomy decision Without constantly referring to supervisor Managers identify and select the opportunities	Lumpkin <i>et al.</i> (2009)
Risk-taking behavior	Proclivity for high risk project Bold and wide ranging act Obtain financing for new business Without adequate resource Aim to high growth "wait and see" posture (R). Study problem carefully (R) Quick to spend resource	Kropp <i>et al.</i> (2008), Gürbüz & Aykol (2009), Lumpkin <i>et al.</i> (2009).
Innovative ness	Creative in using resources Develop new product Emphasis on R&D Many new lines of new products Changes in product	Kropp <i>et al.</i> , (2008), Fang <i>et al.</i> , (2008), Lumpkin <i>et al.</i> (2009).
Proactive	Initiates actions to which competitors then respond. A competitive "undo-the-competitors" posture The first business to introduce new products/services Get "right people" to identify market trends Avoid competitive clashes (R) To "follow the leader" in introducing new products (R).	Kropp <i>et al.</i> , (2008), Lumpkin <i>et al.</i> (2009).
Aggressiv eness	Very aggressive and intensively competitive to take business from the competition. Make no special effort to take business from the competition (R). Adopts a bold, aggressive posture to exploit potential opportunities.	Lumpkin <i>et al.</i> (2009)

C. Social Capital

The central proposition of social capital theory is that networks of relationships constitute a valuable resource (Putnam, 2000; Oldroyd and Morris, 2012). Social capital goes beyond ordinary networks. Broadbridge (2010) highlights that social capital prevails when networks become a key resource for grasping opportunities and benefits. Bernades (2010) indicates that network-relational-embeddedness represents the degree of closeness and reciprocity between a focal firm and its relevant supply networks. The networks, norms and trust play pivotal roles in facilitating information sharing, collective decision-making, and collective action (Wolz *et al.*, 2011). Hence, social capital is expected to be able to enhance organization culture (Lin and Steven, 2010).

From the enterprise perspective, social capital can be defined as investment in social relations with expected returns in the marketplace (Berzina, 2011). Social capital can be a major key for firm performance through innovation as well as supply management channel (Alguezaui and Filieri, 2010; Bernades, 2010). Social capital at the firm level has a significant influence on both knowledge acquisition and innovation, which part of marketing capacity (Martinez-Cañas *et al.*, 2012). In addition, Lim and Putnam (2010) indicate that social capital is associated with life satisfaction. However, Pirolo and Presutti (2010) notice the negative link between the development of strong ties and the growth of a start-up's innovation performance. Bernades (2010) points out that social capital affects on firm performance with complexity development of social capital.

Social capital at the firm level has a significant influence on both knowledge acquisition and innovation, which part of marketing capacity (Martinez-Cañas *et al.*, 2012). However, Pirolo and Presutti (2010) notice the negative link between the development of strong ties and the growth of a start-up's innovation performance. Bernades (2010) points out that social capital affects on firm performance with complexity development of social capital. Ahmadi *et al.* (2011) indicate that the link between social capital of the community and innovation performance of the SMEs doesn't seem to be straightforward on account of absorptive capacity. In social capital while social capital can be a major key for firm performance through innovation as well as supply management channel (Alguezaui & Filieri, 2010; Bernades, 2010).

The role of social capital in firm performance is dynamic at different phases within the organizational growth. Ahmadi *et al.* (2011) indicate that the link between social capital of the community and innovation performance of the SMEs doesn't seem to be straightforward on account of absorptive capacity. In social capital while social capital can be a major key for firm performance through innovation as well as supply management channel (Alguezaui & Filieri, 2010; Bernades, 2010). There are many ways to explore social capital. Entrepreneurial social capital constitutes three elements: view of networks, which closely related to entrepreneurial social networks; view of resource, which is

about resource-based management, and view of integration, which refers to shared resources with common goal (Wang & Shi, 2012). Warner (2012) draws distinction between internal and external focus in social capital. The external focus can be supply chain relationship, which lay on trust. Laequeuddin *et al.* (2010) indicate that supply chain relationship refers to characteristics trust, rational trust and institutional security system. From the internal perspectives, Gupta *et al.* (2011) outlines seven elements of internal focus in social capital, i.e. shared vision, cohesion, and trust. Another approach considers social capital constitutes three dimensions, i.e. structural, relational, and cognitive dimensions (Wu, 2009; Mačerinskienė & Aleknavičiūtė, 2011).

III. RESEARCH METHOD

The research applies a mix method, which using both qualitative and quantitative approaches. The decision in using the mix method for this study is to provide a holistic view on the impact of entrepreneurship orientation and social capital on pricing strategy in small enterprises. A quantitative method enables researchers to find indication of a statistical relationship from entrepreneurship orientation and social capital on pricing strategy. It is in a purpose to answer the question of "how and what". A qualitative method enables researchers to dig deeper through the interaction with the owners of firms in finding the relationship between entrepreneurship orientation and social capital to pricing strategy. This method is in a purpose to answer the question of "why". By conducting these two methods, comprehensive findings are expected to be achieved.

The quantitative approach involves validity test, reliability test, and exploratory factor analysis using Kaiser-Meyer Olkin index, Bartlett's test of sphericity, and confirmatory factor analysis. The qualitative approach involves interview, narrative (transcribing), and coding. The following is the brief description of the methods.

A. Quantitative Approach

When data are obtained from questionnaires, the data are analysis by following three steps. The first step is to check validity of the result from questionnaires using the validity test. The second step is a test for the reliability of the measurements under Cronbach's alpha. The third step is exploratory factor analysis.

1) Validity Test

Validity test aims to check and balance whether the questionnaires is understandable. The test refers to item analysis, i.e. difficulty and discrimination index. Both indexes provide p-value, with expected minimum value of 0.50. To make sure that the questionnaires meet the validity requirement, three steps are involved. First step is content validity, which involve experts to judge the representativeness of the items on the test. This involves some professors and experts in statistics. Second step is face validity, which involves some observed respondents to

examine whether the respondents can understand the questionnaires. The last step is construct validity to ensure there is no overlapping among measures with similar theoretical concept.

2) Reliability Test

Reliability test is used to measure reliability of data or consistency of measurement. Reliability Alpha was developed by Lee Cronbach in 1951 to provide a measure of the internal consistency of a test or scale; it is expressed as a number between 0 and 1. Internal consistency describes the extent to which all the items in a test measure the same concept or construct, and hence it is connected to the inter-relatedness of the items within the test. Internal consistency should be determined before a test can be employed for research or examination purposes to ensure validity. In addition, reliability estimates show the amount of measurement error in a test (Tavakol & Dennick, 2011).

Vehkalahti *et al.* (2006) define reliability as the ratio of the true variance to the total variance of the measurement, which does not include the variance of the random measurement error. There are two reliability tests, namely Composite Reliability and Cronbach's alpha. Both Composite Reliability and Cronbach's alpha have similarity. Both measurements vary from 0 to 1 and value larger than 0.6 are considered as accepted reliability. The reason lies behind the similarity measurement level refers to the ratio of

$$\text{Composite reliability } (\rho) = \frac{(\sum_i \lambda_{ij})^2}{(\sum_i \lambda_{ij})^2 + \sum_i \text{var}(\epsilon_{ij})}$$

$$\text{Cronbach's alpha: } \alpha = \left(\frac{N}{N-1} \right) \left(1 - \frac{\sum_{i=1}^N \sigma_i^2}{\sigma_t^2} \right)$$

the true variable to the total variance of measurement.

From the two equations, it is clear that Composite reliability focus more on loading of indicator variable and error variable, while Cronbach's alpha consider variance of indicator *i*. Cronbach alpha is individual item reliability, while composite reliability examines the construct or latent variable. Cronbach's alpha is a traditional reliability measure under the assumption that all factor loadings are constrained to be equal, and all error variances are constrained to be equal. Raykov (1998) indicates that Cronbach alpha may over-or underestimate reliability. This may become serious when the test is multi-dimensional. Then, CR is developed to deal with multi-dimensional data.

The λ represents the loading of indicator variable of *i* from a latent variable, ϵ_i represents error of variable *i*, and *j* is the flow index across all reflective measurement models. *N* is the number of indicators assigned to the factor, σ is variance of indicator *i*.

3) Exploratory Factor Analysis

Exploratory factor analysis is used to identify the underlying factors or latent variables for a set of variables. The analysis accounts for the relationships (i.e., correlation, covariation, and variation) among the items (i.e., the observed variables or indicators). Exploratory factor analysis is based on the common factor model, where each observed variable is a linear function of one or more common factors (i.e., error- or item specific information) Harrington (2008). Exploratory factor analysis can be performed separately for each hypothesized factor. This indicates the unidimensionality of each factor. One global factor analysis can also be performed in order to assess the degree of independence between the factors (Gatignon, 2011).

3.a) Kaiser-Meyer Olkin

KMO is an index value that is used to test the accuracy of factor analysis. In addition, the KMO is an index of the distance between the correlation coefficient comparison with the overall partial correlation coefficients. The Kaiser-Meyer-Olkin measure of sampling adequacy is used to compare the magnitudes of the observed correlation

$$KMO = \frac{\sum r^2}{\sum r^2 + \sum a^2}$$

coefficients in relation to the magnitudes of the partial correlation coefficients. Large KMO values are good because correlation between pairs of variables (i.e., potential factors) can be explained by the other variables. the formula of KMO is:

Where $\sum r^2$ is the sum of the observed correlation coefficients, and $\sum a^2$ is the sum of the partial correlation coefficients between all pairs of variables.

3.b) Bartlett's Test of Sphericity

Bartlett's test is used to test if *k* samples have equal variances. Cramer and Howitt (2004) highlight that the test aims to identify simultaneously problem among the variables, which one of assumption in regression method. Equal variances across samples is called homogeneity of variances. The Bartlett test can be used to verify that assumption. Bartlett's Test of Sphericity used to test hypotheses variables which not correlated with the population. If the number is smaller than α significance ($\alpha < 0.05$), then variables can be accepted to used on further analysis. The Bartlett's test formula is:

Where $|R|$ is Correlation Matrix, *p* is the number of variables, and *n* is numbers of data/observations.

3.c) Confirmatory Factor Analysis

Confirmatory Factor Analysis aims to assess overall fit of the entire measurement model and to obtain the final estimates of the measurement model parameters.

$$\text{Bartlett's test} = -\ln |R| \left(n - 1 - \frac{2p + 5}{6} \right)$$

Barbara (2010) highlights that a first-order CFA model designed to test the multidimensionality of a theoretical construct, which is preliminary test for structural model evaluation. If goodness-of-fit is adequate, the model will be reliable to explain the postulated relations among variables. Hence, there are some tests for goodness of fit, i.e. Chi-square test, Goodness of Fit Index, RMSEA, TLI.

B. Qualitative Approach

1) Interviewing

Interviews provide a useful way for researchers to learn about the world of others, although real understanding may sometimes be elusive. Even when the interviewer and the interviewee seem to be speaking the same language, their words may have completely different cultural meanings. Thus, communicating becomes more difficult when people have different world views. However, done with care, a well-planned interview approach can provide a rich set of data (Qu and Dumay, 2011).

The researcher should make every effort to protect the participants from any potentially harmful effects of participating. Specific areas to which participants should pay particular attention are issues of informed consent, maintenance of full confidentiality of all records, and prevention of disclosure of identities (Yang and Lee, 2008).

Another critical aspect of the methods used in this study was the use of multiple interviews within the organization as well as multiple interviews with some of the informants. As a result, the initial interview conducted with each organization's senior executive to ascertain the structure and responsibilities across the organization was critical to the identification of the appropriate people for interview. Further, this preliminary discussion proved fruitful in not only identifying internal structures but also management philosophies. Often, the views of the different managers were not aligned, which provided an interesting insight into the organization (Stravos and Westberg, 2009).

The power of listening is the second asset of qualitative research (Branthwaite and Patterson, 2011). Active listening is achieved through key interviewer skills in (1) building an atmosphere and relationship with the interviewee, of trust and acceptance (positive regard); (2) cultivating intrigued curiosity about other people's lives, and what they tell us; (3) scanning continuously for alternative meanings or ambiguities in the conversations that may cover-up hidden motives, pleasures or dissatisfactions; (4) acute awareness of non-verbal expressions of values, feelings, and the over- (or under-) tones in attitudes;

Each interview was conducted by the author with a research assistant to ensure that both would have a first-person understanding of the interview so as to facilitate the subsequent analysis. The interviews were conducted in the offices of the interviewees or at venues designated by them. An interview began with introducing and explaining the purpose of the interview, asking the interviewee's permission for voice recording, and a few general questions

in order to establish a brief understanding of the nature, start-up and development of the business. The focus of the interview was on exploring the critical incidents in which learning has occurred during the stages of planning, launching, developing, and managing the business through asking a number of open-ended questions. For example, one of the key questions was: "When you launched your business, were there any particular events or moments in which you have learnt something critical? You may illustrate either positive or negative examples". First, the neopositivist view sees the research interview as a tool to be used as effectively as possible by capable researchers establishing a context-free truth about objective reality producing relevant responses, with minimal bias (Qu and Dumay, 2011).

2) Qualitative Analysis

A variety of textual forms provide a basis for interpretation, such as recorded and transcribed interviews, notes of observations, transcribed conversations, speeches, and archival documents. Generally, the interpreter relies on some form of thematic, content-based analysis (Kleinberg and Easley, 2010). The interpretive ethnographer tries to understand cultural knowledge through the "lived experience" of the observed community helps guide observed recurrent, patterned cultural behavior (Yagi and Kleinberg, 2010).

2.a) Storytelling or Narrative

Barnham (2008) suggest step of definition should commence first before goes to the art of discovery step. After we have identify the definition or a means of distinguishing it from every other thing, we need to apply this same rule to the consideration of each condition or prerequisite entering into this means, and consider all the prerequisites of each prerequisite. And that is what I call true analysis or distribution of the difficulty into several parts. (3) When we have pushed the analysis to the end, that is, when we have considered the prerequisites entering into the consideration of the proposed thing, and even the prerequisites of the prerequisites, and finally have come to considering a few natures understood only by themselves without prerequisites and needing nothing outside themselves to be conceived, then we have arrived at a perfect knowledge of the proposed thing.

When conducting data analysis, Palmberg (2012) outlines two approaches to examine the material: relying on theoretical propositions, and developing a case description. In this paper, case descriptions were developed as a means of presenting the material for the readers. The case descriptions are based on transcripts of the interviews and notes from observations. The comparative case descriptions have been analyzed using the frame of reference presented in the earlier sections with results from previous, mainly empirically based, research (Palmberg, 2010).

2.b) Narratives

Narratives are one of the processes by which we organize and make sense of the world (Czarniawska, 1998;

Herman *et al.*, 2007; Weick, 1995). Narrative considers individual experiences as historical events, and involves thinking about events in terms of chronological sequences based on actions, intentions, purposes, and results. Within narrative, everyday activities are organized into plots with beginnings, middles, and endings, as well as projections into possible futures. While scholars note narratives are related at the macro-, meso-, and micro-/personal levels, research generally focusses on one type or level of narrative (Hermann, 2011).

2.c) Coding ¹⁶

The words of a transcript are the data, but lack meaning without the researcher's theoretical lens or mental framework. Words are understood in a context, in a setting, in relationship to other words, to other ideas, to other theories. Researchers develop coding schemes, read and re-read texts, and identify patterns (Plowman and Smith, 2011). Much of the data analysis involved breaking down the answers to open-ended questions manually into manageable blocks in order to classify them under each code/grouping. It provided insightful understanding of cultural and behavioral aspects of small enterprises by capturing the interface between the socio-cultural characteristics of the entrepreneurs and the economic, political and socio-cultural contexts in which their firms operate (Altinay & Wang, 2011).

IV. RESULTS

A. The Quantitative Results

The quantitative analysis is divided into three parts, analysis of the reliability test, factor analysis, and regression analysis.

1) Results from Reliability test

The results of reliability tests are presented in Table 2. The Cronbach Alpha (CA) coefficients shows that variables of pricing capability and social capital have items with an underlying (or latent) construct, as the coefficient is higher than 0.600 (the minimum requirement level of CA test). In contrast, entrepreneurial orientation variable has poor reliability, as the coefficient Cronbach Alpha is lower than 0.600. One might need to bear in mind that the high alpha doesn't directly imply that the measure is unidimensional. CA coefficient shows only reliability.

Table 2: Estimation Results of Reliability Test

Variables	Cronbach Alpha	Number of items
Pricing Capability	0.780	13
Social Capital	0.647	28
Entrepreneurial Orientation	0.382	24
Overall	0.731	65

Source: Authors' calculation from data in questionnaires.

2) Results from Factor analysis

Factor analysis provides items, which are linearly related to unobserved variables. Factor analysis is a means by which the regularity and order in phenomena can be discerned. As phenomena co-occur in space or in time, they are patterned; as these co-occurring phenomena are independent of each other, there are a number of distinct patterns.

Results from factor analysis are presented in Table 3. After removing some items with factor loading less than 0.500, the factor analysis shows that each latent variable has at least three or two items and comes up with new factors. The pattern of market power refers to capability of setting price for new products which comprises into four items (P21, P12, P23 and P24), while the other items (P11, P32, P13) are considered as pattern of relationship with customers. The rest of the pricing strategy items refers to pattern of marketing program (P34, P33, P22, P31).

Each item in pricing strategy for the three patterns are recorded in Table 3.

Table 3: Pricing Strategy

Code	factor loading	items	Patterns
P21	.701	produced new product(s) this year	capability of setting price for new products
P12	.571	setting competitive price	
P23	.725	our new products were successful	
P24	.563	we sold our new product successfully	
P11	.689	we respond competitors' pricing tactic	communication with customers
P32	.592	we have public communication skill	
P13	.684	we informs the cost structure to our customers	
P34	.639	involved in marketing training	marketing program
P33	.726	developing brand	
P22	.775	developing new products with R&D	
P31	.739	developing advertising program	

Source: Authors' calculation from questionnaires.

Next step is factor analysis on items for social capital variables. With higher level of KMO of .689, factor analysis on social capital indicates discerned regularities and order in phenomena. These co-occurring phenomena are independent of each other, there are four distinct patterns. The first pattern called as staff relationship, the second one refers to relationship with suppliers, the third is associated with sharing goal among the workers, and the fourth is

related to distribution channel. Table 4 shows the value of factor loading for each item of the social capital.

Table 4: Social Capital

Code	factor loading	Items	pattern
S51	.621	our staffs help among those who have problems	staff relationship
S52	.735	our staffs have integrity	
S53	.758	our staffs are friendship	
S61	.536	our staffs are eager to achieve the goal of our firm	
S63	.722	our staffs understand the vision of our company	
S13	-.649	our firm relies on flexible supplier in operation	supplier relationship
S31	.757	our firm builds relationship to reliable suppliers.	
S32	.791	our firm builds relationship to suppliers who have ability to manage asset as our request.	
S44	.746	Our staffs share their dream	sharing goal
S64	.669	Our firm has ideal goal	
S65	.661	Our staffs understand the target	
S11	.678	Our firm relies on one supplier	distribution
S24	.718	Our firm relies on other company to manage on time distribution.	

Factor loading for entrepreneurship orientation variables is presented in Table 5. The highest KMO value is for variable EO07, with the value of 0.739. The entrepreneurship orientation variables can be grouped into five distinct patterns. The first pattern is named as proactivity of innovation process. The second pattern is aggressiveness of innovation process, while the third pattern is related to aggressiveness to deal with competitors. The fourth pattern is a variable explaining the autonomy of the owners, the risk taker, and proactive behavior. The fifth pattern is representing autonomy with risk taker.

Table 5: Entrepreneurial Orientation

Code	factor loading	Items	Pattern
EO32	.673	Over the last year, our firm has no new product	proactivity of innovation process
EO03	-.561	Our staffs don't depend too much on the manager.	
EO31	.581	In our firm, marketing is more important than innovation	
EO33	.678	Our product has a bit differences from the previous one	
EO44	.571	We avoid conflict with competitors	
EO04	.564	Our owner manager sets the target to our employees	aggressiveness of innovation process
EO34	.645	Our firm never copies the solution from competitors.	
EO35	.667	Our firm never copies the solution from competitors.	
EO53	.667	Our firm prefers to establish new method than copy from others	aggressiveness to deal with competitor
EO52	.667	Our firm is quite aggressive to seize opportunity	
EO41	-.823	Our firm responds to what the competitors did	
EO43	.665	Our firm is using a new technology this year.	
EO07	.739	Owner manager plays pivotal role to seize opportunity	autonomy, risk taker, proactive
EO21	.601	Our firm tries to avoid risk	
EO45	.679	Our new products follow the market trend.	
EO01	.602	In our firm, supervisor from senior staff is important.	Autonomy with risk taker
EO24	.703	Our firm is flexible to provide resource to deal with problems.	
EO22	-.632	Our firm is running naturally	

3) Regression Analysis

The result of regression analysis on the market power of SMEs in East Java is presented in Table 6. The market power is measured using three variables: the capacity of setting price for new products (MC1), the communication with customers (MC2), and marketing program (MC3). These three variables are estimated separately under three different equations, and the estimates are presented in Table 6.

Table 6: Regression Result

Variables	Model 1: MC 1	Model 2: MC 2	Model 3: MC 3
Const	-1.595	2.349	3.496*
EO1	-0.072	0.082	0.005
EO2	0.377***	0.088	0.062***
EO3	0.254	0.224	-0.153
EO4	0.129	-0.151	-0.174
EO5	0.342***	0.153	0.011**
SC1	0.110	-0.033	-0.117
SC2	-0.203	-0.222**	0.183
SC3	0.202	0.232**	0.202***
SC4	0.185***	-0.051	0.076
R	0.560	0.443	0.350
R-Squared	0.310	0.196	0.122

Note: MC1 is the capability of setting price for new products; MC2 is communication with customers; MC3 is marketing program.

In the first model with capability of setting price for new products as a measure for market power (dependent variable), the aggressiveness in innovation process (EO2) has a positive significant effect on market power. The same also picture in the autonomy with risk taker (EO5), which has a positive and significant effect. A good relationship with distributors (SC4) also provides a positive significant effect to the capability of setting price for new products. This model has goodness of fit (R) of 0.56, which is a little bit greater than other two models.

Model 2 highlights the communication with customers as a measure for market power (the dependent variable). The estimation result indicates that social capital plays important roles in market power. The relationship with supplier (SC2) has a negative effect on communication with customers. This finding is contradicting the conventional belief that good relationship with suppliers might increase communication with customers (supply chain), as noted by Algezauzi & Filieri (2010) and Bernades (2010). However, the finding is in line with Ahmadi et al. (2011) that the complexity of social capital in SMEs doesn't seem to be straight forward influencing the market power. In contrast, the sharing goal among workers within a firm (S4) has a positive and significant impact on the communication to customers. This finding implies that if all workers share the same vision, then the relationship from firm to customers can maintain positively, which is in line with arguments by Martinez-Cañás et al. (2012).

Estimates from model 3 in the last column of Table 6 show that both entrepreneur orientation (EO) and social capital (SC) play important roles on marketing program. The entrepreneur orientation variables that have important effect on marketing program are aggressiveness of innovation process (E2) and autonomy with risk taker (E5). The social capital variable that has positive and significant effect on marketing program is sharing goal (S3).

B. Qualitative Results

1) Pricing Strategy

The interpretative approach indicates that capability of the observed firms to set a price is quite low. The observed respondents prefer competitiveness price to seize business opportunity. The first respondent highlight that setting higher price is not the nature of his firm.

"... Apparently, our firm focuses on customer satisfaction through providing products with best quality and the most competitive price. Our customers will not be happy if the price increases."

Another respondent also argues that

"... Instead of increasing the price, we prefer to provide discount to our loyal customers. They really hate increased price. ..."

This result is in line with Bezwada (2013), who indicates that price reduction still plays pivotal role in recent mainstream retail with cross elasticity among products. However, there are some other possibilities from transfer pricing to denying cartel price.

"...I would rather to say that price of our input is the one which determines our increased price.."

Price coordination becomes apparent in which merchant association aims to facilitate interaction with governments. Fjell, Foros, & Pal (2010) highlight interdependence among firms occurs on pricing strategy.

"... price competitiveness is nature of our business. Our customers are very sensitive to our prices. So we need to provide price competitiveness to fight for competitive advantage."

The observed firms base their intra-company trade on cost-based transfer prices. Regarding capability to set price, this interview indicates high dependency of the observed firms to main supplier. Pfeiffer et al (2011) consider transfer cost from supplier with cost-based pricing method, which refers to the total cost is added (as income or profit) to the cost of the product to arrive at its selling price.

2) Social Capital

According to an SME owner, social capital is associated with staff relationship which is considered to be structural element.

"... Our staffs have close relationship. Every long weekend, we arrange outing activities as a family gathering."

This network structure refers to Broadbridge (2010), who indicates that direct ties in which people close to individual. Jansen et al. (2011) point out that the number

of channels provide more diverse information regarding the decision situation, which implies to decision making process.

3) Aggressiveness in entrepreneurial orientation

“ ... I would rather to avoid conflict with our competitors. However, the decision to take aggressive position depends on the situation, such as the way our competitors treat us...”

This indicates that aggressiveness is not a nature of entrepreneurial orientation of the observed firms. This idea refers to hawk-dove game theory. The game of chicken, also known as the hawk-dove game or snow-drift game, is an influential model of conflict for two players in game theory. The principle of the game is that while each player prefers not to yield to the other, the worst possible outcome occurs when both players do not yield.

V. CONCLUSION AND SUGGESTION

A. Conclusion

Three important conclusion can be drawn from the analysis.

1. Market power or ability to set price is a sensitive issue among the observed small medium firms. The firms refuse to admit that they have market power for some reasons. Firstly, the way a firm raise price will devastate their consumers. They would rather to argue that they try to decrease the price for their consumer satisfaction. In fact, the prices never go down but keep on increasing. Secondly, when firms increase the price, they argue transfer-cost based pricing, such as expected oil price or transport cost, as the main reason to increase their prices.
2. Market power is specifically associated with one of the competitive advantage elements, namely bargaining power with buyers. Moreover, the relationship between social capital and market power is unique. This current research provides evident that relationship with distributors (SC4) has positive impact on market power. Even when the service provider can't immediately fix the problem, customers can tolerate it if the employee explains to them the problem in a good manner. The employee needs to provide excellent service to the customers.
3. Among the elements of entrepreneurial orientation, there are two main concepts which affect on market power, which are aggressiveness to deal with competitor and autonomy with risk taker. Unless a firm takes aggressive position, poor market power will come to a place and the firm follows other. Autonomy to the front liner staff also determines to the market power with a risk of consumer satisfaction.

B. Suggestion

The suggestion of this research based on the results is that social capital is essential for market power, which

indicates that SMEs must enhance specific networks. The following is the detailed suggestions for the stakeholders.

For policy makers who aim to promote affordable price to customers or strengthen the market power of SMEs, the chain networks management needs to be taken into account. The networks with distributors and supplier play pivotal role to the market power of SMEs. Unless the public can handle this chain, the possibility of cartel price will remain high.

Among the SME managers who are eager to strengthen their market power, building a strong relationship with distributor is the most challenging to foster market power. The relationship has advantages and disadvantages for the SMEs since the hawk-dove game embedded in such relationship. It appears that once a party takes advantages for short-term benefit, the long run opportunities will be missed.

For scholars who are interested in social capital and market power, it is appear that social capital has limitation to strengthen market power. Hence, the future research can handle the extent to which firms can manage social capital which enable to strengthen the market power. The future research with aim to measure market power should take into account the sensitive issue in which the consumers disregard anyone who has market power.

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