LAPORAN PENELITIAN LANJUT

THE IMPACT OF SOCIAL CAPITAL ON MARKET POWER: ANALYSIS OF COMPETITIVE ADVANTAGE IN SMALL MEDIUM ENTERPRISES

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ABSTRACT

The impact of social capital on market power has been an interesting topic since the early 2000. The mainstream literature evaluates mainly on the impact of physical capital on the market power, whereas the new developed literature focuses also on the social capital in analyzing market power. In this present study, a comprehensive analysis on market power is based on two important determinants, entrepreneurial orientation and social capital. Entrepreneurship orientation is expected to contribute positively and significantly on market power. The same positive significant effect is also expected from social capital to market power. Using the sample of small and medium enterprises in East Java, this present study analyzes comprehensively the impact of social capital on market power. The analysis is performed on both quantitative data and qualitative data. The quantitative method includes reliability test, validity test, explanatory factor analysis of Kaiser-Meyer Olkin's and Bartlett's, and regression analysis. The qualitative method is based on an interpretative approach on interview, storytelling, narrative, and coding.

The quantitative analysis finds out four important findings. Firstly, the data used in the analysis is reliable and uni-dimension, with 13 items of questions represent market power, 28 items of questions represent social capital, and 24 items of questions represent entrepreneurial orientation. Secondly, validity test confirms that the constructed dataset is valid to be used to perform factor analysis. Thirdly, the factor analysis shows that each latent variable has at least two items that forming specific patterns within the variable. Fourthly, the regression analysis indicates that sharing goal, relationship with suppliers, and relationship with distributors are three key factors of social capital that significant effects on market power

The qualitative analysis finds five important points. Firstly, price reduction plays pivotal role in retail products with cross elasticity. Secondly, there is interdependence among firms on price strategy. Thirdly, there is a high dependence of observed firms on their suppliers. Fourthly, a specific social capital that related to staff relationship is an important factor in the observed small and medium enterprises. Fifthly, aggressiveness is not a nature of entrepreneurial orientation for the observed firms, which support the argument in hawk-dove game theory.

Keywords: Market power, social capital, entrepreneurship orientation, small medium enterprises.

RINGKASAN

Pengaruh modal sosial (*social capital*) terhadap kekuatan pasar (market power) merupakan topik menarik yang sering dibahas oleh para ahli ekonomi sejak awal 2000. Literatur utama di bidang ekonomi memfokuskan pembahasan pada dampak modal fisik terhadap kekuatan pasar, sementara literatur modern saat ini mengkaji modal fisik dan modal sosial dalam pengaruh terhadap kekuatan pasar. Dalam penelitian ini, analisis komprehensif terhadap kekuatan pasar didasarkan pada dua faktor penting, yaitu orientasi kewirausahaan (*entrepreneurship orientation*) dan modal sosial. Orientasi sosial diharapkan memberikan pengaruh positif dan signifikan terhadap kekuatan pasar. Pengaruh positif dan signifikan juga diharapkan dari modal sosial ke kekuatan pasar. Dengan menggunakan sampel perusahaan kecil dan menengah di Jawa Timur, penelitian ini menganalisis secara komprehensif dampak modal sosial terhadap kekuatan pasar (yang diukur dari strategi penetapan harga). Analisis dilakukan terhadap data kuantitatif dan data kualitatif. Metode kuantitatif mencakup pengujian reliabilitas, pengujian validitas, analisis faktor eksplanatori Kaiser-Meyer-Olkin, analisis faktor eksplanatori Bartlett, dan analisis regresi. Metode kualitatif didasarkan pada pendekatan interpretatif dengan menggunakan interview, storytelling, narasi, dan pengkodean.

Analisis kuantitatif menemukan empat temuan penting. Pertama, dataset yang dipergunakan dalam analisis adalah reliable dan uni-dimension, dengan 13 pertanyaaan mewakili kekuatan pasar, 28 pertanyaan mewakili modal sosial, dan 24 pertanyaan mewakili orientasi kewirausahaan. Kedua, pengujian validitas mengkonfirmasi bahwa dataset yang dipergunakan adalah valid untuk dipergunakan dalam pengujian analisis faktor dan analisis regresi. Ketiga, pengujian analisis faktor memperlihatkan bahwa setiak variabel utama yang dipergunakan dalam model memiliki sedikitnya dua pertanyaan yang membentuk pola spesifik. Keempat, analisis regresi mengindikasikan bahwa sharing goal, hubungan dengan pemasokm dan hubungan dengan distributor merupakan tiga faktor penting modal sosial yang secara signifikan mempengaruhi kekuatan pasar.

Analisis kualitatif menemukan lima hal penting. Pertama, penurunan harga memainkan peran yang penting dalam produk-produk retail yang elastisitas silang-nya tinggi. Kedua, terdaapt interdependensi antar perusahaan dalam strategi harga. Ketiga, terdapat ketergantungan tinggi perusahaan-perusahaan yang diamati terhadap pemasoknya. Keempat, modal sosial tertentu yang berhubungan dengan keeratan hubungan pekerja adalah faktor penting dalam perusahaan kecil dan menengah. Kelima, agresifitas bukanlah merupakan sifat dasar dari orientasi kewirausahaan pada perusahaan-perusahaan yang diamati, temuan ini mendukung argument elang-merpati (hawk-dove) dalam teori permainan (game theory).

Kata-kata kunci: kekuatan pasar, modal sosial, orientasi kewirausahaan, perusahaan kecil dan menengah.

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This research evaluates market power of small and medium enterprises using a comprehensive analysis, combining quantitative and qualitative approaches. In literature, there is a gap between quantitative and qualitative approach to understand human behavior phenomenon. This present study fills the gap by proposing a combined method of factor analysis and regression analysis.

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TABLE OF CONTENT

CHAPTER 1: INTRODUCTION **6**

1.1. Research Background 6
1.2. Problem Statement 6
1.3. Research Question 6
1.4. Research Objective 6
1.5. Significant of Study 6
1.6. Operational Definition 6
1.6.1. Market power 6
1.6.2. Social capital 6
1.6.3. Entrepreneurial orientation 6
1.7. Research Limitation 6

CHAPTER II: REVIEW OF LITERATURE **6**

2.1. Market Power dan Competitive Advantage 6
2.2. The element of Market Power 6
2.2.1. Market power and market structure 6
2.2.2. Pricing strategy 6
2.2.3. Market power and marketing strategy 6
2.2. The Determinant of Market Power 6
2.2.1. Social Capital 6
2.2.1.1. Structural Dimension 6
2.2.1.2. Cognitive Dimension 6
2.2.1.3. Trust Dimension 6
2.2.2. Entrepreneurial Orientation 6
2.2.2.1. Autonomy 6
2.2.2.2. Risk-taking Behavior 6
2.2.2.3. Innovativeness 6
2.2.2.4. Proactiveness 6
2.2.2.5. Competitive Aggressiveness 6

CHAPTER III: RESEARCH METHOD **6**

3.1. Quantitative Approach 6
3.1.1. Validity Test 6

3.1.2. Reliability Test 7

3.1.3. Exploratory Factor Analysis 7

3.1.3.1. Kaiser-Meyer Olkin 7

3.1.3.2. Bartlett's Test of Sphericity 7

3.1.3.3. Confirmatory Factor Analysis 7

3.2. Qualitative Approach 7

3.2.1. Interviewing 7

3.2.2. Qualitative Analysis 7

3.2.2.1. Storytelling or Narrative 7

3.2.2.2. Narratives 7

3.2.2.3. Coding 7

CHAPTER IV: ANALYSIS **7**

4.1. Qualitative Approach 7

4.2. Quantitative Approach 7

4.2.1. Reliability test 7

4.2.3. Regression Analysis 7

CHAPTER V: CONCLUSION **7**

5.1. Conclusion 7

5.2. Suggestion 7

REFERENCES **7**

CHAPTER 1: INTRODUCTION

1.1. Research Background

It appears that many governments are used to lionizations of the small businessman. For example, the Indonesian government has enacted Law 80 2010 to promote the small business performance. Various government agencies in Malaysia acknowledge the strategic trust for SMEs (Ahmad et al, 2010), while Thailand government manage to enhance the performance of SMEs on account of a major labor force (Nakhata, 2010). Balbir and Venkataramay (2010) outline lesson learn from India and Singapore to other Southeast Asia countries, especially Indonesia where SME has gained legitimacy as a prescription to achieve economic goals.

Policy with favor on SME becomes popular during global financial crisis with especially to foster economic growth and run up against unemployment. In the South Korean, such policy aims to respond China's revelation (Dianhua and Douxuan, 2012). The European Union is also funding SME in 27 state members to respond financial crisis (Oncioiu, 2012), while US social policy tries to promote new small business ventures (Chester and Gregory, 2011). Job creation has become major reasons for such policies to run up against with global economic crisis.

A number of researches offer evident the important role of SME to create more jobs. Zhao (2012) points out that formal SMEs in high-income countries provide 70% jobs, while three out of four companies in emerging market is small enterprises with millions of job creation. Shane (2012) notes that US small enterprises provided 2.6 million jobs during the economic recovery in 2008. In Southeast Asia, SMEs has been playing pivotal role to deal with unemployment since the economic crisis of 1997 (Balbir and Venkataramay, 2010; Nakhata, 2010). Neumark *et al.* (2008) also offer evident that small businesses create more jobs than larger one, then, come with question of sustainability and expansion. However, this doesn't mean that the growth of small enterprises is promising.

Along with increasing environmental turbulence, the small business arena gets in a chronic state of flux. Moreover, there is a widening gap between market complexity and capacity of most marketing organization to deal with this complexity (Day, 2011). Rubera & Kirca (2012) indicate lack of the mediating role from the internal factors, such as formalization, centralization, cross-functional integration, organizational commitment, and identification. While relationship between strategic orientation and firm performance is mixed; then Liu & Fu (2011) suggest moderators and mediators for the future research.

While all markets are subject to greater complexity at higher velocities, the urgency of the response and the adaptive capabilities to be built or enhanced will differ depending on whether the firm serves mass markets with millions of customers or sells complex systems to a small number of valuable customers (Day, 2011). Moreover, it is widely believed small businesses are suffering from performance enhancement due to economies of scale and groups reputation effects (Carney et al, 2011).

This research argues that entrepreneurial orientation and social capital become major determinant for price strategy for some reasons. The concept of networks play pivotal role to understand how to attain and maintain competitive advantage. Afual (2013) indicates lack of research roots on network theory of neoclassical economic which indicates network provides unique context on resource-based theory. The very characteristic of social capital with the form of relationship embedded hampers the ability of a firm. Supply management function can bring about flexibility of firm to respond to unique needs of customers (Bernades, 2010).

1.2. Problem Statement

The supply network as social system may hamper the ability of small firms to utilize the opportunity because social capital is based on closeness and reciprocity. Actions geared toward change may disrupt the networks. There is a gap regarding the limits of social capital, which impose capability of small firms to set strategy. Liozu *et al.* (2012) thus call for more research probing the understanding of alternative pricing approaches, specially the understanding of value-based pricing, across other industries. Hence, Afual (2013) highlights future research on how poor business model with lack of network structure due to too much focus on network size performs during booming industries.

1.3. Research Question

To deal with limitation of social capital references, this research raises question about the impact of social capital on market power of small firms. Hence, the extended questions come to how social capital affects market power of small firms.

1. What is the relationship between social capital and market power?
2. What is the relationship between entrepreneurial orientation and market power?

1.4. Research Objective

This research would like to investigate the impact of social capital on market power of small firms.

1. To determine the relationship between social capital and market power.
2. To determine the relationship between entrepreneurial orientation and market power

1.5. Significant of Study

From policy perspective, this research wants to provide alternative policies for countries which rely on the SMEs. With context of Indonesia, this model is expected to be relevant to other emerging economics in which social capital plays pivotal role on economies. This brings a tension on public policy agenda to answer whether a government tends to lionizations of SMEs.

From theoretical perspective, this research attempts to respond the research gap proposed by Bernardes (2010) and Afual (2013) about the limited role of social capital to impose on supply chain management function and within dyadic network interaction. Through taking sample from SME in emerging economy, this research tries to answer how how poor business model with lack of network structure due to too much focus on network size performs during booming industries in which Afual (2013) considers for the future research.

1.6. Operational Definition

1.6.1. Market power

Market power is associated with capability of a firm to raise market price of their product for more profitable operation. A firm with total market power has capacity to increase price and keep the customer loyalty. This refers to capability to manage marketing resources, which spring from integrated knowledge accumulation processes with organization's values and norms (Cruz-Ros, et al., 2011).

1.6.2. Social capital

Social capital refers to social network, which is considered to firm's resources. This resource is associated with structure, cohesiveness, and trust, which embedded within organization and relationship with stakeholders. Social capital (SC) is a piece of resource about relationship with stakeholders from dimension of trust, structure and cognition. The value of network ties provides privileged access to information and opportunities, which enables symbiotic alliance in place with a high level of mutual of trust (Li et al, 2012). Accordingly, the organization manages the information through information systems and processes, but abundant density of organization's network brings about limited capacity of organization to manage the side effect of information flow (Oldroyd & Morris, 2012).

1.6.3. Entrepreneurial orientation

Entrepreneurial orientation is a long rung strategic stile of a firm in order to seize firm performance. Firm performance (FP) is about level of achievement of business organization toward its goal. Referring to theory of the firm, a goal of business organization is profit maximization as its performance (Spullberg, 2009). Hence, sustainable profit maximization is associated with some measure items, which are sales growth, employment growth, gross profit, return on asset, return on investment, and return on sales.

1.7. Research Limitation

Several future research routes can be traced on the basis of limitations of this research. First, there is lack of research regarding measures of market power. This research uses the items of market power derived from marketing capability, which basically refers to marketing mix. Secondly, market power is sensitive issue since consumers disregard anyone who raise the price. Hence, the respondents tend to avoid their intention to increase their price. Thirdly, this research uses cross-section data.

CHAPTER II: REVIEW OF LITERATURE

This chapter mainly discuss about market power and its determinants. Hence, entrepreneurial orientation and social capital are considered to be main determinants for the proposed model.

2.1. Market Power dan Competitive Advantage

The theory of competitive advantage tries to understand the position of firms or industry with aim to set strategy. The third component of competitive advantage refers to capacity of firms to develop statements of the current strategy of each competitor (Porter, 1980). Various degrees of relative bargaining power brings about efficiency, while Informational asymmetries generate inefficiency (Cabrales et al., 2011). Firms set pricing strategy through keeping prices of imitated national brands higher than the category profit maximizing price (Meza & Sudhir, 2010). This strategic pricing seems to be temporary, especially during unfaltering market, when the firms has no longer capability to distort prices away from the profit maximizing price.

Companies or firms need to dynamically set a price for their products at each stage in order to maximize its revenue (Yao, Wang, Mukhopadhyay, & Cong, 2012). Liozu & Hinterhuber (2012) indicates price-setting processes carry out nexus of scientific and intuitive decision-making processes. In the context of small business, managers tend to refer cost to set price, though they take prime consideration on satisfactory profit instead of profit maximization (Dunn, Kogut, & Short, 2012). Hence, competitor-based pricing becomes second alternative, while value-based pricing tends to be abandon due to poor understanding of value-based price (Liozu, Hinterhuber, Boland, Perelli, 2012). Value-based pricing requires capability to conduct formal market research over the value that customers attach to a product or a service (Codini, Saccani, & Sisco, 2012).

Marketing capability has been considered as a mediator variable in previous studies. The marketing capability plays a moderate role between entrepreneurial orientation and firm performance as well as strategic orientation and firm performance (Qureshi & Mian, 2010: Qureshi & Kratzer, 2012). Shu-Hua & Wu (2006) consider that marketing capacity is moderator variable between social capital and firm performance. Murray et al. (2011) also provide evident the mediating effect of marketing capabilities of market orientation on firm performance through pricing, new product development, and marketing communication capabilities.

Overall, marketing capacity plays pivotal role to firm performance. However, some elements had not significant impact on firm performance. Morgan et al. (2009) provide evident that MC significantly affected the financial performance, but not with subjectively perceived performance. However, Cruz-Ros, et al. (2010) indicates that marketing capabilities have directly impact to stakeholder satisfaction, but not to firm financial performance. Pérez-Cabañero et al. (2012) offer evident that the relevance of marketing capabilities for product differentiation to gain stakeholders' satisfaction. Other marketing capabilities related to marketing planning and pricing have a positive impact on financial performance.

Rubera & Kirca (2012) provide evident that innovativeness affects several internal organizational factors, which in turn influence market position, financial position, and firm value. Another findings shows that market orientation significantly impacts objective new product performance and mediates the relationship between participation-based rewards and objective new product performance (Wei et al, 2012). Marketing capabilities in SME with high level of marketing planning and pricing capacity have main impact is on financial performance rather than on stakeholders' satisfaction (Pérez-Cabañero, González-Cruz, & Cruz-Ros, 2012).

While firms need to develop strategic and refocusing resources on successive decision points during the stiff competition and technologically changing environments, the younger and smaller firms tend to be more dynamic and transient than older and larger firms (Nadkarni & Herrmann, 2010). However, it seems that effective adaptation to environment is different for firms in dynamic environments than it is for firms in stable industry contexts.

2.2. The element of Market Power

2.2.1. Market power and market structure

Additionally, Limehouse, Maloney, Rotthoff (2012) indicate that a firm with heavily dependent on costumers has less differential pricing. The oligopoly firms tend to employ mixed strategies that randomize both price and quality to deal with heterogenous consumers, i.e. those who prefers to buy high quality products or low quality product (Chioveanu, 2012). Yao et al (2012) identified a negative price premium effect, which means a high-reputation seller charges a lower price than a low-reputation seller for both informed and uninformed buyers, which makes sellers follow mixed pricing strategies.

Under high competitive industry, capability to set a price is quite low. The neoclassical economics course consider that small and medium enterprises typically are price takers, but invisible hand enable firms to adjust price to response surpluses or shortage (Spullberg, 2009). Fjell, Foros, & Pal (2010) higlight interdependence among firms occurs on pricing strategy. Regarding price regulation, Hatfield, Plott, & Tanaka (2012) show that price floor policy brings about inefficiency in high quality good market, while price ceiling policy induce inefficiency in low quality good market. Bezwada (2013) indicates that price reduction still plays pivotal role in recent mainstream retail with cross elasticity among products. Price coordination becomes apparent in which merchant association aims to facilitate interaction with governments.

2.2.2. Pricing strategy

Market power is associated with pricing capability, which is about ability of a firm to set a price. They way of a firm set a price is called as pricing strategy. There are at least three kind of pricing strategy, namely competitor-based, value-based, and cost-based strategy. Cost- and competitor-based pricing approaches are quite popular among businesses. The current literature further advocates the superiority of value-based pricing approaches over cost- and competition-based pricing approaches (Liozu et al., 2012).

Cost-based pricing is a 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. Many firms base their intra-company trade on cost-based transfer prices. Pfeiffer et al (2011) indicates a range of different methods for cost-based transfer pricing. These methods are based on either standard or actual costs, often including markups. While the rules and procedures of these methods have been extensively described, managerial accounting textbooks provide only scant descriptions of their efficiency properties and their relative performance.

Competitive-based price refers to prices of competing products as a benchmark to set a price. Liu & Zhang (2013) consider dynamic pricing competition between two firms offering vertically differentiated products to strategic customers who are intertemporal utility maximizers. This is called as price skimming, which arises as the unique pure-strategy Markov perfect equilibrium in the game under a simple condition. Kartono (2011) indicates that a relative aggressive pricing when their products are less competitiveness. The reason why price is less competitive refers to coordination price strategies to fulfill a market objective. Liu & Zhang (2013) highlight the asymmetric effect of strategic customer behavior on quality-differentiated firms. Even though the profit of either firm decreases as customers become more strategic, the low-quality firm suffers substantially more than the high-quality firm. Furthermore, we show that unilateral commitment to static pricing by either firm generally improves profits of both firms. Interestingly, both firms enjoy higher profit lifts when the high-quality firm commits rather than when the low-quality firm commits.

Value-based pricing strategy. Liozu & Hinterhuber (2013) find a positive relationship between value-based pricing (but not competition-based pricing) and firm performance. The conceptualization of value-based pricing varied from firm to firm as well as within firms. A vast majority of managers practicing value- based pricing defined value as either customer benefits over the best competitive alternative or as customer willingness to pay (Liozu et al., 2012). However, value-based pricing depends heavily on customer and market knowledge, which is about deep understanding of the customer and the competition (Piercy, Cravens, & Lane, 2010).

2.2.3. Market power and marketing strategy

Market power is also associated with marketing capability. This refers to marketing mix, such as pricing, promotion, product development, and distributing channels to seize the market opportunity. The capacity to capture the opportunities is crucial for small firms to meet the firm performance or event to survive (Ashikia, 2010; Banterle, Carraresi, & Cavaliere, 2011). Murray et al (2011) indicate that marketing capabilities are accumulated knowledge and skills of the firm in order to utilize and enhance the resource value, while Qureshi & Kratzer (2012) define marketing capacity as a process to apply knowledge, skill and resource to market-related needs of the business.

Morgan et al. (2009) identifies two kinds of marketing capabilities. The first is marketing capabilities concerning individual 'marketing mix' processes, such as product development and management, pricing, selling, marketing communications, and channel management, while another marketing capabilities refer to the processes of marketing strategy development and execution. Another perspective considers that marketing capability as a process of marketing strategy.

There is no agreement about the elements of marketing capabilities. Murray et al. (2011) notice that marketing capabilities constitute pricing, new product development, and marketing communication capabilities, while Qureshi & Kratzer (2012), marketing capacity comprise at least five elements, i.e. marketing research, pricing, product development, channel management capability, promotion, marketing research, and marketing plan.

2.2. The Determinant of Market Power

2.2.1. Social Capital

The central proposition of social capital theory is that networks of relationships constitute a valuable resource (Putnam, 2000, Oldroyd, 2012). Social capital goes beyond ordinary networks. Broadbridge (2010) highlights that social capital prevails when the networks become a resource, which provides opportunities and benefits. Bernardes (2010) indicates that network relational embededness represents the degree closeness and reciprocity between a focal firm and its relevant supply networks. The networks, norms and trust play pivotal role to facilitate information sharing, collective decision-making and collective action (Wolz, 2011). Hence, social capital is expected to be able to enhance organization culture (Lin & 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 & Filieri, 2010; Bernandez, 2010). Social capital at the firm level has a significant influence on both knowledge acquisition and innovation, which part of marketing capacity (Martínez-Cañas, 2012). In addition, Lim and Putnam (2010) indicate that social capital is associated with life satisfaction. However, Pirolo & 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, 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; Bernandez, 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; Bernandez, 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 (P. 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 (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 (u , 2 Ma erinskien le knavi i t , 2011).

Table 2.1: Factors and Items of Social Capital

Factors	Items	Sources
Structural	• Need each other to accomplish the objectives. • Dependent on the other to be successful. • Work with others will enable to access to resources. • Know our contact in persons. • Close social relationship with our contacts. • Information among our contacts usually have a similar content. • Our contacts know each other. • Our contacts maintain their relationship.	Roziés et al (2010), Para-Requena et al (2012).

Factors	Items	Sources
Trust	• Keep their promises. • High reciprocity among the colleagues. • Mutual trust at multiple levels. • Share organization vision. • Good understanding among the partners • Mutual respect among the partners. • Personal friendship • Cooperative attitude.	Lee & Sukoco (2007), Li et al. (2012)
Cognitive	• Good at dealing with customer. • Effective channels of communication among division. • Same amount of information among all division. • The business unit' s successes are our department' s successes. • Loyalty from all staffs. • Common understanding on customer • Common understanding on supplier. • Understand each other's needs and priorities	Roziés et al (2010)

As latent variable, the concept of social capital theory is derived into some factors. Putnam proposed the concept of social capital with trust, norms and networks, which are consider to be able to promote coordinated actions in order to foster happiness, and life satisfaction in macro level (Lim & Putnam, 2010; Häubere, 2011; Leung, Kier, Fung, Fung, & Sproule, 2011). This concept is considered to be vague definition since operationalization become to confused when it refers to a community as unit of analysis. Hence, Burt (2008) developed concept of social capital with cluster of networks as advantage of shared information from connection with multiple groups and individuals.

2.2.1.1. Structural Dimension

Structural dimension is about pattern of social interaction among actors, which implies on network ties. Wu, Chang & Chen (2008) indicate that the structural dimension of social interactions implies to assets that rooted in trust and worthiness including physical link among people in the networks. Jiang & Jin (2010) refer to structure hole theory to explain the way an entrepreneur tries to manage information social capital for his benefit. Broadbridge (2010) indicates that direct ties in which people close to individual is the most common network structure, while Goxe (2010) argues that the development of a social capital lies on this dimension on account of some personal traits and industry knowledge. 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. Wang & Fang (2012) highlight that network structure which enables access to information, resources and opportunity is source for competitive advantage.

Nan Lin (2001) proposed network theory of social capital, which argues that social structure feature both openness and closeness access in social relationship. Häubere (2010) draws a distinction between Nan Lin and other social capital theorists, because Nan Lin developed the concept of social capital through 4 axioms, which derived from general theories. In symmetric settings, the robust networks, which consist of connected subnetworks present tree-like unions (Hatfield, Plott, & Tanaka, 2012). However, there has been much overlap issue with theory communication, such as asymmetrical communication, relationship management and responsibility (Pieczka, 2011), while Lukas, Whitwell, & Heide (2013) note that marketing communication with customer orientation doesn't affect weak bureaucracy culture.

2.2.1.2. Cognitive Dimension

Cognitive dimension is about collective conscience of the group, which can bring efficient interaction. Clopton (2 11) calls social capital as "one heart, one mind, one body" and cognitive dimension as "one mind". collective identity springs from similar experiences of the group. In addition, Roziés et al. (2009) argue that information and resource are more accessible when people invest in learning and understanding and shared. This dimension needs the common codes and languages, which spring from repeated social interaction (structural dimension), which can create trust and mutual commitment (Alguezaui & Filieri, 2010).

In the context of business organization, such investment refers to agents' interactions within organization, which can generate firm performance and importance value. Strong cohesion social networks imply highly interconnected ties. Trust, norms and commitment spring from this kind of social capital, which can be measured with (Alguezaui & Filieri, 2010). This implies some positive work environment including inhibit employees from undermining others (Duffy et al, 2012). Rouziés, Hulland, & Barclay (2010) identified that organization mechanisms nurture social capital among divisions, such as marketing and sales division. However, the dense and cohesive social networks can generate redundancy in the information exchange (Parra-Requena et al., 2009) and call for marketing capacity as mediator to drive performance (Rouziés et al, 2010). In addition, Duffy et al (2012) identify a risk of moral disengagement, such as condemnation and loathing, due to cognitive justification, while Oldroyd & Morris (2012) argue that a cognitive constraint to utilize social capital due to exponentially level of social capital. Another example is strong cohesive work group bring about dominant voice and views, which affected inferior group, such as woman in workplace (Broadbridge, 2010).

2.2.1.3. Trust Dimension

Trust is the core content of social capital, which enables a stable social order. Zheng-dong (2010) indicates a hierarchy process of social order from trust to reciprocity, followed by obligation and expectation. Trust and trustworthiness spring from specific relationship, which is associated with shared information and solidarity among the actors (Cai, Zhu, Huang & Shi, 2012), while Markowska-Przybyla (2012) raises a question whether trust comes first before network or network followed by trust.

The developing social capital covers higher levels of trust in the firm, which implies on a reputation of organization. Mann & Leahy (2010) highlight that collective assets is form of trust relationship as well as normative behavior. Inter-group trust plays a pivotal role to promote collective action and foster cohesion toward group identity (Mann & Leahy, 2010). Trust can prevail independently due to wishful thinking, personal preference or personal opinion while mutual trust relies on investment from all of the partners. A trust-based relationship prevails when a member evaluates the other member as not risky or the risk level is under bearable limits (Oldroyd & Morris, 2012).

Trust is considered as multi elements. Laeequdin et al. (2010) impose the elements of trust, namely characteristic trust, rational trust and security system. The developing social capital requires trust from stakeholders, which relies on unwritten social contract and instead of instrument with aim to profit (Manning, 2009). However, there is a risk of acceptance in decision making process, which can imply negative effects of social capital on decision effectiveness (Jansen, 2011).

2.2.2. Entrepreneurial 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 by adopting this concept. The theoretical and empirical inquiry of EO phenomenon has been emerging for over 30 years (Covin & Wales, 2011). This is different from entrepreneurship, which is about how to set up a new business (Wang, Yuli & Hongzhi, 2009), though both concepts tie opportunity and resource effectiveness. Renko, Carsrud & Brämback (2009) emphasis that EO is about responsive behavior upon market environment, which is consider to be opposite behavior to traditional and adaptive market orientation.

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 to uncontrollable at the micro-level, while the idea to seize opportunities spring from internally-induced change (Betta, Jones, & Latham, 2010). In entrepreneurial orientation, the concept of Schumpeter's innovation becomes factor of entrepreneurial orientation, while discovery process proposed by Kirznerian is considered to be proactiveness is another factor. The factor and items in the entrepreneurial orientation is summarized in Table 2.2.

Table 2.2: 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 et al. (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 et al. (2008), Gürbüz & Aykol (2009), Lumpkin et al. (2009).

Factors	Items	Sources
Innovativeness	• Creative in using resources • Develop new product • Emphasis on R&D • Many new lines of new products • Changes in product	Kropp et al., (2008), Fang et al., (2008), Lumpkin et al. (2009).
Proactive	• Initiates actions to which competitors then respond. • c ompetitive "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 et al., (2008), Lumpkin et al. (2009).
Aggressiveness	• 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 et al. (2009)

2.2.2.1. Autonomy

Autonomy is about providing low-powered incentive to employees to achieve the goal of the organization, which refers to the theory of self determination. This theory tries to understand types of motivations which spring from autonomous motivation and external motivation (Moran, Diefendorff, Kim, Liu, 2 12) , which contribute to employee's satisfaction (Marescaux, de Winnie, & Sels, 2013). Working autonomously implies the decision-making process (Colburn, 2011) to foster a culture that encourages new projects (Vora, Vora & Polley, 2012). In the context of organization, autonomy refers to the relationship between units and sub-units on making decision and goal setting for themselves (Gammelgaard et al, 2011) with attempt to improve firm performance (Barnabas & Mekoth, 2010).

As a factor of EO, autonomy is associated with the degree in decision making process. Lumpkin, Cogliser & Schneider (2009) point out that autonomous decision making plays a pivotal role for entrepreneurial outcomes and consider to become one of major factors in EO. This factor comprises four items, i.e. working autonomously, belief for the best result, no intervention from supervisor, the role of leaders. In the context of a small business, autonomy is main personal reason to set up a self-employ business. Hunter (2012) indicates personal satisfaction and lifestyle, autonomy is often more important than business goals in small business. Lange (2012) also offers an empirical finding that autonomy of self-employment leads toward greater job satisfaction. Refer to self-determination theory, Marescaux, de Winnie, & Sels (2013) indicate that autonomy contributes to satisfaction, followed by a strong commitment with quality and productivity team goals (Pais, 2010). The effect of job autonomy on organizational commitment, becomes stronger in quality-competitive companies (Park & Searcy, 2012). On the other hand, the traditional small enterprises are under managers with difficult to trust and delegate strategic activities (Bouchard, 2011). Shimizu (2012) identifies opportunistic behavior as a consequence of encouraging autonomous behaviors.

Bouchard (2011) posit that traditional small business is running with self-employ management with high innovative, risk-taking and proactive but difficult to trust and delegate strategic and exploratory activities. St-Jean, LeBel, & Audet (2010) argue that autonomy in EO is different from small business orientation, which represents as an extension of personality as well as to generate personal income. In addition, autonomy perception implies on quality of supervisor-subordinate relationship followed by work satisfaction (Farr-Warton, Brunetto, & Shacklock, 2011; Moreau & Mageau, 2012). Seppälä, Lipponen, Pirttila-Backman, & Lipsanen (2011) indicate that reciprocal trust springs from work-related trust through building trust between supervisor and subordinate.

2.2.2.2. Risk-taking Behavior

Risk-taking behavior is about willingness to take high risk in order to gain high profit. This behavior goes beyond the common practices and norms (Pearce II et al., 2009) with high level of resources commit to project (Su, Xie & Li, 2011). This factor also have strong relationship with effort to invest for product innovation, such as risky ventures and acts proactively by being the first to come up with new products, technologies and administrative techniques (Altinay & Wang, 2011). During the creating new innovation, which stands for innovation behavior, the effort to get involve into a costly commitment to deal with an uncertainty in the future represents is considered as a risk taking behavior (Pearce II, Fritz & Davis, 2009). However, Andersén (2010) argues that entrepreneur-oriented managers generally do not see themselves as risk-takers; however, due to differences in the cognitive structure they tend to perceive lower levels of risk than others. Andersén (2010) indicates that EO core references focuses too much on the positive aspect of risk taking but neglects the relationship between failure and risk-taking behavior.

The first item is about propensity to take a high risk project. Establishing a small business is associated with high risk. Park, Chinta, Lee & Yi (2010) indicate that greater risk, limited resource fewer number of project are common characteristics of small business. The size of company also determines the effect of human capital risks (Mäenpää, & Voutilainen, 2012). Technology innovation and commercialization is risky in which managers tend to refer short-term target for personal interests instead of long-term development for the company (Li et al, 2008).

The second item refers to bold and wide ranging acts, which imply an effort to accept risks. This is different from reckless, which doesn't accept risks, bold act refer to the risk awareness and decide to go through with a decision. A firm with entrepreneurial orientation tends to take a bold nuanced view of risk and concern how the return they make reflect that risk (Scordis, 2012). In addition, Smith (2012) believes that bold people management is the key resource to achieve firm performance. Schumpeter's entrepreneur also implies aggressive, bold, and creative leadership qualities (Endres & Woods, 2010). On the other hand, 'wait and see posture' implies delaying investment. This takes until a right time to make a decision. The longer a wait-and-see posture takes place, the more difficult for the business to foster its growth. Altinay & Wang (2011) show an irrelevant item, which is "when there is uncertainty, our business typically adopts a 'wait and see' posture in order to minimize the risk of making costly decisions" was removed from the initial analysis.

2.2.2.3. Innovativeness

Innovation implies a novel product or method. Altinay & Wang (2011) notice that innovations are associated with 'original and unique' concepts in businesses, which spring from their capacity for creativity and responsiveness to knowledge. Innovativeness is about the eagerness of an firm to promote new ideas and novelty as well as an effort to transform current technologies and practices (Pearce II et al, 2009). Firms with focus on entrepreneurial orientation provide more substantial efforts on innovation than firms with focus on market orientation (Maatoofi & Tajeddini, 2011).

The way to promote a novel product or method refers to incentive system. Andersén (2010) points out that EO in large corporations has developed a reward system, a training division and designation a manager to promote new ideas. The reward system and training division aims to foster employee's creativity and to promote creativity and innovation techniques, while designation of manager has responsibility toward championing new ideas. Gammelgaard et al (2011) indicate that the higher proportion of employment in skilled jobs the higher role specialization and absorptive capacity . Clerq, Dimov, & Thongpapani (2010) argue that the firm's ability to convert its innovative, proactive, and risk-taking behavior into a performance advantage will be influenced by the amount and quality of knowledge exchange that takes place across functional departments.

2.2.2.4. Proactiveness

Proactive behavior refers to initiative respond to seize market opportunities with new products or services. This implies a firm with strong orientation to discover future opportunities in order to meet future demand (Gawel, 2012), which may not be unassociated with existing operations (Pearce, 2009). This is about actions of identifying new market opportunities and respond quickly to be the first mover advantage (Su, Xie & Li, 2011). Fuller, Hester & Cox (2010) indicates that capability to creating environment is the nature of proactive behavior.

Distinguish from innovativeness, which promotes novelty and invention, proactiveness refers to involvement in emerging market instead of intervention in existing market (Pearce II, 2009). According to Altinay & Wang (2011), proactiveness refers to the firm's ability to conduct market intelligence, followed by synthesizing and acting proactively on a business owner's agenda (ltinay ang, 2 11) . This involves shaping the environment by introducing new products, technologies, administrative techniques rather than merely reacting to market change.

Tang et al (2010) argue that a proactive organization is associated with high willingness to exchange and combine information based resources to be more flexible in employing strategies. Kreiser & Davis (2010) indicates that a dynamic environment enables firm to be proactive and seek many new opportunities to gain a competitive advantage. Vora et al (2012) indicates that high level of autonomy and proactiveness tend to take place in medium-sized business.

2.2.2.5. Competitive Aggressiveness

Aggressiveness is about competitive strategic behavior on market share expansion. Pearce et al, (2009) indicate that aggressiveness is associated with growth in existing markets. This involves intensity of a firm's effort to outperform rivals, which is characterized by a strong competitive drive to competitive threats or strong offensive posture (Rauch et al, 2009: Gawel, 2012). Stambaugh, Yu & Dubinsky (2011) draw a distinction between aggressiveness and proactive that competitive aggressiveness stands for propensity to improve position to deal with threats imposed by competitors over existing customers, while proactive pursuit of new markets and new customers.

To foster competitive aggressiveness behavior, Stambaugh et al (2011) outlines awareness, motivation and capability. Awareness implies rival analysis on the real time tracking, while motivation refers to propensity to take necessary step in furthering their performance against the competitor. Moreover, capacity outlines the tangible resource which is deployed with aim to outperform competitors. However, Rauch et al. (2009) consider that competitive aggressiveness may be less valid in certain cultural contexts.

CHAPTER III: RESEARCH METHOD

The research method refers to mix methodology, quantitative and qualitative. The quantitative uses regression method. Decision on using mix method for this study considers an attempt to explore the specific relation between social capital and market power with holistic view of social capital. From the qualitative approach, the research takes a stance on an interpretive approach, in the sense that the researcher is trying to understand what happens and why.

3.1. Quantitative Approach

There are some steps taken by this approach from validity test, factor analysis and regression analysis.

3.1.1. 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, there are five steps. First is content validity, which involve experts to judge the representativeness of the items on the test. This involves some professor and PhD students. Second step is face validity, which involves some observed respondents to examine whether the respondents can understand the questionnaires. The next is construct validity to ensure there is no overlapping among measures with similar theoretical concept.

3.1.2. Reliability Test

Reliability tests are tools with aim to measure reliability of data or consistency of measurement. Alpha was developed by Lee Cronbach in 195111 to provide a measure of the internal consistency of a test or scale; it is expressed as a number between 0 and 1. Internal consisten- cy 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. Put simply, this interpretation of reliability is the correlation of test with itself (Tavakol & Dennick, 2011).

Vehkalahti, Puntanen, Tarkkonen (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 Cronchbach's alpha. Both Composite Reliability and Cronbach's alpha have similarity. Secondly, 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 the true variable to the total variance of measurement.

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

If we take a look at the formulas of CR and Cronbach's alpha, it appears that Composite reliability focus 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.

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

The 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.

3.1.3. 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).

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

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

here $\sum r^2$ 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.

3.1.3.2. Bartlett's Test of Sphericity

Bartlett's test is used to test if k samples have equal variances. Cramer & Howitt (2004) highligt 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 ($\alpha < .5$), then variables can be accepted to used on further analysis. The Bartlett's test formula is :

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

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

3.1.3.3. 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.

3.2. Qualitative Approach

3.2.1. 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: " hen 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).

3.2.2. 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, 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).

3.2.2.1. 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).

3.2.2.2. Narratives

Narratives are one of the processes by which we organize and make sense of the world (Czarniawska, 1998; Herrmann, 2007a; 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).

3.2.2.3. 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).

CHAPTER IV: ANALYSIS

4.1. Qualitative Approach

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.

> "... ppa rently, our firm focus 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 prefers 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 possibility 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.

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.

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 our 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.

4.2. Quantitative Approach

The quantitative approach comprises into three steps, reliability test, factor analysis, and regression.

4.2.1. Reliability test

s Cronbach's alpha is coefficient of reliability or consistency but not a statistical test, the test shows that variables of pricing capability and social capital have items with an underlying (or latent) construct, while entrepreneurial orientation has poor reliability. The Cronbach alpha of pricing capability and social capital are greater than 0.6, which the minimum requirement level of C test. However, the high alpha doesn't imply that the measure is unidimensional.

Table 4.1: Reliability Test

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

4.2.2. 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.

After removing some items, 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. Hence, the rest of the pricing strategy refers to pattern of marketing program (P34, P33, P22, P31).

Table 4.2: Pricing Strategy

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

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 4.3: Social Capital

Code	factor loading	items	pattern
S51 S52 S53 S61 S63	.621 .735 .758 .536 .722	our staffs help among those who have problems our staffs have integrity our staffs are friendship our staffs are eager to achieve the goal of our firm our staffs understand the vision of our company	staff relationship
S13 S31 S32	-.649 .757 .791	our firm relies on flexible supplier in operation our firm builds relationship to reliable suppliers. our firm builds relationship to suppliers who have ability to manage asset as our request.	supplier relationship

Code	factor loading	items	pattern
S44 S64 S65	.746 .669 .661	Our staffs share their dream Our firm has ideal goal Our staffs understand the target	sharing goal
S11 S24	.678 .718	Our firm relies on one supplier Our firm relies on other company to manage on time distribution.	distribution

Table 4.4: Entrepreneurial Orientation

Code	factor loading	items	
EO32 EO03 EO31 EO33 EO44	.673 -.561 .581 .678 .571	Over the last year, our firm has no new product (R) Our staffs don't depend to much on the manager. In our firm, marketing is more important than innovation (R) Our product has a bit differences from the previous one (R) We avoid conflict with competitors (R)	proactivity of innovation process
EO04 EO34 EO35 EO53	.564 .645 .667 .667	Our owner manager sets the target to our employees 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.	aggressiveness of innovation process
EO52 EO41 EO43	.667 -.823 .665	Our firm is quite aggressive to seize opportunity Our firm responds to what the competitors did (R) Our firm is using a new technology this year.	aggressiveness to deal with competitor
EO07 EO21 EO45	.739 .601 .679	Owner manager plays pivotal role to seize opportunity Our firm tries to avoid risk (R) Our new products follow the market trend.	autonomy, risk taker, proactive

Code	factor loading	items	
EO01 EO24 EO22	.602 .703 -.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)	Autonomy with risk taker

4.2.3. Regression Analysis

The result of regression analysis indicates different story in the process of pricing strategy. At first model with capability of setting price for new products as dependent variable, EO2, EO5 and SC4 have significant and positive impact on the market power. This means SC4 (relationship with distributor) has positive impact on relationship with market power. This model has R goodness of fit of 0.56, which is a little bit greater than other two models.

Model 2 highlights the relationship with customers as dependent variable. The result indicates mixed relationship between social capital and the relationship with customers. SC2 (relationship with supplier) has negative relationship with relationship with customers, while SC3 (sharing goal) has positive impact on relationship with customers.

Table 4.5: Regression Result

Variables	Model 1: MC1	Model 2: MC2	Model 3: MC3
Const	-1.595	2.349	3.496*
EO1 EO2 EO3 EO4 EO5	-.072 .377*** .254 .129 .342***	.082 .088 .224 -.151 .153	.005 .062*** -.153 -.174 .011**
SC1 SC2 SC3 SC4	.110 -.203 .202 .185**	-.033 -.222 ** .232 ** -.051	-.117 .183 .202*** .076

Variables	**Model 1: MC1**	**Model 2: MC2**	**Model 3: MC3**
R	.56	.443	0.35
R square	.31	.196	.122

CHAPTER V: CONCLUSION

5.1. Conclusion

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 follow other. Autonomy to the front liner staff also determines to the market power with a risk of consumer satisfaction.

5.2. 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.

1. 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.
2. 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.
3. 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
HASIL PENILAIAN SEJAWAT SEBIDANG ATAU *PEER REVIEW*
KARYA ILMIAH : PUBLIKASI PERPUSTAKAAN

Judul Penelitian : The Impact of Social Capital on Market Power: Analysis of Competitive Advantage in Small Medium Enterprises

Jumlah Penulis : 2 Orang

Status Pengusul : Penulis Pertama

Identitas Buku :
a. Registrasi Perpustakaan : LP-EKO-177
b. Tahun terbit : 2013
c. Jumlah halaman :

Kategori Publikasi Karya Ilmiah Buku (beri √ pada kategori yang tepat) : [√] Publikasi Perpustakaan

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No.	Komponen Yang Dinilai	Nilai Maksimal Penelitian Tidak Dipublikasikan .....1)	Nilai Akhir Yang Diperoleh .....2)
a.	Kelengkapan unsur isi karya ilmiah (20%)	**0,4**	0,6 x 0,4 = 0,24
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c.	Kecukupan dan kemutahiran data/informasi dan metodologi (30%)	**0,6**	0,6 x 0,6 = 0,36
d.	Kelengkapan unsur dan kualitas penerbit (20%)	**0,4**	0,6 x 0,4 = 0,24
	Total = (100%)	**2**	1,14

Catatan Penilaian oleh Reviewer:
Tulisan tidak dipublikasikan dan disimpan di internal perpustakaan. Kualitas tulisan cukup. Kontribusi terletak pada analisis keunggulan kompetitif dengan memperhatikan kekuatan pasar di perusahaan kecil.

Surabaya, 13 Mei 2016

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NIP / NPK **...(3)** : 36940141

Unit Kerja **...(4)** : STIE PERBANAS Surabaya

24

LEMBAR
HASIL PENILAIAN SEJAWAT SEBIDANG ATAU *PEER REVIEW*
KARYA ILMIAH : PUBLIKASI PERPUSTAKAAN

Judul Penelitian : The Impact of Social Capital on Market Power: Analysis of Competitive Advantage in Small Medium Enterprises

Jumlah Penulis : 2 Orang

Status Pengusul : Penulis Pertama

Identitas Buku : a. Registrasi Perpustakaan : LP-EKO-177
b. Tahun terbit : 2013
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Kategori Publikasi Karya Ilmiah Buku (beri √ pada kategori yang tepat) : [√] Publikasi Perpustakaan

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No.	Komponen Yang Dinilai	Nilai Maksimal Penelitian Tidak Dipublikasikan .....1)	Nilai Akhir Yang Diperoleh .....2)
a.	Kelengkapan unsur isi karya ilmiah (20%)	**0,4**	0,6 x 0,3 = 0,18
b.	Ruang lingkup dan kedalaman pembahasan (30%)	**0,6**	0,6 x 0,5 = 0,3
c.	Kecukupan dan kemutahiran data/informasi dan metodologi (30%)	**0,6**	0,6 x 0,6 = 0,36
d.	Kelengkapan unsur dan kualitas penerbit (20%)	**0,4**	0,6 x 0,4 = 0,24
	Total = (100%)	**2**	1,08

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Reviewer 2

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The Impact of Social Capital on Market Power

by 22 Suyanto

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LAPORAN PENELITIAN LANJUT

THE IMPACT OF SOCIAL CAPITAL ON MARKET POWER: ANALYSIS OF COMPETITIVE ADVANTAGE IN SMALL MEDIUM ENTERPRISES

Peneliti:
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Aluisius Hery Pratono, SE, MDM

JURUSAN ILMU EKONOMI
FAKULTAS BISNIS DAN EKONOMI
UNIVERSITAS SURABAYA

2013

HALAMAN PENGESAHAN LAPORAN PENELITIAN

1	a.	Judul Penelitian	:	The Impact of Social Capital on Market Power: Analysis of Competitive Advantage in Small Medium Enterprises
	b.	Bidang Ilmu	:	Ekonomi
	c.	Kategori Penelitian	:	Pemecahan masalah pembangunan
2	Ketua Peneliti			
	a.	Nama Lengkap & Gelar	:	Suyanto, PhD
	b.	Jenis Kelamin	:	Laki-laki
	c.	Golongan Pangkat / NIP	:	IVB / 199017
	d.	Jabatan Fungsional	:	Lektor Kepala 550
	e.	Fakultas/Jurusan	:	Bisnis dan Ekonomika / Ilmu Ekonomi
	f.	Pusat Penelitian	:	LPPM Universitas Surabaya
3.	Jumlah Anggota Peneliti		:	1 (satu) orang Aluisius Hery Pratono, SE, MDM
4.	Lokasi Penelitian		:	Jawa Timur
5.	Lama Penelitian		:	6 (enam) bulan
6.	Anggaran Penelitian dari LPPM Universitas Surabaya		:	Rp 22.000.000,- (dua puluh dua juta rupiah)

Surabaya, 20 Juni 2013

Mengetahui,
Dekan Fakultas Bisnis dan Ekonomika
Universitas Surabaya

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ABSTRACT

The impact of social capital on market power has been an interesting topic since the early 2000. The mainstream literature evaluates mainly on the impact of physical capital on the market power, whereas the new developed literature focuses also on the social capital in analyzing market power. In this present study, a comprehensive analysis on market power is based on two important determinants, entrepreneurial orientation and social capital. Entrepreneurship orientation is expected to contribute positively and significantly on market power. The same positive significant effect is also expected from social capital to market power. Using the sample of small and medium enterprises in East Java, this present study analyzes comprehensively the impact of social capital on market power. The analysis is performed on both quantitative data and qualitative data. The quantitative method includes reliability test, validity test, explanatory factor analysis of Kaiser-Meyer Olkin's and Bartlett's, and regression analysis. The qualitative method is based on an interpretative approach on interview, storytelling, narrative, and coding.

The quantitative analysis finds out four important findings. Firstly, the data used in the analysis is reliable and uni-dimension, with 13 items of questions represent market power, 28 items of questions represent social capital, and 24 items of questions represent entrepreneurial orientation. Secondly, validity test confirms that the constructed dataset is valid to be used to perform factor analysis. Thirdly, the factor analysis shows that each latent variable has at least two items that forming specific patterns within the variable. Fourthly, the regression analysis indicates that sharing goal, relationship with suppliers, and relationship with distributors are three key factors of social capital that significant effects on market power

The qualitative analysis finds five important points. Firstly, price reduction plays pivotal role in retail products with cross elasticity. Secondly, there is interdependence among firms on price strategy. Thirdly, there is a high dependence of observed firms on their suppliers. Fourthly, a specific social capital that related to staff relationship is an important factor in the observed small and medium enterprises. Fifthly, aggressiveness is not a nature of entrepreneurial orientation for the observed firms, which support the argument in hawk-dove game theory.

Keywords: Market power, social capital, entrepreneurship orientation, small medium enterprises.

RINGKASAN

Pengaruh modal sosial (*social capital*) terhadap kekuatan pasar (market power) merupakan topik menarik yang sering dibahas oleh para ahli ekonomi sejak awal 2000. Literatur utama di bidang ekonomi memfokuskan pembahasan pada dampak modal fisik terhadap kekuatan pasar, sementara literatur modern saat ini mengkaji modal fisik dan modal sosial dalam pengaruh terhadap kekuatan pasar. Dalam penelitian ini, analisis komprehensif terhadap kekuatan pasar didasarkan pada dua faktor penting, yaitu orientasi kewirausahaan (*entrepreneurship orientation*) dan modal sosial. Orientasi sosial diharapkan memberikan pengaruh positif dan signifikan terhadap kekuatan pasar. Pengaruh positif dan signifikan juga diharapkan dari modal sosial ke kekuatan pasar. Dengan menggunakan sampel perusahaan kecil dan menengah di Jawa Timur, penelitian ini menganalisis secara komprehensif dampak modal sosial terhadap kekuatan pasar (yang diukur dari strategi penetapan harga). Analisis dilakukan terhadap data kuantitatif dan data kualitatif. Metode kuantitatif mencakup pengujian reliabilitas, pengujian validitas, analisis faktor eksplanatori Kaiser-Meyer-Olkin, analisis faktor eksplanatori Bartlett, dan analisis regresi. Metode kualitatif didasarkan pada pendekatan interpretatif dengan menggunakan interview, storytelling, narasi, dan pengkodean.

Analisis kuantitatif menemukan empat temuan penting. Pertama, dataset yang dipergunakan dalam analisis adalah reliable dan uni-dimension, dengan 13 pertanyaaan mewakili kekuatan pasar, 28 pertanyaan mewakili modal sosial, dan 24 pertanyaan mewakili orientasi kewirausahaan. Kedua, pengujian validitas mengkonfirmasi bahwa dataset yang dipergunakan adalah valid untuk dipergunakan dalam pengujian analisis faktor dan analisis regresi. Ketiga, pengujian analisis faktor memperlihatkan bahwa setiak variabel utama yang dipergunakan dalam model memiliki sedikitnya dua pertanyaan yang membentuk pola spesifik. Keempat, analisis regresi mengindikasikan bahwa sharing goal, hubungan dengan pemasokm dan hubungan dengan distributor merupakan tiga faktor penting modal sosial yang secara signifikan mempengaruhi kekuatan pasar.

Analisis kualitatif menemukan lima hal penting. Pertama, penurunan harga memainkan peran yang penting dalam produk-produk retail yang elastisitas silang-nya tinggi. Kedua, terdaapt interdependensi antar perusahaan dalam strategi harga. Ketiga, terdapat ketergantungan tinggi perusahaan-perusahaan yang diamati terhadap pemasoknya. Keempat, modal sosial tertentu yang berhubungan dengan keeratan hubungan pekerja adalah faktor penting dalam perusahaan kecil dan menengah. Kelima, agresifitas bukanlah merupakan sifat dasar dari orientasi kewirausahaan pada perusahaan-perusahaan yang diamati, temuan ini mendukung argument elang-merpati (hawk-dove) dalam teori permainan (game theory).

Kata-kata kunci: kekuatan pasar, modal sosial, orientasi kewirausahaan, perusahaan kecil dan menengah.

ACKNOWLEDGEMENT

This research evaluates market power of small and medium enterprises using a comprehensive analysis, combining quantitative and qualitative approaches. In literature, there is a gap between quantitative and qualitative approach to understand human behavior phenomenon. This present study fills the gap by proposing a combined method of factor analysis and regression analysis.

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TABLE OF CONTENT

CHAPTER 1: INTRODUCTION	**6**
1.1. Research Background	6
1.2. Problem Statement	6
1.3. Research Question	6
1.4. Research Objective	6
1.5. Significant of Study	6
1.6. Operational Definition	6
1.6.1. Market power	6
1.6.2. Social capital	6
1.6.3. Entrepreneurial orientation	6
1.7. Research Limitation	6
CHAPTER II: REVIEW OF LITERATURE	**6**
2.1. Market Power dan Competitive Advantage	6
2.2. The element of Market Power	6
2.2.1. Market power and market structure	6
2.2.2. Pricing strategy	6
2.2.3. Market power and marketing strategy	6
2.2. The Determinant of Market Power	6
2.2.1. Social Capital	6
2.2.1.1. Structural Dimension	6
2.2.1.2. Cognitive Dimension	6
2.2.1.3. Trust Dimension	6
2.2.2. Entrepreneurial Orientation	6
2.2.2.1. Autonomy	6
2.2.2.2. Risk-taking Behavior	6
2.2.2.3. Innovativeness	6
2.2.2.4. Proactiveness	6
2.2.2.5. Competitive Aggressiveness	6
CHAPTER III: RESEARCH METHOD	**6**
3.1. Quantitative Approach	6
3.1.1. Validity Test	6

3.1.2. Reliability Test 7

3.1.3. Exploratory Factor Analysis 7

3.1.3.1. Kaiser-Meyer Olkin 7

3.1.3.2. Bartlett's Test of Sphericity 7

3.1.3.3. Confirmatory Factor Analysis 7

3.2. Qualitative Approach 7

3.2.1. Interviewing 7

3.2.2. Qualitative Analysis 7

3.2.2.1. Storytelling or Narrative 7

3.2.2.2. Narratives 7

3.2.2.3. Coding 7

CHAPTER IV: ANALYSIS 7

4.1. Qualitative Approach 7

4.2. Quantitative Approach 7

4.2.1. Reliability test 7

4.2.3. Regression Analysis 7

CHAPTER V: CONCLUSION 7

5.1. Conclusion 7

5.2. Suggestion 7

REFERENCES 7

CHAPTER 1: INTRODUCTION

1.1. Research Background

It appears that many governments are used to lionizations of the small businessman. For example, the Indonesian government has enacted Law 80 2010 to promote the small business performance. Various government agencies in Malaysia acknowledge the strategic trust for SMEs (Ahmad et al, 2010), while Thailand government manage to enhance the performance of SMEs on account of a major labor force (Nakhata, 2010). Balbir and Venkataramay (2010) outline lesson learn from India and Singapore to other Southeast Asia countries, especially Indonesia where SME has gained legitimacy as a prescription to achieve economic goals.

Policy with favor on SME becomes popular during global financial crisis with especially to foster economic growth and run up against unemployment. In the South Korean, such policy aims to respond China's revelation (Dianhua and Douxuan, 2012). The European Union is also funding SME in 27 state members to respond financial crisis (Oncioiu, 2012), while US social policy tries to promote new small business ventures (Chester and Gregory, 2011). Job creation has become major reasons for such policies to run up against with global economic crisis.

A number of researches offer evident the important role of SME to create more jobs. Zhao (2012) points out that formal SMEs in high-income countries provide 70% jobs, while three out of four companies in emerging market is small enterprises with millions of job creation. Shane (2012) notes that US small enterprises provided 2.6 million jobs during the economic recovery in 2008. In Southeast Asia, SMEs has been playing pivotal role to deal with unemployment since the economic crisis of 1997 (Balbir and Venkataramay, 2010; Nakhata, 2010). Neumark *et al.* (2008) also offer evident that small businesses create more jobs than larger one, then, come with question of sustainability and expansion. However, this doesn't mean that the growth of small enterprises is promising.

Along with increasing environmental turbulence, the small business arena gets in a chronic state of flux. Moreover, there is a widening gap between market complexity and capacity of most marketing organization to deal with this complexity (Day, 2011). Rubera & Kirca (2012) indicate lack of the mediating role from the internal factors, such as formalization, centralization, cross-functional integration, organizational commitment, and identification. While relationship between strategic orientation and firm performance is mixed; then Liu & Fu (2011) suggest moderators and mediators for the future research.

While all markets are subject to greater complexity at higher velocities, the urgency of the response and the adaptive capabilities to be built or enhanced will differ depending on whether the firm serves mass markets with millions of customers or sells complex systems to a small number of valuable customers (Day, 2011). Moreover, it is widely believed small businesses are suffering from performance enhancement due to economies of scale and groups reputation effects (Carney et al, 2011).

This research argues that entrepreneurial orientation and social capital become major determinant for price strategy for some reasons. The concept of networks play pivotal role to understand how to attain and maintain competitive advantage. Afual (2013) indicates lack of research roots on network theory of neoclassical economic which indicates network provides unique context on resource-based theory. The very characteristic of social capital with the form of relationship embedded hampers the ability of a firm. Supply management function can bring about flexibility of firm to respond to unique needs of customers (Bernades, 2010).

1.2. Problem Statement

The supply network as social system may hamper the ability of small firms to utilize the opportunity because social capital is based on closeness and reciprocity. Actions geared toward change may disrupt the networks. There is a gap regarding the limits of social capital, which impose capability of small firms to set strategy. Liozu *et al.* (2012) thus call for more research probing the understanding of alternative pricing approaches, specially the understanding of value-based pricing, across other industries. Hence, Afual (2013) highlights future research on how poor business model with lack of network structure due to too much focus on network size performs during booming industries.

1.3. Research Question

To deal with limitation of social capital references, this research raises question about the impact of social capital on market power of small firms. Hence, the extended questions come to how social capital affects market power of small firms.

1. What is the relationship between social capital and market power?
2. What is the relationship between entrepreneurial orientation and market power?

1.4. Research Objective

This research would like to investigate the impact of social capital on market power of small firms.

1. To determine the relationship between social capital and market power.
2. To determine the relationship between entrepreneurial orientation and market power

1.5. Significant of Study

From policy perspective, this research wants to provide alternative policies for countries which rely on the SMEs. With context of Indonesia, this model is expected to be relevant to other emerging economics in which social capital plays pivotal role on economies. This brings a tension on public policy agenda to answer whether a government tends to lionizations of SMEs.

From theoretical perspective, this research attempts to respond the research gap proposed by Bernardes (2010) and Afual (2013) about the limited role of social capital to impose on supply chain management function and within dyadic network interaction. Through taking sample from SME in emerging economy, this research tries to answer how how poor business model with lack of network structure due to too much focus on network size performs during booming industries in which Afual (2013) considers for the future research.

1.6. Operational Definition

1.6.1. Market power

Market power is associated with capability of a firm to raise market price of their product for more profitable operation. A firm with total market power has capacity to increase price and keep the customer loyalty. This refers to capability to manage marketing resources, which spring from integrated knowledge accumulation processes with organization's values and norms (Cruz-Ros, et al., 2011).

1.6.2. Social capital

Social capital refers to social network, which is considered to firm's resources. This resource is associated with structure, cohesiveness, and trust, which embedded within organization and relationship with stakeholders. Social capital (SC) is a piece of resource about relationship with stakeholders from dimension of trust, structure and cognition. The value of network ties provides privileged access to information and opportunities, which enables symbiotic alliance in place with a high level of mutual of trust (Li et al, 2012). Accordingly, the organization manages the information through information systems and processes, but abundant density of organization's network brings about limited capacity of organization to manage the side effect of information flow (Oldroyd & Morris, 2012).

1.6.3. Entrepreneurial orientation

Entrepreneurial orientation is a long rung strategic stile of a firm in order to seize firm performance. Firm performance (FP) is about level of achievement of business organization toward its goal. Referring to theory of the firm, a goal of business organization is profit maximization as its performance (Spullberg, 2009). Hence, sustainable profit maximization is associated with some measure items, which are sales growth, employment growth, gross profit, return on asset, return on investment, and return on sales.

1.7. Research Limitation

Several future research routes can be traced on the basis of limitations of this research. First, there is lack of research regarding measures of market power. This research uses the items of market power derived from marketing capability, which basically refers to marketing mix. Secondly, market power is sensitive issue since consumers disregard anyone who raise the price. Hence, the respondents tend to avoid their intention to increase their price. Thirdly, this research uses cross-section data.

CHAPTER II: REVIEW OF LITERATURE

This chapter mainly discuss about market power and its determinants. Hence, entrepreneurial orientation and social capital are considered to be main determinants for the proposed model.

2.1. Market Power dan Competitive Advantage

The theory of competitive advantage tries to understand the position of firms or industry with aim to set strategy. The third component of competitive advantage refers to capacity of firms to develop statements of the current strategy of each competitor (Porter, 1980). Various degrees of relative bargaining power brings about efficiency, while Informational asymmetries generate inefficiency (Cabrales et al., 2011). Firms set pricing strategy through keeping prices of imitated national brands higher than the category profit maximizing price (Meza & Sudhir, 2010). This strategic pricing seems to be temporary, especially during unfaltering market, when the firms has no longer capability to distort prices away from the profit maximizing price.

Companies or firms need to dynamically set a price for their products at each stage in order to maximize its revenue (Yao, Wang, Mukhopadhyay, & Cong, 2012). Liozu & Hinterhuber (2012) indicates price-setting processes carry out nexus of scientific and intuitive decision-making processes. In the context of small business, managers tend to refer cost to set price, though they take prime consideration on satisfactory profit instead of profit maximization (Dunn, Kogut, & Short, 2012). Hence, competitor-based pricing becomes second alternative, while value-based pricing tends to be abandon due to poor understanding of value-based price (Liozu, Hinterhuber, Boland, Perelli, 2012). Value-based pricing requires capability to conduct formal market research over the value that customers attach to a product or a service (Codini, Saccani, & Sisco, 2012).

Marketing capability has been considered as a mediator variable in previous studies. The marketing capability plays a moderate role between entrepreneurial orientation and firm performance as well as strategic orientation and firm performance (Qureshi & Mian, 2010; Qureshi & Kratzer, 2012). Shu-Hua & Wu (2006) consider that marketing capacity is moderator variable between social capital and firm performance. Murray et al. (2011) also provide evident the mediating effect of marketing capabilities of market orientation on firm performance through pricing, new product development, and marketing communication capabilities.

Overall, marketing capacity plays pivotal role to firm performance. However, some elements had not significant impact on firm performance. Morgan et al. (2009) provide evident that MC significantly affected the financial performance, but not with subjectively perceived performance. However, Cruz-Ros, et al. (2010) indicates that marketing capabilities have directly impact to stakeholder satisfaction, but not to firm financial performance. Pérez-Cabañero et al. (2012) offer evident that the relevance of marketing capabilities for product differentiation to gain stakeholders' satisfaction. Other marketing capabilities related to marketing planning and pricing have a positive impact on financial performance.

Rubera & Kirca (2012) provide evident that innovativeness affects several internal organizational factors, which in turn influence market position, financial position, and firm value. Another findings shows that market orientation significantly impacts objective new product performance and mediates the relationship between participation-based rewards and objective new product performance (Wei et al, 2012). Marketing capabilities in SME with high level of marketing planning and pricing capacity have main impact is on financial performance rather than on stakeholders' satisfaction (Pérez-Cabañero, González-Cruz, & Cruz-Ros, 2012).

While firms need to develop strategic and refocusing resources on successive decision points during the stiff competition and technologically changing environments, the younger and smaller firms tend to be more dynamic and transient than older and larger firms (Nadkarni & Herrmann, 2010). However, it seems that effective adaptation to environment is different for firms in dynamic environments than it is for firms in stable industry contexts.

2.2. The element of Market Power

2.2.1. Market power and market structure

Additionally, Limehouse, Maloney, Rotthoff (2012) indicate that a firm with heavily dependent on costumers has less differential pricing. The oligopoly firms tend to employ mixed strategies that randomize both price and quality to deal with heterogenous consumers, i.e. those who prefers to buy high quality products or low quality product (Chioveanu, 2012). Yao et al (2012) identified a negative price premium effect, which means a high-reputation seller charges a lower price than a low-reputation seller for both informed and uninformed buyers, which makes sellers follow mixed pricing strategies.

Under high competitive industry, capability to set a price is quite low. The neoclassical economics course consider that small and medium enterprises typically are price takers, but invisible hand enable firms to adjust price to response surpluses or shortage (Spullberg, 2009). Fjell, Foros, & Pal (2010) higlight interdependence among firms occurs on pricing strategy. Regarding price regulation, Hatfield, Plott, & Tanaka (2012) show that price floor policy brings about inefficiency in high quality good market, while price ceiling policy induce inefficiency in low quality good market. Bezwada (2013) indicates that price reduction still plays pivotal role in recent mainstream retail with cross elasticity among products. Price coordination becomes apparent in which merchant association aims to facilitate interaction with governments.

2.2.2. Pricing strategy

Market power is associated with pricing capability, which is about ability of a firm to set a price. They way of a firm set a price is called as pricing strategy. There are at least three kind of pricing strategy, namely competitor-based, value-based, and cost-based strategy. Cost- and competitor-based pricing approaches are quite popular among businesses. The current literature further advocates the superiority of value-based pricing approaches over cost- and competition-based pricing approaches (Liozu et al., 2012).

Cost-based pricing is a 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. Many firms base their intra-company trade on cost-based transfer prices. Pfeiffer et al (2011) indicates a range of different methods for cost-based transfer pricing. These methods are based on either standard or actual costs, often including markups. While the rules and procedures of these methods have been extensively described, managerial accounting textbooks provide only scant descriptions of their efficiency properties and their relative performance.

Competitive-based price refers to prices of competing products as a benchmark to set a price. Liu & Zhang (2013) consider dynamic pricing competition between two firms offering vertically differentiated products to strategic customers who are intertemporal utility maximizers. This is called as price skimming, which arises as the unique pure-strategy Markov perfect equilibrium in the game under a simple condition. Kartono (2011) indicates that a relative aggressive pricing when their products are less competitiveness. The reason why price is less competitive refers to coordination price strategies to fulfill a market objective. Liu & Zhang (2013) highlight the asymmetric effect of strategic customer behavior on quality-differentiated firms. Even though the profit of either firm decreases as customers become more strategic, the low-quality firm suffers substantially more than the high-quality firm. Furthermore, we show that unilateral commitment to static pricing by either firm generally improves profits of both firms. Interestingly, both firms enjoy higher profit lifts when the high-quality firm commits rather than when the low-quality firm commits.

Value-based pricing strategy. Liozu & Hinterhuber (2013) find a positive relationship between value-based pricing (but not competition-based pricing) and firm performance. The conceptualization of value-based pricing varied from firm to firm as well as within firms. A vast majority of managers practicing value- based pricing defined value as either customer benefits over the best competitive alternative or as customer willingness to pay (Liozu et al., 2012). However, value-based pricing depends heavily on customer and market knowledge, which is about deep understanding of the customer and the competition (Piercy, Cravens, & Lane, 2010).

2.2.3. Market power and marketing strategy

Market power is also associated with marketing capability. This refers to marketing mix, such as pricing, promotion, product development, and distributing channels to seize the market opportunity. The capacity to capture the opportunities is crucial for small firms to meet the firm performance or event to survive (Ashikia, 2010; Banterle, Carraresi, & Cavaliere, 2011). Murray et al (2011) indicate that marketing capabilities are accumulated knowledge and skills of the firm in order to utilize and enhance the resource value, while Qureshi & Kratzer (2012) define marketing capacity as a process to apply knowledge, skill and resource to market-related needs of the business.

Morgan et al. (2009) identifies two kinds of marketing capabilities. The first is marketing capabilities concerning individual 'marketing mix' processes, such as product development and management, pricing, selling, marketing communications, and channel management, while another marketing capabilities refer to the processes of marketing strategy development and execution. Another perspective considers that marketing capability as a process of marketing strategy.

There is no agreement about the elements of marketing capabilities. Murray et al. (2011) notice that marketing capabilities constitute pricing, new product development, and marketing communication capabilities, while Qureshi & Kratzer (2012), marketing capacity comprise at least five elements, i.e. marketing research, pricing, product development, channel management capability, promotion, marketing research, and marketing plan.

2.2. The Determinant of Market Power

2.2.1. Social Capital

The central proposition of social capital theory is that networks of relationships constitute a valuable resource (Putnam, 2000, Oldroyd, 2012). Social capital goes beyond ordinary networks. Broadbridge (2010) highlights that social capital prevails when the networks become a resource, which provides opportunities and benefits. Bernardes (2010) indicates that network relational embededness represents the degree closeness and reciprocity between a focal firm and its relevant supply networks. The networks, norms and trust play pivotal role to facilitate information sharing, collective decision-making and collective action (Wolz, 2011). Hence, social capital is expected to be able to enhance organization culture (Lin & 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 & Filieri, 2010; Bernandez, 2010). Social capital at the firm level has a significant influence on both knowledge acquisition and innovation, which part of marketing capacity (Martínez-Cañas, 2012). In addition, Lim and Putnam (2010) indicate that social capital is associated with life satisfaction. However, Pirolo & 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, 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; Bernandez, 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; Bernandez, 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 (P. 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 (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, 2008; Mačerinskienė & Aleknavičiūtė, 2011).

Table 2.1: Factors and Items of Social Capital

Factors	Items	Sources
Structural	• Need each other to accomplish the objectives. • Dependent on the other to be successful. • Work with others will enable to access to resources. • Know our contact in persons. • Close social relationship with our contacts. • Information among our contacts usually have a similar content. • Our contacts know each other. • Our contacts maintain their relationship.	Roziés et al (2010), Para-Requena et al (2012).

Factors	Items	Sources
Trust	• Keep their promises. • High reciprocity among the colleagues. • Mutual trust at multiple levels. • Share organization vision. • Good understanding among the partners • Mutual respect among the partners. • Personal friendship • Cooperative attitude.	Lee & Sukoco (2007), Li et al. (2012)
Cognitive	• Good at dealing with customer. • Effective channels of communication among division. • Same amount of information among all division. • The business unit' s successes are our department' s successes. • Loyalty from all staffs. • Common understanding on customer • Common understanding on supplier. • Understand each other's needs and priorities	Roziés et al (2010)

As latent variable, the concept of social capital theory is derived into some factors. Putnam proposed the concept of social capital with trust, norms and networks, which are consider to be able to promote coordinated actions in order to foster happiness, and life satisfaction in macro level (Lim & Putnam, 2010; Häubere, 2011; Leung, Kier, Fung, Fung, & Sproule, 2011). This concept is considered to be vague definition since operationalization become to confused when it refers to a community as unit of analysis. Hence, Burt (2008) developed concept of social capital with cluster of networks as advantage of shared information from connection with multiple groups and individuals.

2.2.1.1. Structural Dimension

Structural dimension is about pattern of social interaction among actors, which implies on network ties. Wu, Chang & Chen (2008) indicate that the structural dimension of social interactions implies to assets that rooted in trust and worthiness including physical link among people in the networks. Jiang & Jin (2010) refer to structure hole theory to explain the way an entrepreneur tries to manage information social capital for his benefit. Broadbridge (2010) indicates that direct ties in which people close to individual is the most common network structure, while Goxe (2010) argues that the development of a social capital lies on this dimension on account of some personal traits and industry knowledge. 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. Wang & Fang (2012) highlight that network structure which enables access to information, resources and opportunity is source for competitive advantage.

Nan Lin (2001) proposed network theory of social capital, which argues that social structure feature both openness and closeness access in social relationship. Häubere (2010) draws a distinction between Nan Lin and other social capital theorists, because Nan Lin developed the concept of social capital through 4 axioms, which derived from general theories. In symmetric settings, the robust networks, which consist of connected subnetworks present tree-like unions (Hatfield, Plott, & Tanaka, 2012). However, there has been much overlap issue with theory communication, such as asymmetrical communication, relationship management and responsibility (Pieczka, 2011), while Lukas, Whitwell, & Heide (2013) note that marketing communication with customer orientation doesn't affect weak bureaucracy culture.

2.2.1.2. Cognitive Dimension

Cognitive dimension is about collective conscience of the group, which can bring efficient interaction. Clopton (2011) calls social capital as "one heart, one mind, one body" and cognitive dimension as "one mind". A collective identity springs from similar experiences of the group. In addition, Roziés et al. (2009) argue that information and resource are more accessible when people invest in learning and understanding and shared. This dimension needs the common codes and languages, which spring from repeated social interaction (structural dimension), which can create trust and mutual commitment (Alguezaui & Filieri, 2010).

In the context of business organization, such investment refers to agents' interactions within organization, which can generate firm performance and importance value. Strong cohesion social networks imply highly interconnected ties. Trust, norms and commitment spring from this kind of social capital, which can be measured with (Alguezaui & Filieri, 2010). This implies some positive work environment including inhibit employees from undermining others (Duffy et al, 2012). Rouziés, Hulland, & Barclay (2010) identified that organization mechanisms nurture social capital among divisions, such as marketing and sales division. However, the dense and cohesive social networks can generate redundancy in the information exchange (Parra-Requena et al., 2009) and call for marketing capacity as mediator to drive performance (Rouziés et al, 2010). In addition, Duffy et al (2012) identify a risk of moral disengagement, such as condemnation and loathing, due to cognitive justification, while Oldroyd & Morris (2012) argue that a cognitive constraint to utilize social capital due to exponentially level of social capital. Another example is strong cohesive work group bring about dominant voice and views, which affected inferior group, such as woman in workplace (Broadbridge, 2010).

2.2.1.3. Trust Dimension

Trust is the core content of social capital, which enables a stable social order. Zheng-dong (2010) indicates a hierarchy process of social order from trust to reciprocity, followed by obligation and expectation. Trust and trustworthiness spring from specific relationship, which is associated with shared information and solidarity among the actors (Cai, Zhu, Huang & Shi, 2012), while Markowska-Przybyla (2012) raises a question whether trust comes first before network or network followed by trust.

The developing social capital covers higher levels of trust in the firm, which implies on a reputation of organization. Mann & Leahy (2010) highlight that collective assets is form of trust relationship as well as normative behavior. Inter-group trust plays a pivotal role to promote collective action and foster cohesion toward group identity (Mann & Leahy, 2010). Trust can prevail independently due to wishful thinking, personal preference or personal opinion while mutual trust relies on investment from all of the partners. A trust-based relationship prevails when a member evaluates the other member as not risky or the risk level is under bearable limits (Oldroyd & Morris, 2012).

Trust is considered as multi elements. Laeequdin et al. (2010) impose the elements of trust, namely characteristic trust, rational trust and security system. The developing social capital requires trust from stakeholders, which relies on unwritten social contract and instead of instrument with aim to profit (Manning, 2009). However, there is a risk of acceptance in decision making process, which can imply negative effects of social capital on decision effectiveness (Jansen, 2011).

2.2.2. Entrepreneurial 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 by adopting this concept. The theoretical and empirical inquiry of EO phenomenon has been emerging for over 30 years (Covin & Wales, 2011). This is different from entrepreneurship, which is about how to set up a new business (Wang, Yuli & Hongzhi, 2009), though both concepts tie opportunity and resource effectiveness. Renko, Carsrud & Brämback (2009) emphasis that EO is about responsive behavior upon market environment, which is consider to be opposite behavior to traditional and adaptive market orientation.

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 to uncontrollable at the micro-level, while the idea to seize opportunities spring from internally-induced change (Betta, Jones, & Latham, 2010). In entrepreneurial orientation, the concept of Schumpeter's innovation becomes factor of entrepreneurial orientation, while discovery process proposed by Kirznerian is considered to be proactiveness is another factor. The factor and items in the entrepreneurial orientation is summarized in Table 2.2.

Table 2.2: 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 et al. (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 et al. (2008), Gürbüz & Aykol (2009), Lumpkin et al. (2009).

Factors	Items	Sources
Innovativeness	• Creative in using resources • Develop new product • Emphasis on R&D • Many new lines of new products • Changes in product	Kropp et al., (2008), Fang et al., (2008), Lumpkin et al. (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 et al., (2008), Lumpkin et al. (2009).
Aggressiveness	• 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 et al. (2009)

2.2.2.1. Autonomy

Autonomy is about providing low-powered incentive to employees to achieve the goal of the organization, which refers to the theory of self determination. This theory tries to understand types of motivations which spring from autonomous motivation and external motivation (Moran, Diefendorff, Kim, & Liu, 2012), which contribute to employee's satisfaction (Marescaux, de Winnie, & Sels, 2013). Working autonomously implies the decision-making process (Colburn, 2011) to foster a culture that encourages new projects (Vora, Vora & Polley, 2012). In the context of organization, autonomy refers to the relationship between units and sub-units on making decision and goal setting for themselves (Gammelgaard et al, 2011) with attempt to improve firm performance (Barnabas & Mekoth, 2010).

As a factor of EO, autonomy is associated with the degree in decision making process. Lumpkin, Cogliser & Schneider (2009) point out that autonomous decision making plays a pivotal role for entrepreneurial outcomes and consider to become one of major factors in EO. This factor comprises four items, i.e. working autonomously, belief for the best result, no intervention from supervisor, the role of leaders. In the context of a small business, autonomy is main personal reason to set up a self-employ business. Hunter (2012) indicates personal satisfaction and lifestyle, autonomy is often more important than business goals in small business. Lange (2012) also offers an empirical finding that autonomy of self-employment leads toward greater job satisfaction. Refer to self-determination theory, Marescaux, de Winnie, & Sels (2013) indicate that autonomy contributes to satisfaction, followed by a strong commitment with quality and productivity team goals (Pais, 2010). The effect of job autonomy on organizational commitment, becomes stronger in quality-competitive companies (Park & Searcy, 2012). On the other hand, the traditional small enterprises are under managers with difficult to trust and delegate strategic activities (Bouchard, 2011). Shimizu (2012) identifies opportunistic behavior as a consequence of encouraging autonomous behaviors.

Bouchard (2011) posit that traditional small business is running with self-employ management with high innovative, risk-taking and proactive but difficult to trust and delegate strategic and exploratory activities. St-Jean, LeBel, & Audet (2010) argue that autonomy in EO is different from small business orientation, which represents as an extension of personality as well as to generate personal income. In addition, autonomy perception implies on quality of supervisor-subordinate relationship followed by work satisfaction (Farr-Warton, Brunetto, & Shacklock, 2011; Moreau & Mageau, 2012). Seppälä, Lipponen, Pirttila-Backman, & Lipsanen (2011) indicate that reciprocal trust springs from work-related trust through building trust between supervisor and subordinate.

2.2.2.2. Risk-taking Behavior

Risk-taking behavior is about willingness to take high risk in order to gain high profit. This behavior goes beyond the common practices and norms (Pearce II et al., 2009) with high level of resources commit to project (Su, Xie & Li, 2011). This factor also have strong relationship with effort to invest for product innovation, such as risky ventures and acts proactively by being the first to come up with new products, technologies and administrative techniques (Altinay & Wang, 2011). During the creating new innovation, which stands for innovation behavior, the effort to get involve into a costly commitment to deal with an uncertainty in the future represents is considered as a risk taking behavior (Pearce II, Fritz & Davis, 2009). However, Andersén (2010) argues that entrepreneur-oriented managers generally do not see themselves as risk-takers; however, due to differences in the cognitive structure they tend to perceive lower levels of risk than others. Andersén (2010) indicates that EO core references focuses too much on the positive aspect of risk taking but neglects the relationship between failure and risk-taking behavior.

The first item is about propensity to take a high risk project. Establishing a small business is associated with high risk. Park, Chinta, Lee & Yi (2010) indicate that greater risk, limited resource fewer number of project are common characteristics of small business. The size of company also determines the effect of human capital risks (Mäenpää, & Voutilainen, 2012). Technology innovation and commercialization is risky in which managers tend to refer short-term target for personal interests instead of long-term development for the company (Li et al, 2008).

The second item refers to bold and wide ranging acts, which imply an effort to accept risks. This is different from reckless, which doesn't accept risks, bold act refer to the risk awareness and decide to go through with a decision. A firm with entrepreneurial orientation tends to take a bold nuanced view of risk and concern how the return they make reflect that risk (Scordis, 2012). In addition, Smith (2012) believes that bold people management is the key resource to achieve firm performance. Schumpeter's entrepreneur also implies aggressive, bold, and creative leadership qualities (Endres & Woods, 2010). On the other hand, 'wait and see posture' implies delaying investment. This takes until a right time to make a decision. The longer a wait-and-see posture takes place, the more difficult for the business to foster its growth. Altinay & Wang (2011) show an irrelevant item, which is "when there is uncertainty, our business typically adopts a 'wait and see' posture in order to minimize the risk of making costly decisions" was removed from the initial analysis.

2.2.2.3. Innovativeness

Innovation implies a novel product or method. Altinay & Wang (2011) notice that innovations are associated with 'original and unique' concepts in businesses, which spring from their capacity for creativity and responsiveness to knowledge. Innovativeness is about the eagerness of an firm to promote new ideas and novelty as well as an effort to transform current technologies and practices (Pearce II et al, 2009). Firms with focus on entrepreneurial orientation provide more substantial efforts on innovation than firms with focus on market orientation (Maatoofi & Tajeddini, 2011).

The way to promote a novel product or method refers to incentive system. Andersén (2010) points out that EO in large corporations has developed a reward system, a training division and designation a manager to promote new ideas. The reward system and training division aims to foster employee's creativity and to promote creativity and innovation techniques, while designation of manager has responsibility toward championing new ideas. Gammelgaard et al (2011) indicate that the higher proportion of employment in skilled jobs the higher role specialization and absorptive capacity . Clerq, Dimov, & Thongpapani (2010) argue that the firm's ability to convert its innovative, proactive, and risk-taking behavior into a performance advantage will be influenced by the amount and quality of knowledge exchange that takes place across functional departments.

2.2.2.4. Proactiveness

Proactive behavior refers to initiative respond to seize market opportunities with new products or services. This implies a firm with strong orientation to discover future opportunities in order to meet future demand (Gawel, 2012), which may not be unassociated with existing operations (Pearce, 2009). This is about actions of identifying new market opportunities and respond quickly to be the first mover advantage (Su, Xie & Li, 2011). Fuller, Hester & Cox (2010) indicates that capability to creating environment is the nature of proactive behavior.

Distinguish from innovativeness, which promotes novelty and invention, proactiveness refers to involvement in emerging market instead of intervention in existing market (Pearce II, 2009). According to Altinay & Wang (2011), proactiveness refers to the firm's ability to conduct market intelligence, followed by synthesizing and acting proactively on a business owner's agenda (Altinay & Wang, 2011). This involves shaping the environment by introducing new products, technologies, administrative techniques rather than merely reacting to market change.

Tang et al (2010) argue that a proactive organization is associated with high willingness to exchange and combine information based resources to be more flexible in employing strategies. Kreiser & Davis (2010) indicates that a dynamic environment enables firm to be proactive and seek many new opportunities to gain a competitive advantage. Vora et al (2012) indicates that high level of autonomy and proactiveness tend to take place in medium-sized business.

2.2.2.5. Competitive Aggressiveness

Aggressiveness is about competitive strategic behavior on market share expansion. Pearce et al, (2009) indicate that aggressiveness is associated with growth in existing markets. This involves intensity of a firm's effort to outperform rivals, which is characterized by a strong competitive drive to competitive threats or strong offensive posture (Rauch et al, 2009: Gawel, 2012). Stambaugh, Yu & Dubinsky (2011) draw a distinction between aggressiveness and proactive that competitive aggressiveness stands for propensity to improve position to deal with threats imposed by competitors over existing customers, while proactive pursuit of new markets and new customers.

To foster competitive aggressiveness behavior, Stambaugh et al (2011) outlines awareness, motivation and capability. Awareness implies rival analysis on the real time tracking, while motivation refers to propensity to take necessary step in furthering their performance against the competitor. Moreover, capacity outlines the tangible resource which is deployed with aim to outperform competitors. However, Rauch et al. (2009) consider that competitive aggressiveness may be less valid in certain cultural contexts.

CHAPTER III: RESEARCH METHOD

The research method refers to mix methodology, quantitative and qualitative. The quantitative uses regression method. Decision on using mix method for this study considers an attempt to explore the specific relation between social capital and market power with holistic view of social capital. From the qualitative approach, the research takes a stance on an interpretive approach, in the sense that the researcher is trying to understand what happens and why.

3.1. Quantitative Approach

There are some steps taken by this approach from validity test, factor analysis and regression analysis.

3.1.1. 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, there are five steps. First is content validity, which involve experts to judge the representativeness of the items on the test. This involves some professor and PhD students. Second step is face validity, which involves some observed respondents to examine whether the respondents can understand the questionnaires. The next is construct validity to ensure there is no overlapping among measures with similar theoretical concept.

3.1.2. Reliability Test

Reliability tests are tools with aim to measure reliability of data or consistency of measurement. Alpha was developed by Lee Cronbach in 195111 to provide a measure of the internal consistency of a test or scale; it is expressed as a number between 0 and 1. Internal consisten- cy 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. Put simply, this interpretation of reliability is the correlation of test with itself (Tavakol & Dennick, 2011).

Vehkalahti, Puntanen, Tarkkonen (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 Cronchbach's alpha. Both Composite Reliability and Cronbach's alpha have similarity. Secondly, 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 the true variable to the total variance of measurement.

$$\textbf{\textit{Composite reliability}}\ (\rho) = \frac{(\sum_i \lambda_{ij})^2}{(\sum_i \lambda_{ij})^2 + \sum_i var(\varepsilon_{ij})}$$

If we take a look at the formulas of CR and Cronbach's alpha, it appears that Composite reliability focus 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.

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

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.

3.1.3. 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).

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

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

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.

3.1.3.2. Bartlett's Test of Sphericity

Bartlett's test is used to test if k samples have equal variances. Cramer & Howitt (2004) highligt 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 :

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

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

3.1.3.3. 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.

3.2. Qualitative Approach

3.2.1. 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).

3.2.2. 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, 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).

3.2.2.1. 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).

3.2.2.2. Narratives

Narratives are one of the processes by which we organize and make sense of the world (Czarniawska, 1998; Herrmann, 2007a; 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).

3.2.2.3. 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).

CHAPTER IV: ANALYSIS

4.1. Qualitative Approach

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 focus 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 prefers 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 possibility 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.

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.

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 our 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.

4.2. Quantitative Approach

The quantitative approach comprises into three steps, reliability test, factor analysis, and regression.

4.2.1. Reliability test

As Cronbach's alpha is coefficient of reliability or consistency but not a statistical test, the test shows that variables of pricing capability and social capital have items with an underlying (or latent) construct, while entrepreneurial orientation has poor reliability. The Cronbach alpha of pricing capability and social capital are greater than 0.6, which the minimum requirement level of CA test. However, the high alpha doesn't imply that the measure is unidimensional.

Table 4.1: 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

4.2.2. 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.

After removing some items, 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. Hence, the rest of the pricing strategy refers to pattern of marketing program (P34, P33, P22, P31).

Table 4.2: 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	

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 4.3: 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.	

Code	factor loading	items	pattern
S44 S64 S65	.746 .669 .661	Our staffs share their dream Our firm has ideal goal Our staffs understand the target	sharing goal
S11 S24	.678 .718	Our firm relies on one supplier Our firm relies on other company to manage on time distribution.	distribution

Table 4.4: Entrepreneurial Orientation

Code	factor loading	items	Pattern
EO32 EO03 EO31 EO33 EO44	.673 -.561 .581 .678 .571	Over the last year, our firm has no new product (R) Our staffs don't depend to much on the manager. In our firm, marketing is more important than innovation (R) Our product has a bit differences from the previous one (R) We avoid conflict with competitors (R)	proactivity of innovation process
EO04 EO34 EO35 EO53	.564 .645 .667 .667	Our owner manager sets the target to our employees 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.	aggressiveness of innovation process
EO52 EO41 EO43	.667 -.823 .665	Our firm is quite aggressive to seize opportunity Our firm responds to what the competitors did (R) Our firm is using a new technology this year.	aggressiveness to deal with competitor
EO07 EO21 EO45	.739 .601 .679	Owner manager plays pivotal role to seize opportunity Our firm tries to avoid risk (R) Our new products follow the market trend.	autonomy, risk taker, proactive

Code	factor loading	items	Pattern
EO01 EO24 EO22	.602 .703 -.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)	Autonomy with risk taker

4.2.3. Regression Analysis

The result of regression analysis indicates different story in the process of pricing strategy. At first model with capability of setting price for new products as dependent variable, EO2, EO5 and SC4 have significant and positive impact on the market power. This means SC4 (relationship with distributor) has positive impact on relationship with market power. This model has R goodness of fit of 0.56, which is a little bit greater than other two models.

Model 2 highlights the relationship with customers as dependent variable. The result indicates mixed relationship between social capital and the relationship with customers. SC2 (relationship with supplier) has negative relationship with relationship with customers, while SC3 (sharing goal) has positive impact on relationship with customers.

Table 4.5: Regression Result

Variables	Model 1: MC1	Model 2: MC2	Model 3: MC3
Const	-1.595	2.349	3.496*
EO1 EO2 EO3 EO4 EO5	-.072 .377*** .254 .129 .342***	.082 .088 .224 -.151 .153	.005 .062*** -.153 -.174 .011**
SC1 SC2 SC3 SC4	.110 -.203 .202 .185**	-.033 -.222 ** .232 ** -.051	-.117 .183 .202*** .076

Variables	Model 1: MC1	Model 2: MC2	Model 3: MC3
R	.56	.443	0.35
R square	.31	.196	.122

CHAPTER V: CONCLUSION

5.1. Conclusion

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 follow other. Autonomy to the front liner staff also determines to the market power with a risk of consumer satisfaction.

5.2. 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.

1. 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.
2. 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.
3. 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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PAGE 1

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PAGE 3

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PAGE 5

PAGE 6

PAGE 7

PAGE 8

PAGE 9

PAGE 10

PAGE 11

PAGE 12

PAGE 13

PAGE 14

PAGE 15

PAGE 16

PAGE 17

PAGE 18

PAGE 19

PAGE 20

PAGE 21

PAGE 22

PAGE 23

PAGE 24

PAGE 25

PAGE 26

PAGE 27

PAGE 28

PAGE 29

PAGE 30

PAGE 31

PAGE 32

PAGE 33

PAGE 34

PAGE 35

PAGE 36

PAGE 37

PAGE 38

PAGE 39

PAGE 40

PAGE 41

PAGE 42

PAGE 43

PAGE 44

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