

## Exploring the Relationship of Networking Capabilities to Marketing Performance: A Study of Small-Sized Business Firms in Central Java Indonesia

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### Abstract

Entrepreneurial orientation is a determining factor for business success, entrepreneurial orientation has the characteristics of risk taking, proactive towards change and innovation to enhance the competitiveness of companies. For small and medium-sized companies, relationships and networks are important resources. Networks are considered an important variable for all types of companies, especially those related to the fact that the economic environment is becoming increasingly competitive. Networks enable companies to access resources, markets, information and technology. In addition, social networking is an important formation of the company and for the success and continuity of the company. This study examines the effect of entrepreneurial orientation, isolation mechanism, strategy quality as an independent variable, and network ability as an intervening variable on the marketing performance of batik Small and Medium Enterprises (SMEs.) in Central Java, Indonesia. This research was conducted on 160 owners and managers of batik SMEs. Data were collected with a ten-point Likert scale questionnaire consisting of statements about these variables. Data were analyzed with Structural Equation Modeling using AMOS. The research findings show the positive effect of entrepreneurial orientation and the quality of the strategy directly on the ability of the network, and, the ability of the network to marketing performance. The author discusses managerial implications and important future research from this finding

**Keywords:** *entrepreneurial orientation, networking capabilities, quality of strategy, isolating mechanism, firm performance*

### Introduction

Entrepreneurship refers to the pursuit of creative or novel solutions to challenges confronting the firm, including the development or enhancement of products and services, as well as new administrative techniques and technologies for performing organizational functions (Knight, 1997). The entrepreneurial process has the attitudinal and behavioral component. Attitude refers to an individual or organization's readiness in embracing multiple opportunities and ready for the responsibility in order to gain the creative changes. Behavior component involves a series of activities which needed to evaluate an opportunity, to define a business concept, to estimate and to obtain the required resources and eventually to operate and to obtain the venture's gain. Lumpkin and Dess (1996) defined entrepreneurship as a new business players. Hence, entrepreneurship can be associated with life skill (Frank, Korunka, Lueger, & Mugler, 2005). Entrepreneurship is a fundamental posture, instrumentally important to strategic innovation, and particularly under shifting conditions in the firm's external environment, and is applicable to any firm, regardless of its size and type (Knight, 1997). While the orientation is also correlated with the entrepreneurial steps (Richard, Barnett, Dwyer, and Chadwick, 2004). From the definition of the orientation of these entrepreneurs, it is sophisticated that the concept of entrepreneurship mainly describes the strategies made by the entrepreneurs. Lumpkin and Dess proposes that the entrepreneurial orientation describe the main entrepreneurial processes and with respect to how businesses (ventures) has executed, while the levels of entrepreneurship lead to decisions being taken: what is executed (Quince, 2003).

Entrepreneurship is a principle in actualizing the capability development process of the company.

Entrepreneurship can also be defined as the value-making progress by using a series of specific resources to maximize an opportunity. Hence, entrepreneurial attitude associated with product characteristics uniqueness is an important contributor to product performance (Avlonitis, & Salavou, 2007). Entrepreneurial orientation key factor in nourishing a greater advantage and company excellence. High entrepreneurial skills improve innovation, initiation of changes, and high-speed response to circumstances flexibly. Entrepreneurship (such other discoveries and exploitation of profitable opportunities) actually improves business performance and macro-economic growth (Covin & Slevin, 1991; Lumpkin & Dess, 1996). Lee and Peterson, (2001) proposed that a society's propensity to generate autonomous, risk-taking, innovative, competitively aggressive and proactive entrepreneurs and firms will depend on its cultural foundation. Slater and Narver, (1994) and Lee and Tsai, (2005) did not find a significant correlation between entrepreneurial orientation and firm performance. Coulthard (2007) stated that the orientation is considered as a critical element in portraying the performance of the company. Rauch, et al., (2009) indicated the moderate correlation of EO with performance and the relationship is robust to different institutionalization of key constructs as well as cultural contexts. Gonzalez-Benito, et al., (2009) find a strong relationship between entrepreneurship and market orientation. Although these orientations may be implemented separately and contributes to performance specifically (Gonzalez-Benito, et al., 2009), market-oriented firms are more emphasize in entrepreneurship. Sciascia, et al., (2006) found Market Orientation (MO) is the main determinant of Entrepreneurial Orientation (EO) and in small and medium enterprises.

This research focused on the sector of batik Micro, Small and Medium Enterprises (SMEs) in the center of batik in Central Java. The sector have a dynamic environment full of uncertainty (such as competitors, customers, suppliers, regulators, and business associations) and the intensity of competition is high (including but not limited to price, product, technology, distribution, human resources, and raw materials). These circumstances requires good management skills. This study mainly focus to explore direct relationship between innovation and SMEs business performance. Accordingly, we aimed to contextualize on various theoretical perspectives to develop hypotheses that most-closely explaining the influence of entrepreneurial orientation as key antecedents to innovation, as well as mechanism isolation and quality of strategy and networking capability as intervening variable and independent variables on SMEs marketing performance.

### **Overview of Batik SMEs Central Java**

Based Based on Wikipedia, batik is a technique of wax-resist dyeing applied to whole cloth, or cloth made using this technique. Batik is made either by drawing dots and lines of the resist with a spouted tool called a canting, or by printing the resist with a copper stamp called a cap. Center of production batik in Central Java existed in Surakarta, Semarang, Pekalongan, Rembang and Klaten. Central Java can be considered as the center of Indonesian batik because it has 6,187 batik SMEs which unable to absorb approximately 224,700 workers. Production capacity in a year is able to produce silk types of hand-loom of 3.74 million pieces and batik types of cotton as much as 4.98 million more pieces. Most SMEs are a collaboration of batik and stamp, or a combined-pattern of writing and printing the manual. Moreover, the applied wax resists dyes and therefore allows the artisan to colour selectively by soaking the cloth in one colour, removing the wax with boiling water, and repeating if multiple colors are desired.

As many about 487 SMEs can be classified as pure batik. Batik SMEs has met domestic demand as well as exported to some neighbour territories such as Malaysia, Japan, Singapore, Brunei, even to several European contingent, and to America. There are miraculous batik gallery in Central Java, especially centered in Semarang, Surakarta, Pekalongan, Jepara, and Rembang. Indonesian batik made in the island of Java has a long history of acculturation, with diverse patterns influenced by a variety of cultures, and is the most developed in terms of pattern, technique, and the quality of workmanship. Each gallery provides a unique design of batik. The price of batik artisans in the production gallery of batik is surely much cheaper when compared to other regions. The quality of batik in every batik industry center is various, due to the various quality of their component. In October 2009, UNESCO designated Indonesian batik as a

Masterpiece of Oral and Intangible Heritage of Humanity. As part of the acknowledgment, UNESCO insisted that Indonesia preserve its heritage.

### **Impact of Entrepreneurial Orientation on Networking Capabilities and Marketing Performance**

Entrepreneurial Orientation (EO) as well as Market Orientation (MO) are considered key factors in ensuring firm longevity in the new competitive landscape (Sciascia, Naldi, & Hunter, 2006). Hong, et al (2013) revealed the main impact of MO is through new product development proficiency and product meaningfulness and that of EO is through proficient intellectual property management and product novelty. As a part from entrepreneurial activity, EO is critical because it stimulates superior performance and may well be the key fundamental element in the procurement of advantages relative to competitors (Knight 1997). It is distinguished by three characteristics: a high degree of innovation, risk-taking, and pro-active (Covin and Slevin 1989). In addition, Miller (1983) emphasizes entrepreneurship orientation as aggressive product-market innovation, risky projects, and a proclivity to pioneer innovations that preempt the competition. Similarly, entrepreneurship orientation can be described as a learning and selection mechanism that engenders exploratory, risk-seeking behaviors in the product innovation process (Lumpkin and Dess 1996, Miller 1983). Dess, and Lumpkin, (2005) outlined autonomy, innovation, pro-active, competitive aggressiveness and risk-taking as the dimensions of corporate entrepreneurship. While Hult, et al., (2004) proposed market orientation, entrepreneurial orientation, and learning orientation as key antecedents to innovation.

Entrepreneurship orientations determine the type and nature of company strategy lead and lead to congruent behaviors at the new product development team level (Atuahene-Gima, & Ko, 2001). Rumelt, (2005) defined entrepreneurship as the creation of new businesses. This means businesses that do not exactly duplicate existing businesses but have some element of novelty. Hence, Van de Ven (1986) stated that innovation is defined as the development and implementation of new ideas by people who over time engage in transactions with others within an institutional order. This definition focuses on four basic factors i.e new ideas, people, transactions, and institutional context. Dess, and Lumpkin, (2005) stated that firms that follow a strategy of corporate entrepreneurship are able to pursue sustainable advantages, new venture opportunities and strategic renewal. Entrepreneurship and is one of the most significant drivers of innovation and customer value (Nasution, et al., 2011). Frank, et al (2005) show that entrepreneurial orientation as well as inclinations to start up a new business can indeed be influenced considerably, with potential targeted influences at the personality level. Specifically, by analyzing of family firms' ability to create value across generations, Zellweger, et al., (2012) argued family entrepreneurial orientation serve as an antecedent to trans-generational value creation by families.

Many empirical literates studied the number of differences in performance indicators (e.g Combs, Crook & Shook, 2005; Venkataraman & Ramanujam, 1986). Principally, the difference is focused on the posture of the financial performance such as ROE, ROI and sales growth and non-financial performance like customer impression and company success in the global competitiveness. At the conceptual level, it can be distinguished between company's growth and profitability measurements. Even though these concepts, according to empirical and theoretical, are interconnected, there are also important disparities (Combs, Crook, & Shook, 2005). Certain managerial and organizational attributes will tend to raise levels of performance whatever the type of company and its operating circumstances. Hence, as stated by Sawyerr, et al., (2003) the level of perceived uncertainty in the environment will increase the frequency of internal networking. Increased internal networking in response to increased perceived uncertainty resulted in better firm performance. Hult, et al., (2004) revealed direct relationship between innovation and business performance. Similarly, Hitt, et al., (1997) found the relation between innovation and firm performance in product-diversified firms. Other study, such as Tsai (2001) showed that the interaction between absorptive capacity and network position has significant, positive effects on business unit innovation and performance. Additionally, in the case of industrial markets, building a marketing orientation is a significant contributor to

the company's performance (Avlonitis, & Gounaris, 1997; Diamantopoulos, & Hart, 1993; Matsuno, et al., 2002). The study also indicated that entrepreneurial proclivity has not only a positive and direct relationship on market orientation but also an indirect and positive effect on market orientation through the reduction of departmentalization.

H1. Entrepreneurship orientations has a positive influence on Marketing Performance

H4. Entrepreneurship orientations has a positive influence on Networking capabilities

### **Connection Between Isolating Mechanism and Networking Capabilities**

Given innovation expected to be socially efficient, and absent appropriation challenges, entrepreneurship will not be justified unless there are impediments to the immediate ex post imitative dissipation of entrepreneurial rents. The terminology to fits describing barriers to species mobility is called isolating mechanism (Rumelt, 2005). Futhermore, Rumelt (2005) stated that entrepreneurial activity will be motivated where appropriability is less and isolating mechanisms are more. Various isolating mechanisms purposes to make inability of others to engineer and compensate product of a particular company (Shane & Venkataraman, 2000). Other words, as stated by Hoopes, et al (2003), barriers to imitation are one type of isolating mechanism. An isolating mechanism is form of knowledge, physical, or legal barrier that may avoid replication (Lepak, et al., 2007). Isolating mechanisms can create barriers to impede competitors from imitating resources, capabilities and strategies (Li, & Tsai, 2009). This is in line with Hoopes, et al (2003), that a firm's resources or capabilities are barriers for isolating mechanisms. Hence, isolating mechanisms is a terms of use value and exchange of value. The conception of competition and isolating mechanisms are to explain how value can be captured at different levels of analysis, because value creation will differ based on whether value is created by an individual, an organization, or society (Lepak, et al., 2007).

Since entrepreneurial activity is seen as motivated by the chance for gain, its frequency, locus, and organizational context should be determined by the availability of entrepreneurial insights, by the potential returns to entrepreneurship, and by the entrepreneur's ability to attract the requisite resources (Rumelt, (2005). Therefore, the main isolating mechanism exits to become sustainable efforts by firms to developing their innovation privileged (Knott, 2003). Zahra, and George, (2002) stated that the firm's potential and actual capacities can variously influence the creation and sustenance of its competitive benefit. Likewise, institutional isolating mechanisms, and institutional sources of firm homogeneity is determinants for sustainable competitive advantage (Oliver, 1997). Additionally, a firm's sustainable advantage depends on its ability to manage the institutional context of its resource decisions. Hence, organizational form-innovation attribute alignment as a key driver of innovation commercialization success. Hooley, et al., (2005) develop and empirically test scales for measuring marketing resources and assess their impact on performance outcomes. The result indicated that marketing resources impact on financial performance indirectly through creating customer satisfaction and loyalty and building superior market performance. Moreover, Watson (2007) suggested that developed business stakeholder might depend on the capacity of owners to gain way to resources beyond their control in a most efficient cost through networking.

H2. Isolating Mechanism has influence on Networking capabilities

### **Connection Between Quality of strategy and Networking Capabilities**

Increasing competition in the service sector provides an opportunity for firms to differentiate their services from the competition by providing and improving service quality (Johnston, 1987). Product quality should be a common concern in management. The process of strategy in a company advantage required commitments, decisions and actions concerning quality. The quality initiative is a major competitive challenge that requires many companies to reevaluate not only their basic operations (Johnston, 1987). The basic elements of the strategy include observation of the market, composing strategy,

actualization of the strategy and feedback evaluation. Therefore, the strategy process should consider market conditions and structure of market is always changing with circumstances of the resources, capabilities and corporate asset that are constantly changing.

Quality of strategy was measured by a set of eight attitude questions addressing whether the managers adhered to a quality management strategy or a zero defect quality management strategy (Daniel, & Reitsperger, 1991). Belohlav (1993) showed that competence, reliability, and communication are good indicators of quality, and that quality does not influence satisfaction. Hendricks, and Singhal, (2001) stated that firm characteristics, total quality management, and financial performance characteristics examined are firm size, the degree of capital intensity, the degree of diversification, the timing of Total Quality Management (TQM) implementation, and the maturity of the program. The research found that smaller firms do significantly better than larger firms.

Moreover, Daniel, & Reitsperger, (1991) indicated that the management control systems supporting a zero defect quality of strategy are more likely to include regular goal-setting and more frequent feedback relating to quality than those supporting an company quality of strategy. Widespread use of quality cost targets and feedback is also related to a zero defect strategy (Daniel, & Reitsperger, 1991). However, value, which is determined by both quality and total price, affects satisfaction (Belohlav 1993). Specifically in the market route, Sousa, and Voss, (2002) revealed that improvements in product quality lead to increased sales and larger market shares, or alternatively, less elastic demand and higher prices. Furthermore, empirical evidence show the relationship between quality performance and operational and business performance (Sousa, & Voss, (2002). Gilmore & Carson (1999) stated that they can enhance and improve marketing by networking through experience. Experiential learning is derived from the capability of an organization to draw valid and useful inferences from experience. Blesa and Ripollés (2008) stated that networking capabilities include the ability to create mutual trust and commitment between partners, as well as sharing expertise and more tangible assets. By identifying the development of networking capabilities over time networking, Sullivan & Weerawardena (2006) found that capability enables identification and exploitation of market opportunities, facilitates the development of knowledge-intensive products and firm international market performance. Möller & Törrönen (2003) proposes that the dimensions of the supplier's value creation in a supplier–customer relationship could be classified according to efficiency, effectiveness and network functions. Mu & Benedetto (2012) stated that networking behavior influences new product development performance and networking capabilities is a reliable predictor of new product development performance.

H3. Quality of strategy has a positive influence on Networking capabilities

### **Connection Between Networking Capabilities and Marketing Performance**

Networking is considered as an important variable for multiple types of enterprises, specifically regard to the fact that the economic nuance is turning increasingly competitive. Since it allows the entity to access information, reference, markets and technologies (Gulati, Nohria, and Zaheer, 2000). Information and social networks is an critical formation of the entity and for the company's progress and sustainability (Malecki, 1997). Entrepreneurs use their networking abilities to overcome inherent weaknesses. Empirically, by drawing upon a sample of 139 Greek manufacturing SMEs the study presents arguments and formulates hypotheses concerning the individual and interaction effects of internal technological capability and networking on technology investment effectiveness, Voudouris, et al., (2012) revealed that networking appears to complement internal capability creating synergistic effects whereas it cannot act as a substitute of it. The ability of SMEs to plan and conduct networking activities strategically with key partners is beneficial to obtain the influential resources for accelerating foreign business development. Watson, (2007) indicated a significant positive relationship between networking (particularly with formal networks such as external accountants) and firm survival and, to a lesser extent, growth, but not ROE. Fernhaber, and McDougall, (2005) stated that the development of a

networking capabilities can contribute significantly to new venture growth. Similarly, Evers, et al. (2012) stated that entrepreneurs manage and leverage stakeholder relationships in marketing capability processes to co-create value for the firm. Specifically, Coviello, and Munro, (1995) indicated that international market choice and mode of entry for small entrepreneurial high-technology firms are largely shaped by the interest of various network players. Likewise, Bikfalvi, et al., (2013) stated that influential network relationships may be both formal (e.g. business contacts) and informal (e.g. family). However, both studies indicate that the mere existence of service networks can not guarantee success in service and only can used to share some of international marketing activities. Zaheer, and Bell, (2005) posit that a firm's innovative capabilities and its network structure both enhance firm performance, while the innovation of its contacts does not do so directly. Ernst, et al., (2011) provided evidence that new product performance mediates the relationship between customer relationship management (CRM) and company performance.

H5. Networking capabilities has a positive influence on Marketing Actualization

**Conceptual Model**

This research briefly supervised the direct and indirect influence between entrepreneurship orientation on networking capabilities and marketing performance. Furthermore, the research also envisioned isolating mechanism and quality of strategy as determinants for networking possibilities. Many of previous literates arguably revealed the importance of entrepreneurship orientation, as well as marketing orientation, for innovation and marketing performance of SMEs. However, there is little evidence of the influence of isolating mechanism and quality of strategy as well as entrepreneurship orientation toward networking capabilities. Hence, we attempt to identify networking capabilities as key variable in the performance of SMEs. Then, mainly, we pointed the research model, which correlates direct causality of entrepreneurship orientation on networking capabilities and marketing performance. Moreover, orientation is related indirectly on marketing capacity through networking possibilities.

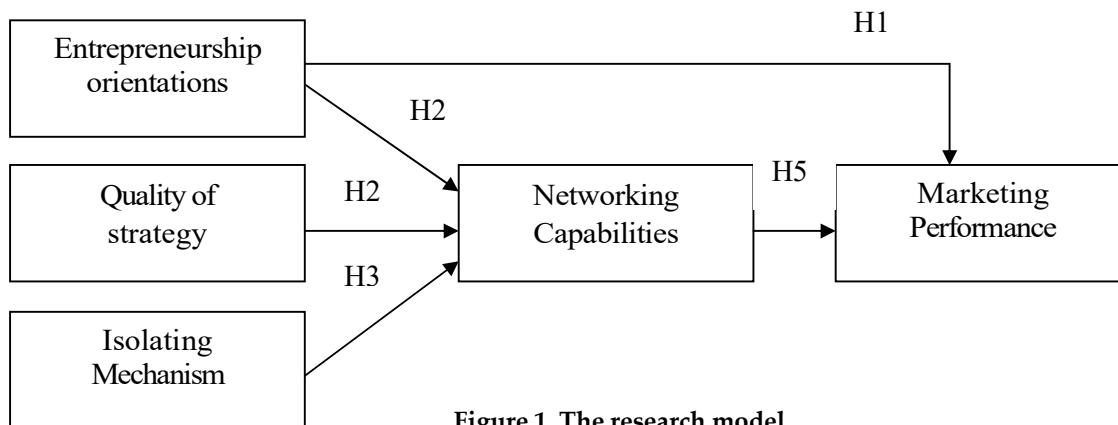


Figure 1. The research model

**Methods**

Relationships Relationships and networking for small and medium firms are important resource (Gruenberg-Bochard & Kreis-Hoyer, 2009). This research identified mainly the role and identical characteristics of the orientation of stakeholder and the progressing of networking capabilities. This research tests the theoretical model to draw contributed factors to networking capabilities and then, explores its impact on marketing performance. Case Analysis method was picked to examine the general mechanisms

and flows of networking capabilities. For this occasion, the study was conducted in SMEs companies of batik that have been existed more than 30 years. The sample taken from a survey from 160 respondents that consisting of owners and managers of batik SMEs in Central Java Province. Questionnaire used to determine how much influence the independent variables have affect to the marketing performance.

The study used 3 independent variables (entrepreneurship orientation, mechanism isolation and strategic quality) and networking ability as intervening variable would be examined as antecedents of SMEs' marketing ability. The research imitate perspectives of entrepreneurship orientation from Lumpkin and Dess, (2001). The variable was determined by 9 items, i.e innovation certainty, encouraging on experiment preference, adopting new invention, dissemination on new project, embracing on change of market hype, looking for information attractively, entering new market's scope actively, as well as launching new varieties of product, and actualization of new strategy. Networking performance dimensions were picked from Haris and Wheeler, (2005). The variable was determined by 5 dimensions, i.e empowering relations, elevating partner knowledge, bridging relations problems, increasing relational skills and empowering networking coordination. The isolating mechanism variable was conveyed by 6 items, which can be grouped mainly on 2 groups, i.e capacity to make uniqueness product and genuine patent that hard to imitate as the company strategy. This scale portrayed by Kardison and Ferdinand, (2014). Strategic quality was exposed by 4 items adopting such scale developed by Ferdinand (2002), i.e qualified strategy planning, as well as actualization and feedback, and quality management of environment. Finally, market performance was measured by adopting scale from Matsuno and Mentzer, (2000), i.e performance of sales, as well as market trends and new buyers.

The variable questions constituting each factor determinant with seven-point Likert scale (1= Strongly Disagree; 10 = Strongly Agree) was used for each variable question. A structural equation model using AMOS was applied to test the study model. SEM testing enables researchers to validate reliability of research elements, confirming model, and continuously testing the impact of a variable against others. For testing the proposed hypotheses, the research analyzed the value of CR and the P value compared to required statistical limits, i.e  $\pm 1.96$  to  $\pm \alpha = 0.05$  and 2.85 for  $\alpha = 0.1$ . If the results if the data meets these requirements, then the hypothesis proposed research can be declared acceptable..

## Findings

Confirming factor analysis explained the parameter of the latent variables in the study model. This empirical research model uses consisted of 4 undocumented latent variables and 14 documented variables or parameters. The calculation result Measurements of quality of fit showed that the value of probability is 0,002 with CMIN/DF value of 1.294, GFI value 0.901 in which above cut off value, TLI value of 0.969, CFI value of 0.972, RMSEA value of 0.036. The test resulted only AGFI value of 0.877 has marginal fitness. Accordingly, it can be concluded that the advanced composition equation is relevant.

**Table 1 Measurements of Quality of Fit**

Goodness Of Fit Index	Cut Off Value	Result from Model	Explanation
Probability	> 0.05	0,002	Fit
GFI	> 0.90	0.891	Fit(marginal)
AGFI	> 0.90	0, 977	Fit
TLI	> 0.95	0.969	Fit
CFI	> 0.95	0,972	Fit
CMIN / DF	<2,00	1,294	Fit
RMSEA	<0.08	0.036	Fit

**Table 2 Testing Results of Statistical Regression Weight**

			Estimate	SE	CR	P
Networking capabilities	<---	Enterpreneurship Orientation	.328	.081	4,041	***
Networking capabilities	<---	Isolating Mechanism	.087	.075	1,160	.146
Networking capabilities	<---	Quality of strategy	.272	.074	3,666	***
Marketing Performance	<---	Enterpreneurship Orientation	.146	.079	1,842	.066
Marketing Performance	<---	Networking capabilities	.987	.095	1,409	***

The analysis showed progressive and contributing effects of entrepreneurship orientation on networking performance, and qualified strategy on networking abilities. Furthermore, there is also a progressive and contributing influence of networking abilities on marketing capability. These results confirm H1, H3, and H5 in the samples are accepted. However, the remaining hypothesis could not be confirmed in this research. The effect of isolating mechanism on networking capabilities was higher than  $p\_value (0,05)$ , yielding  $p\_value$  of 0,246. Finally, the results of testing H2 show an unexpected contribution and insignificant impact of isolating mechanism on networking performance, advising, contrasts to our hypothesis, that this kind of isolating mechanism positively insignificant influences the networking capabilities. Similarly, the influence of entrepreneurship orientation on marketing performance was confirmed not significant ( $p$  value 0,066). By using significance level of 0.05, the impacts of entrepreneurship orientation on marketing performance in the taken SMEs samples can be concluded that there are inadequate empirically strong evidences to accept the proposed hypothesis. Thus, H4 is rejected.

### Discussion

Broadly Broadly concerning, the study results the significant influence of entrepreneurial orientation on the performance marketing through networking capabilities. This result is in line with Sawyerr, et al., (2003) that the level of perceived uncertainty in the environment will increase the frequency of internal networking. Hence, increased internal networking in response to increased perceived uncertainty resulted in better firm performance. Hult, et al., (2004) revealed direct relationship between innovation and business performance. Similarly, Hitt, et al., (1997) found the relation between innovation and firm performance in product-diversified firms. Another study, such as Tsai (2001) showed that the interaction between absorptive capacity and network position has significant, positive effects on business unit innovation and performance. This result suggests that entrepreneurship orientation directly contribute to improving SMEs' networking skills. This result also suggests that the networking capabilities achieved by SMEs of batik contribute to obtaining higher marketing performance. Broadly speaking, entrepreneurial orientation contributes the output produced by the stakeholders of SMEs of batik in Central Java. Therefore the influence of entrepreneurial orientation on capabilities batik SMEs will be even bigger when encouraged networking capabilities.

Moreover, the networking capabilities in SMEs also supported by quality of strategy. This result is in accordance with many of previous preference. Gilmore & Carson (1999) stated that they can enhance and improve marketing by networking through experience. Experiential learning is derived from the capability of an organization to draw valid and useful inferences from experience. Generally speaking, networking capabilities include the ability to create mutual trust and commitment between partners, as well as sharing expertise and more tangible assets (Blesa and Ripollés, 2008). Further, Belohlav (1993) showed that competence, reliability, and communication are good indicators of quality, and that quality does not influence satisfaction. Likewise, although it has not been examined in this research, empirical evidence



show the relationship between quality performance and operational and business performance (Sousa, & Voss, (2002).

Basically, the fundamental choice for batik SMEs to do is whether to expand through the channel that is integrated with the company they own or through channels connected with intermediaries independently, as well as the support of the indicators in the capability of networking. Indicators of social networks possibly have a promising influence on the behavior of a commitment to support the financial literacy, and non-material preference. This indicates networking company support a good relationship with large companies or other SMEs. This also revealed the importance for SMEs owners and managers to improve relationships with banks, government and non-government organizations. Dougherty, and Bowman, (1995) stated that to overcome the negative consequences of downsizing on product innovation, managers should support innovation sponsors and champions. They should also bolster the network by building more connections among departments, and between new and established businesses.

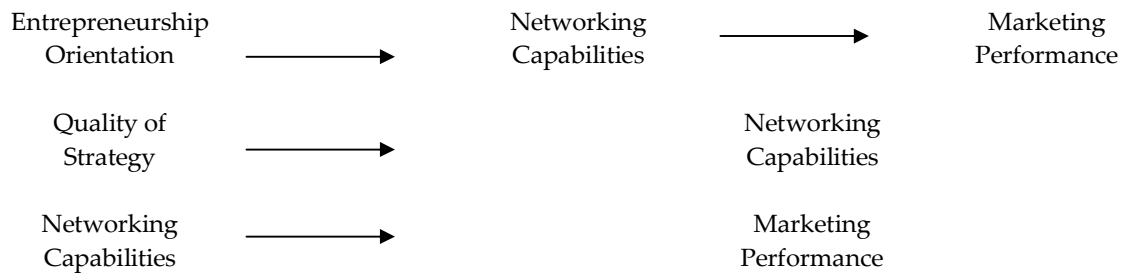
These objectives support the notions that the entrepreneurial orientation layers (innovative, risk taking, and attractiveness) is critical dimensions in portraying the increase in business capabilities Javanese batik SMEs in this Central Java. Taylor, and Pandza, (2003) stated that a small or medium-sized enterprise (SME) owner-manager may lead his or her company to competitive advantage by developing and managing a relationship network proactively. As stated above, it appears that the highest results of improvement of the capabilities of SMEs in Javanese batik Central Java comes from the impact of networking capabilities. Hence, the increase of networking capabilities and quality of strategy improve higher performance in sales increasing, earnings of SMEs, customer perfection and quality of goods and services. Networking capabilities is one of the core competences of firms and one of the critical competences of entrepreneurs (Äyväri, and Jyrämä, 2007). Cova, and Hoskins, (1997) stated that a firm's relationships to a local network of business and non-business actors, named the milieu. This networking action forms the basis of a twin-track approach aiming at maximizing the firm's chances of success on on-going projects.

As main part from entrepreneurial activity, EO is critical because it stimulates superior performance and may well be the key fundamental element in the procurement of advantages relative to competitors (Knight 1997). However, this research did not find the significant relationship of isolating mechanism on networking capabilities and of entrepreneurship orientation on marketing performance directly. These finding accordance with some of previous studies (e.g Covin and Slevin, 1989; Smart and Conant, 1994). Even though these studies confirmed orientation entrepreneurial consequences on company performance, they can not identify a significant correlation between entrepreneurial orientation and firm performance. While other previous literature (e.g Miller 1983; Lumpkin and Dess 1996; Dess, and Lumpkin, 2005) emphasizes the importance of entrepreneurship orientation on product-market innovation as a main character of entrepreneurship. Likewise, Hult, et al., (2004) proposed market orientation, entrepreneurial orientation, and learning orientation as key antecedents to innovation. In this research, isolating mechanism is measured by uniqueness and relative competitiveness of prototype of product, and inability of others to imitate, as well as of implementation of strategy. This result is not in accordance with previous research that stated that the main isolating mechanism exists to be sustainable inputs by firms to maintain their innovation benefited (Knott, 2003; Zahra, and George, 2002; Oliver, 1997; Rumelt 2005). Shane and Venkataraman, (2000) stated that various isolating mechanisms purposes to make inability of others to copy and altering particular company's product. This result mainly due to the some conditions. First, SMEs of batik in Central Java is not concentrated in single location, that can create unhealthy competition between the producers. Nonetheless, SMEs of batik spreads in more areas with their own genuine identities and designs such as in Surakarta, Semarang, Pekalongan, Rembang and Klaten. In addition, there are also batik owners almost in every towns in the province. Second, the result probably due to the type of different elements in the batik production such as batik silk types of loom machines and batik types of cotton. Third, it is recently a focus that most of SMEs of batik are many types of production style such a collaboration of batik and stamp, or a combined writing and printing the manual approach. Additionally, the Central Java

government has been doing a set of guidance and financial assistant for batik artisans, as well as a variety of training necessary to improve the quality of batik. This explanation is similar with Lepak, et al., (2007), stated that in particular situation, there is no isolating mechanism as any form of knowledge, physical, or legal barrier that may avoid imitation since each owner can invented and produced commodity independently based on a firm's resources or capabilities. Additionally, as stated by Li, & Tsai, (2009) isolating mechanisms can create barriers to impede competitors from imitating resources, capabilities and strategies. This barriers are not importantly exist in batik SMEs in Central Java. Since there is no exchange of knowledge as main term of isolating mechanism (Hoopes, et al 2003).

**Conclusion**

This study has resulted that entrepreneurship orientation through networking performance impacted indirectly the marketing performance of SMEs. This study also confirmed mainly the Blesa and Ripollés' (2008) research findings. The development of networking capabilities promotes marketing abilities. Thus, companies that maximize networking possibilities will be better positioning to devote efforts to marketing performance. The research also proved factual findings that entrepreneurship orientation and qualified strategy contribute to networking capabilities very significant. Therefor the study confirmed that it is no direct causalities of entrepreneurship orientation to marketing performance and of isolating mechanism to networking capabilities. A company networking capabilities encourage it to improve the innovation and strategy that best skills it has..



**Figure 2. Conceptual model for future research**

The The entrepreneurial managers must supposedly evaluating proactive measures as part of the expansion of business possibilities. Furthermore, achieving sophisticated networking capabilities can be reached by improving spirit of innovation as main elements of entrepreneurship orientation and by increasing quality of strategy. Elevating of those elements will facilitate better performance in networking. Increasing entrepreneurial orientation can improve the benefit of SMEs of batik in Central Java. It will provide greater results if done through an increasing of networking capabilities. In this sense, while further research is needed, the model developed and tested in this study should encourage managers to emphasize the search for networking capabilities in order to take advantage of their effects in the firm’s marketing performance. To summarize, these results highlight the need to develop strong networking capabilities to achieve better improvement in sales growth, market share and new consumer attention as factors of marketing performance.

Future research regarding SMEs, notably in developing countries, would to determine the relative importance of technology capability to improve networking capabilities. Cho, and Lee, (2003) argues that networking capabilities plays a critical role in the development of the technological capability of catch-up players in developing countries, and that their networking patterns are changed along the global technological trajectory that they face. Luo, Hongxin Zhao, and Du, (2005) stated that e-commerce companies clustered in a location with firms in the same industry that have developed international linkages and reputation may benefit from knowledge spillovers through networking. Additionally, future

research also would concern to examine the organizational learning capability through its five dimensions (experimentation, risk taking, interaction with the external environment, dialogue and participative decision making) which has impact on product innovation performance (Alegre & Chiva, 2008).

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