

ENTREPRENEUR ORIENTATION AND SOCIAL CAPITAL AS A KEY TO DEVELOPING DYNAMIC CAPABILITY: A CONCEPTUAL FRAMEWORK

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Abstract: Various economic problems can be solved with good entrepreneurship. SMEs are part of entrepreneurship that plays an essential role in the economy, including reducing unemployment and improving a country's economy. Environmental conditions that are VUCA (Volatility, Uncertainty, Complexity, Ambiguity) make SMEs have obstacles such as lack of competence, capacity, knowledge and skills of SME actors to adapt in running a business. The ability of SMEs to be able to continue to run their business makes SMEs must have dynamic capabilities that come from internal and external SMEs. Therefore, the purpose of this paper is to review the relevant literature in determining the theories that can shape the dynamic capabilities of SMEs. Based on a literature review, this research generated the result that entrepreneurial orientation (internal) and social capital (external) is critical in developing SMEs' dynamic capability.

Keywords: dynamic capability, entrepreneur orientation, literature review, small medium entrepreneur, social capital

Abstrak: Berbagai permasalahan ekonomi pada dapat diselesaikan dengan kewirausahaan yang baik. UMKM merupakan bagian dari kewirausahaan yang memainkan peran penting dalam perekonomian antara lain dalam mengurangi tingkat pengangguran dan meningkatkan perekonomian suatu negara. Pada kondisi lingkungan yang bersifat VUCA (Volatility, Uncertainty, Complexity, Ambiguity) menjadikan UMKM memiliki hambatan seperti: minimnya kompetensi, kapasitas, pengetahuan dan skill para pelaku UMKM untuk dapat beradaptasi dalam menjalankan usaha. Kemampuan UMKM untuk dapat terus menjalankan usahanya menjadikan UMKM harus memiliki kemampuan dinamis yang berasal dari internal dan eksternal UMKM tersebut. Oleh karena itu, tujuan dari makalah ini adalah untuk meninjau literatur yang relevan dalam menentukan teori yang dapat membentuk kemampuan dinamis UMKM. Penelitian berdasarkan literature review diperoleh hasil bahwa terdapat entrepreneur orientation (internal) dan social capital (eksternal) adalah kunci dalam pembentukan kemampuan dinamis UMKM.

Kata kunci: dynamic capability, entrepreneur orientation, literatur review, umkm, social capital

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INTRODUCTION

Governments in various countries face economic problems, including low productivity growth rates, weak trade and investment, and the growing income inequality gap (OECD, 2018). Accordingly, the government continues to look for innovative solutions to seize opportunities and mitigate the risks arising from significant economic and societal transformations, such as increasing globalization, digitalization, new industrial revolutions, demographic (socio-cultural) changes, and the economy. Environmental conditions that are VUCA (Volatility, Uncertainty, Complexity, Ambiguity) make unstable conditions for governments in various countries, communities, and industries. On the other hand, rapid environmental changes can encourage the adaptability and marketing of business actors. The dynamic environmental change makes the ability of entrepreneurs to grasp opportunities (entrepreneurial orientation) and adaptability (dynamic capability) necessary for entrepreneurs.

Increasing entrepreneurship contributes to global economic growth (Octasyilva et al. 2021; 2022). This claim that entrepreneurship is essential to economic growth and social stability in emerging nations is supported by research (Mahfud et al. 2020). Entrepreneurship is a creative and innovative activity that has the potential to bring new and additional value to goods and services, raise productivity, create new job opportunities, revive and diversify markets, improve social welfare, and advance the growth of the national economy (Octasyilva et al. 2021).

The importance of the role of SMEs to the national economy makes the sector must be considered optimally. One thing that needs to be considered to optimize the function of SMEs is their performance. Company performance is a business's ability to assess a company's success rate within a certain period (Salisu et al. 2017). The critical issue in this study is its importance. Even though the role of SMEs is very crucial, but which is not balanced with the development (development of SMEs tends to stagnate) of SMEs since 2015 (Depkop, 2018), so in the end, these SMEs are considered unable to contribute optimally in overcoming various economic and social problems in an Indonesian country. The reason SME performance cannot be maximized is rooted in the issue of the need for more competence, capacity, knowledge, and skills of SME actors to adapt to run their businesses (OECD,

2019). The capabilities, in this case, are broadly dynamic and considered processes that allow an organization to achieve superior performance (Wilden et al. 2013).

Dynamic situations in entrepreneurship are inevitable; one of the reasons a business may fail is the challenge of marketing and reaping the rewards of entrepreneurship. SMEs' limited dynamic ability and capacity are caused by their lack of knowledge and skills (International Finance Corporation, 2016). The background of how easily an entrepreneur can close his firm may be directly tied to the perception of the opportunity or simplicity of beginning a business. If SMEs do not have a competitive advantage or competitive advantage through the appropriate strategy, they run a considerable risk to the sustainability of their business (Amir et al. 2016). Competitive advantage is an advantage in cost, product differentiation, and portfolio compared to its competitors (Munir et al. 2011). The main factors that directly impact creating a competitive position and the company's development are the quality of products and the corresponding prices to customers (Piatkowski, 2012). A company's ability to control resources and competencies that are valuable, uncommon, difficult to duplicate, and irreplaceable gives it a sustainable competitive edge (Barney et al. 2001). Competitive advantage can be formed from knowledge management, innovation (Aziz & Samad, 2016; Lee et al. 2016), tangible and intangible resources (management capabilities, organizational processes, culture/routines, controllable information, and knowledge) (Barney et al. 2001) market segments with specific consumer behavior/value propositions, protection against replication, competence, and human resources (Annarelli et al. 2020). The Resources Based View (RBV) and Dynamic Capability View assume that heterogeneity in an organization's assets leads to differences in capability. Some companies can create a competitive advantage and ultimately generate a competitive advantage over other companies resulting in their business being able to continue. According to Barney (1991), a company's competitive edge is a limited, priceless, irreplaceable, and challenging-to-replicate resource.

Dynamic capability is a company's ability to integrate, build, and reconfigure internal and external competencies to cope with rapid/dynamic environmental changes (Ict, 2003). Additionally, dynamic capabilities are described as unique business skills that can be exploited as a source of profit and used to illustrate how a collection

of necessary, limited, difficult-to-replace competencies and resources are dispersed and safeguarded. Based on previous research (Nuryakin & Ardyan, 2018) explained that the theory of dynamic capability could describe the process of improving product development and promoting a place to increase market coverage so that it can shape company performance. Dynamic capabilities can also enable companies to create and capture value by building ecosystems and designing business models. However, dynamic capabilities may not be enough to improve company performance, but their contribution to performance is significant (Teece, 2018). Some skills, such as managerial ability, organizational ability, innovation ability, adaptability, dynamic managerial ability, and business process capability, can affect the performance of the company (Ict, 2003; Kor & Mesko, 2013; Nurmawati & ER, 2019; Van Den Bosch & Van Wijk, 2000; Zakerian et al. 2017; Zhang & Merchant, 2020). As a result, all these skills are influenced by external and internal factors in the company's development. Focusing on how an organization's internals can maintain its competitive advantage is a combination of theories about resources and capabilities (Ict, 2003). The competitive advantage to survive or develop is formed from various factors, including the human resource factor. However, in addition to forming a competitive advantage, human resources contribute 32% as an obstacle to developing SMEs in Indonesia (Canada, 2018).

An internal factor that affects dynamic capability is entrepreneur orientation (EO). So, to improve performance, it is necessary to form dynamic capability derived from the entrepreneurial orientation of the perpetrator (Carlos, 2005; Sitharam & Hoque, 2016), besides that because of their small size, SMEs need to be located/supported in the social environment that supports their surroundings. Entrepreneur orientation is strengthened by the Directorate of Empowerment of Cooperatives and SMEs (2014) that this entrepreneurial ability contributes 16% in shaping SMEs' competitiveness ability, which is one of the main elements of dynamic capability. The weak ability and capacity are generally a result of the low level of knowledge and limited skills that SMEs possess (International Finance Corporation, 2016). EO is reflected in the company's organizational processes and decision-making style and can be a source of competitive advantage or strategic renewal for start-ups and long-time companies. An effective EO can be an example of good strategic management ((Lumpkin

& Dess, 1996)). EO is rooted in the literature on the strategy creation process (Rauch et al. 2009). Thus, EO is forming an entrepreneurial strategy that key decision-makers use to implement the company's organizational goals, maintain its vision, and create a competitive advantage. EO is the most basic and essential thing involved in entering new markets (Wales et al. 2020), such as introducing new products or technologies to the market.

In addition to entrepreneurial orientation, SMEs can strengthen their advantages based on the existence of social capital. This social capital can influence the dynamic ability of SMEs to adapt to the environment and meet market demand. Compared with large companies, SMEs also have resource weaknesses in innovation and need help to complete innovations independently. Therefore, they must be incentivized to seek cooperation, and many take advantage of social capital to form dynamic capabilities that can ultimately improve performance (Xin et al. 2020). By participating in social networks, small businesses can obtain innovative technologies and external resources to help improve performance and reduce barriers. When developing new products, the company needs to acquire new resources from outsiders and rely on relational resources to neutralize external resources. The critical role of social capital in developing new products has been recognized (Adler & Kwon, 2002). However, most studies only verify the immediate effects that lead to a lack of comprehensive understanding (Dost et al. 2016). The current study aims to close this gap by creating an integrated conceptual framework explaining how entrepreneur orientation and social capital act as antecedents of dynamic capability.

METHODS

The paper is based on data collected through secondary literature sources related to the dynamic capability of SMEs. That was published in the last ten years (i.e., 2010–2022). Using publish and perish application, we identified 103 potentially relevant publications, including papers, editorials, book chapters, and other literature. Book chapters, encyclopedias, reports, thesis and unpublished manuscripts, and double papers/studies with missing information are excluded too. The data collection technique in this research can be said with a literature study.

Dynamic capability is an organizational process or strategic routine by which a company develops new configurations to update resources as per market needs (Etemad, 2009). Such dynamic capabilities require organizations to establish processes to change routines, services, products, and markets over time. According to Ict (2003), the ability to make a competitive advantage and growth is complementary. The views/perspectives of capabilities are divided into four.

- Resource-based view is the view that a company can maintain competition if the company/organization has scarce, valuable, non-substitutable and non-replicable resources and capabilities.
- The dynamic capabilities view is a company's competitive position based on processes, which are formed specifically by the company based on inherited or adopted assets and evolutionary path behavior.
- The theory of the firm is that companies have some degree of control over their market environment and adapt to their habitat through a learning process.
- Competitive context is when a company can ensure the ability to adapt or even manipulate a competitive context.

Dynamic managerial capability is closely related to corporate adaptation to changing environmental conditions through integration, development, and reconfirming of the company's resources and capabilities (Weerawardena & Mavondo, 2011). An important relationship exists between dynamic managerial capability as a critical mechanism to achieve compatibility between company competencies and changing environmental conditions. The constituent attributes of Managerial capability are managerial human capital, managerial social capital, and managerial cognition (Kor & Mesko, 2013), while Ict (2003) defines managerial capability as a skill to develop ambitions and management's ability to articulate and communicate strategies. Biedenbach & Müller (2012) say that dynamic capabilities are an organization-specific ability relevant to gaining a competitive advantage in a turbulent environment.

Entrepreneurs orientation (EO) is the concept of an entrepreneurial orientation. SME actors who are also owners, with their characteristics and orientation influencing their company's growth. EO refers to a strategic posture that reflects how a company implicitly and explicitly chooses a competitive strategy. In other words, EO consists of the process, practice,

and decision-making style of the owner-manager or company engaged in entrepreneurial activity (Diabate et al. 2019). Entrepreneur orientation is concerned with thoughts, processes, practices, and decision-making to create a new thing that supports the efforts that have been done before (Lumpkin & Dess, 1996).

Social capital, or the assets ingrained in an entrepreneur's networks, is crucial to the success of small businesses in the world of entrepreneurship. However, this social capital will likely limit behavior (Stam et al. 2014) social capital gains in small businesses (SMEs). For example, network connections allow entrepreneurs to identify new business opportunities, acquire resources below market prices, and secure legitimacy from external stakeholders (Akintimehin et al. 2019). As for the nature of social capital, such as capacity appears as a variable of production functions, accumulation over time, the ability to improve economic performance, and investment with the expected future return, which makes it qualify as a form of capital in a "social capital" (Bhandari & Yasunobu, 2009).

Akintimehin et al. 2019 state that social capital can substitute for its shortcomings in access to finance and intellectual power through superior network relationships. As a complement, social capital can ensure financial and intellectual efficiency through reduced transaction costs and knowledge sharing. Based on the two vital roles social capital can play, efficient social capital can be a competitive advantage for business sustainability.

RESULTS

A literature review was carried out with previous theories to produce an appropriate conceptual framework for SMEs. A literature review was done on prior theories to create an appropriate conceptual framework for SMEs. Based on the literature review, SMEs that can continue to run their businesses must have dynamic capabilities with indicators of marketing capability, adaptive capability, and absorptive capability that can be formed from the approach of entrepreneurial orientation theory and social capital. This review can help develop a comprehensive framework and research proposition for entrepreneurial issues within the SME field. The study also extends the theory of strategic management for sustainable entrepreneurial ventures. It explains how stakeholder participation and engagement with

institutional structures can be strengthened and how this affects decision consequences for sustainable entrepreneurs. Our results can help practitioners and researchers accurately interpret dynamic capabilities in successful SME businesses. Hypotheses are compiled using internal and external approaches found in entrepreneurs. The internal approach in this study uses entrepreneur orientation, and the external approach uses the social capital approach until the following hypothesis is formed:

H1: Social Capital has a significant effect on dynamic capability

Along with globalization, market competition is becoming more and more relentless. In a highly competitive market, where business competition is constantly moving, companies must create, reconfigure, and update their resources and capabilities to ensure business continuity. The researchers realized that the capabilities needed to achieve and maintain a competitive advantage in this market were different from previous concepts, such as typical competency core competencies and combinative capabilities (Etemad, 2009; Wang, 2016). Regarding technological concerns and finding new ways to address challenges, the social capital approach is crucial for SMEs in overcoming competitiveness (Prasanna et al. 2019). It is because one of the assets SMEs own is social capital, which is the ability of interpersonal relationships to enhance corporate performance in adjusting to new technologies, marketing, and resource sharing (Prasanna et al. 2019).

Previous research has shown that social capital can provide a structure for companies for efficient information flow and allow access to a broader range of sources of information (Adler & Kwon 2002). Besides, social capital is believed to be capable of provoking cooperative behavior inside and outside the company (Pearson 2008). Social capital plays an essential role in providing access to more information, improving social cohesion, better community engagement, reducing opportunistic behavior, increasing political participation, government responsiveness and efficiency, reducing transaction costs, providing insurance against risk and uncertainty, and solving the problem of collective action (Bhandari & Yasunobu, 2009). This study defines social capital as potential and actual strategic resources available to companies through networks and trusts to create or maintain a competitive

advantage (Dong et al. 2020; Nahapiet & Goshal, 1998) decisions surrounding the sufficient leveraging of diverse information, knowledge, and resources used to pursue market opportunities are critical. Prior research has emphasized that network range is essential to improve entrepreneurial performance. However, research on boundary conditions of this relationship is still scant. Based on the social capital theory, this study advances research on the aforementioned relationship by integrating different dimensions of social capital and focusing on the three-way interaction of entrepreneurial orientation (EO).

Previous studies have demonstrated how social capital can give businesses a structure for adequate information flow and access to various information sources (Adler & Kwon, 2002). Social capital is also thought capable of inciting cooperative behavior inside and outside the company (Pearson, 2008). Social capital plays a vital role in providing access to more information, improving social cohesion, better community engagement, reducing opportunistic behavior, increasing political participation, government responsiveness and efficiency, reducing transaction costs, providing insurance against risk and uncertainty, and solving the problem of collective action (Bhandari & Yasunobu, 2009). This study defines social capital as potential and actual strategic resources available to companies through networks and trusts to create or maintain a competitive advantage (Dong et al. 2020; Nahapiet & Goshal, 1998).

The presence of social capital owned by SMEs is anticipated to positively affect dynamic capability, which can be defined as the company's ability to regularly integrate, build, and configure internal and external resources to achieve competitive advantage. For SMEs, it is known that the network and trust are dimensions of social capital, which means that having the ability of SME actors in the form of contact or accessibility with other parties to obtain resource benefits (which can be in the form of finance, knowledge, connections or networks, technology, information, legality with other parties, and trust between SME actors and other parties based on background or past experience to support performance), the network and trust dimension contributes to SME social capital. Based on why they started a business, SMEs can be put into two groups: necessity and opportunity entrepreneurs (Devece et al. 2016; Parga-Montoya & Cuevas-Vargas 2019; Williams 2009).

According to van der Zwan et al. (2016), these types of SMEs are divided into two categories: the reasons for pull (pull motivation) include the need for achievement, the desire for independence, and opportunities for social development (opportunity driven); push motivation may result from (risk) unemployment, family pressure, and general dissatisfaction with one's current situation (necessity driven). Social capital is always required for their operation regardless of why SMEs are in business. In agreement with Sahasranamam & Sud (2016), social capital positively impacts entrepreneurial opportunity and the necessity for entrepreneurs in China. It indicates that social capital is required for various SMEs, including opportunity and necessity entrepreneurs.

Social capital makes it possible to form the best relationships when creating business partnerships (Syahyuti 2016). In weak institutional market settings, social capital plays a role. Social capital can serve as a source of credit when official credit is unavailable, insurance through risk sharing (consignment or at least a price reduction if the price is lower than anticipated), and a substitute when the contract enforcement of formal institutions does not work or is not cost-effective. Networked SMEs (those with social capital) will have access to more up-to-date information, the most recent knowledge, and faster and broader access, enabling them to absorb information more quickly and effectively, adapt, and have marketability. It is because, in the face of incomplete and asymmetric information structures, developing social capital is also beneficial for fostering mutual understanding among players (Syahyuti 2016). Faced with failed market institutions, SMEs strive to be more efficient by building trust through networks with suppliers and clients that produce a sophisticated way of relationship in trade by giving and receiving loans, ordering (forward ordering), and reducing the need to inspect the quality of goods, which can provide these SMEs with a competitive advantage. With their advantages and social capital, SMEs have dynamic capacities.

H2: Entrepreneur orientation has a significant effect on dynamic capability

Entrepreneur orientation and dynamic capability are complementary and not replacing (Chien & Tsai, 2021). Arthurs and Busenitz (2006) define entrepreneurial ability as "the ability to identify new opportunities and develop the resource base needed to pursue opportunities" (Arthurs & Busenitz, 2006), and this

study shows that dynamic capabilities in reconfiguring resources simultaneously with opportunities that still exist. EO is a strategy companies use through innovation, proactivity, and courage in taking risks that can improve performance in a company so that the company can compete in a competitive market (Rizki & Susanto, 2021). Entrepreneurial ability relates linearly to the ability to identify early new opportunities and develop resources. So, entrepreneurial capabilities focus on taking advantage of new opportunities using non-rut activities.

SMEs' entrepreneurial orientation is expected to positively affect their dynamic capability, which can be defined as the company's ability to integrate, build, and configure internal and external resources in a healthy environment. Dynamic capability can be defined as the company's strategy carried out through non-routine activities, such as innovating, being proactive, and taking risks. To gain a competitive advantage performance, one must adapt quickly. Entrepreneurial techniques implemented by SMEs significantly impact organizational culture, internal operation procedures, organizational learning, and competence enhancement (Wiklund, 1999). With a basic structure, SME actors would be the primary implementers of SME entrepreneurial orientation (Jiao et al. 2010). Adaptability to environmental changes will be affected by innovative ideas, personal preferences, skills and experience, tolerance for change, and the capability to implement change. When SME players are surrounded by change, they activate dynamic capabilities incorporated in organizational processes, reduce superfluous resources unsuitable for complex contexts, and restructure resources to build capabilities to fulfill existing and new market demands (Sirmon & Hitt, 2003).

In an ever-changing environment, dynamic capabilities are needed so that SMEs can continue to perform. SMEs must be able to pursue market opportunities. To target premium market segments and capitalize on emerging market opportunities before its rivals, EO needs to have valuable capabilities. These capabilities include the ability to absorb essential knowledge, produce new knowledge, and then use that knowledge to change strategies, address new issues, and boost efficiency (Chien & Tsai, 2021). Previous research provides empirical evidence that confirms that entrepreneur orientation positively affects dynamic capability (Chien & Tsai, 2021; Jiao et al. 2010). The conceptual framework formed based on the literature above can be seen in Figure 1.

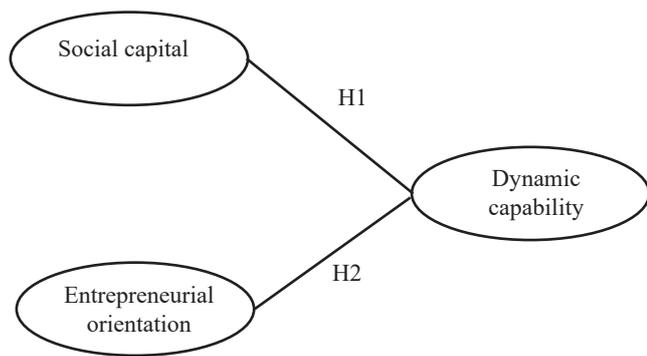


Figure 1. Conceptual framework of SME'S dynamic capability

Variables and Scales

Social capital and an entrepreneurial orientation approach are the study's independent variables. Dynamic Capability is the dependent variable in the meantime. Each variable's value is obtained from the questionnaire, which may be analyzed using

descriptive analysis (Octasylyva et al. 2021). In forming the dynamic capability framework, the explanation of the definition of operations and the dimensions used refers to Table 1.

Implication Managerial

The managerial implications of this research are related to stakeholders. Researchers can conduct empirical research to prove the conceptual theory of this research. Other stakeholders can design work programs associated with increasing SMEs' dynamic ability to pay more attention to social capital ownership and increase entrepreneurial orientation in their business. Theoretically, SMEs are required to have the dynamic capability to continue operating. Hence, SME actors and stakeholders must pay more attention to factors affecting dynamic capability. Besides, because social capital and entrepreneur orientation influence dynamic capability, a high level of social capital and entrepreneur orientation will influence dynamic capability.

Table 1. Variable & Dimensions

Variables	Operational Definition	Dimension	Scale
Dynamic Capability	The company's ability to absorb information, adapt, and market by regularly integrating, building, and configuring internal and external resources is applied to answer the challenges and opportunities of a rapidly changing environment to achieve competitive advantage performance through its routine activities. (Ferreira et al. 2020; Teece, 2018)	Marketing Capability (Chahal & Kaur, 2014)	Likert
		Adaptive Capability (Ali et al. 2017)	Likert
		Absorptive Capability (Biedenbach & Müller, 2012)	Likert
Entrepreneur Orientation	The company's strategy is carried out to compete in a competitive market by innovating, being proactive and courageous in taking risks by identifying new opportunities using non-routine activities (Chien & Tsai, 2021; Rizki & Susanto, 2021)	Proactive (Keh et al. 2007)	Likert
		Risk Taking (Nwankwo et al. 2016)	Likert
		Innovativeness (Octasylyva et al. 2022)	Likert
Social Capital	Potential and actual strategic resources available to the company through networking and trust to create or maintain a competitive advantage (Dong et al. 2020; Nahapiet & Goshal, 1998)	Trust (Chow & Chan, 2008)	Likert
		Network (Doh & Zolnik, 2011)	Likert

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