# The influence of social capital and financial capability on sustainable competitive advantage through entrepreneurial orientation: Empirical evidence from Small and Medium Industries in Indonesia using PLS-SEM

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**ABSTRACT**
**The inability of Small and Medium Industries (SMIs) to access external financial sources is an obstacle that must be considered. Social capital creates opportunities to get external financial access as financing industrial operations to be able to produce valuable products through entrepreneurial orientation, so SMIs can achieve a sustainable competitive advantage. This paper aims to examine how social capital and financial capability can be new factors to create sustainable competitive advantage through the process of entrepreneurial orientation on SMIs. The data was collected from 110 SMIs on Food Industries Clusters in Bandung, Indonesia. The process of analyzing data using Structural Equation Modeling (SEM) through Partial Least Squares (PLS). The results showed that social capital has no significant effect on entrepreneurial orientation, but social capital will have a significant effect on entrepreneurial orientation if through financial capability, then entrepreneurial orientation has a significant effect on sustainable competitive advantage. This indicates that social capital cannot be directly converted into sustainable competitive advantage. The research findings are that social capital and financial capability will create sustainable competitive advantage if through the entrepreneurial orientation.**

**Keywords:** Social capital, financial capability, entrepreneurial orientation, sustainable competitive advantages, small and medium industries

## INTRODUCTION

Small and medium industries (SMIs) usually want stronger than competitors. Barney (2001) explains the source of sustainable competitive advantage is having the capacity to manage existing resources. SMIs are units of economic activity that are managed by transforming economic resources into valuable products (Barney, 2001). Capron & Hulland (1999) agree that resources become important when limited, so rare resources become a determining factor for competition.

Chaiprasit & Swierczek (2011) said that in the era of free markets, competition becomes very difficult. Teece (2012) suggested that SMIs develop resource-based entrepreneurial processes that are difficult to replicate to create competitiveness. These suggestions relate to uncertain business environment conditions and dynamic competition, so that traditional competitive advantage strategies such as cost leadership, market differentiation and niche marketing strategy (Porter, 1980), are increasingly not relevant because they are easily imitated by competitors. Unique resources and inability to be imitated by competitors. Resources that are difficult for competitors to imitate is key factors to win on the sustainable business competition. Sustainability in the SMIs context is a capability to produced unique and valuable products (Teece, 2007). Unique and valuable products represent a sustainable competitive advantage (Barney, 1991; Diugwu, 2011; Febrian et al., 2017).

The uniqueness is the outcome by entrepreneurial firm to create disequilibrium market conditions. SMIs is one of the entrepreneurial firm (Collins & Ram, 2003). In economic sciences, SMIs will be able to compete and survive in market disequilibrium conditions (Chandra, 2003; Scelles, 2016), because SMIs are not directly influenced by the global economy and the SMIs always struggle to produce innovative products in competitive environmental conditions (Day, 1984). However, to create sustainability of innovative, unique and valuable products, SMIs need financing and have to manage it with financial capability (Fonseka, Tian, & Li, 2014; Huang, Nam, & Lee, 2015). The economists such as Barney (1991), Fatoki (2011), Filser et al. (2014) and Taylor (2011) argue that financial ability is one resource that is difficult to imitate by competitors.

The concern on SMIs in Indonesia is very important as a form of Government support for people's economic system (Stel et al., 2005). SMIs in Indonesia is very unique it is based on the family principle and home industry. This paper focuses on Food Industry Clusters in Bandung, Indonesia. The food industry has unique advantages, but is change easily and able to imitated by competitor. These problems must be taken seriously. Based on data from Department of Cooperatives and SMEs of Bandung (2017) there are eight Food Industry Clusters, namely Derwati Salted Egg Industry Cluster, Pindang Cijaura Fish Industry Cluster, Cigondewah Opak Industry Cluster, Kopo Bread Industry Cluster, Cibuntu Tofu Industry Cluster, Tempe and Oncom Situsauer Industry Cluster, Fried Tempe Lewi Panjang Industry Cluster, Palembang Madesa Crackers Industry Cluster.

Clusters of Small and Medium-sized Food Industries in Bandung have strong social relations. According to Andriani & Christoforou (2016) social capital is an active relationship between humans, trust, mutual understanding, equality of values and binding behavior in networks that lead to cooperation. Ito & Harada (2003) found that one of the determinants of the success of lending programs in developing countries was the close relationship between debtors and microfinance institutions. When the creditor has a close relationship with the creditor, the role of interpersonal social bonds is an important element in guaranteeing the repayment of the loan. Sharma & Zeller (1997) argued that opportunistic behavior in industrial cooperation relations saw the existence of social capital as a factor value creating opportunities to generate industrial value. So that social capital can act as a basis for creating sustainable competitive advantage for SMIs.

Based on empirical studies, entrepreneurial oriented SMIs are more responsive to responding to rapidly changing the social environment (Teece, 2007). According to Alvarez & Barney (2004), and Sautet & Rugy (2000) states that SMIs with entrepreneurial orientation will be able to change raw materials into valuable products. Entrepreneurial orientation is an entrepreneurial action on the social environment and will receive a comparable reaction from

the actions taken (McMullen & Shepherd, 2006; Teece, 2012). Lumpkin & Dess (1996) found that entrepreneurial orientation is an action to innovate, having the ability to take risks, become proactive, autonomy and having the ability to be aggressive in competition.

The results of previous research that tried to examine the effect of entrepreneurial orientation with sustainable competitive advantage turned out to be not too much studied (Bruton et al., 2008; Entebang et al., 2006; Said et al., 2016). Liu et al. (2011) also criticized that in general entrepreneurial orientation is directly related to business performance with profitability indicators. In general, the study of entrepreneurial orientation on sustainable competitive advantage makes industry in large countries a research locus. Therefore, whether the findings still apply to industries in developing countries with a unique background and have resource constraints such as Small and Medium Industries (SMIs) in the Food Industry Cluster in Bandung, Indonesia.

## LITERATURE REVIEW

This paper is based on systematic mapping study (Kitchenham & Charters, 2007) on sustainable competitive advantage in Small and Medium industries (SMIs). Mapping was carried out in the last 10 years by reviewing previous literature published in trusted publishers such as Scopus, Elsevier, Springer, MDPI, Wiley Online Library, SAGE Journals, Sciencedirect, Emerald Insight. Selection of articles refers to the topic under study and categorizes findings based on suggestions from Banaeianjahromi & Smolander (2014). The findings show that the most discussed topics are resources and capabilities as antecedents of sustainable competitive advantage.

### Table 1. Antecedents sustainable competitive advantage

| Antecedents sustainable competitive advantage | Researchers |
|---|---|
| Competitive advantage | Aaltonen et al., (2015); Takala et al., (2013); Hilmi et al., (2011) |
| Entrepreneurial orientation | Bruton et al. (2008), Dess & Lumpkin (2005), Entebang et al. (2006), Hussain et al. (2015), Martins (2016), Said et al. (2016), Sirivanh (2014) |
| Firm performance | Iraldo et al., (2017); Leal-Rodríguez & Albort-Morant (2016); Tjahjaningsih et al., (2016); Sheehan (2014); Naidoo (2010); Van et al., (2008); Piperopoulos & Scase R (2007) |
| Firm resources & capabilities | Tajuddin et al., (2017); Valaei (2017); Yunis et al., (2017); Rizos et al., (2016); Samad et al., (2016); Jahanshahi et al., (2015); Krajnakova et al., (2015); Ngah et al., (2015); Widodo, & Shahab M.A (2015); Iturrioz et al., (2015); Cucculelli et al., (2014); Şerbu & Borza (2014); Xie et al., (2013); Eze et al., (2013); Shirokova et al., (2013); Bagheri et al., (2013); Gunasekaran et al., (2011); Campaniaris et al., (2011); Xie et al., (2010); Rodriguez et al., (2010); Hilmi et al., (2010); Gelbmann (2010); Zahra et al., (2009); Rabino et al., (2008); Chen & Hatzakis T (2008); Singh et al., (2007) |

The model in this study proposes that social capital in SMIs will provide opportunities for financial access, but both of these factors must go through entrepreneurial orientation to achieve sustainable competitive advantage (Andriani & Christoforou, 2016; Coleman, 2000)

The efforts to create a sustainable competitive advantage in entrepreneurial orientation are related to the creation theory of entrepreneurial action (Alvarez & Barney, 2007). Creation theory states that entrepreneurial opportunities must be created from the creation process rather than being discovered. This is also a guideline for using the resource-based view (RBV) theory to understand the sustainable competitive advantage of SMIs (Barney, 1991; Penrose,

1959; Wernerfelt, 1984). RBV states that internal resources encourage the creation of competitive advantage. One of them is financial capability (Huang et al., 2015) as the ability of SMIs to access external financial institutions (De Meza et al., 2008; Taylor, 2011). Huang et al. (2015) explained that financial capability reflects financial literacy, financial access, and functional financial.

Entrepreneurial orientation is compatible as a source of sustainable competitive advantage (Entebang et al., 2006; Said et al., 2016) because sustainable competitive advantage has characteristics such a valuable products, rare resources, inability to be imitated, and non-substitutable (Barney, 1991).
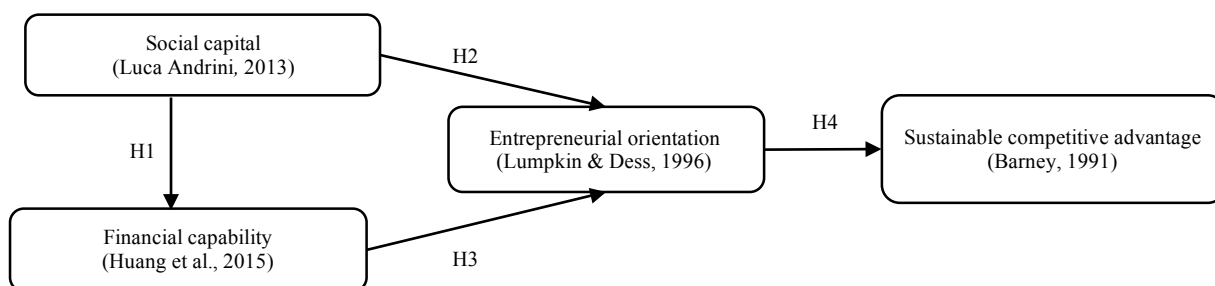


**Figure 1. Research framework**

Hence the paper proposes the following hypothesis:
**H1:** Social Capital has a significant effect on Financial Capability
**H2:** Social Capital has a significant effect on Entrepreneurship Orientation
**H3:** Financial capability has a significant effect on Entrepreneurship Orientation
**H4:** Entrepreneurship Orientation has a significant effect on Sustainable Competitive Advantage

## RESEARCH METHODS

This research uses quantitative methods that can explain the causal relationships between the variables studied. Source of primary data comes from the questionnaire given to the respondents, while the secondary data comes from the result of previous studies and the related theories. The analysis model uses SEM through Partial Least Squares approach with SmartPLS-3 software. Population in this paper are SMIs in eight Food Industry Cluster in Bandung, Indonesia, with the 110 owner or CEO of Small and Medium-sized Food Industry as respondents. All respondents were chosen by using probability sampling using the cluster sampling method.

There are 152 SMIs in eight Food Industry Clusters in Bandung. To calculate the number of samples using the Slovin formula (Umar, 2003). Based on the confidence level of 95%, it is known that precision value ($d$) = 0.0025. The results show that the sample ($n$) is 110, with the following distribution:

**Tabel 2. Number of population and research sample**

| No | Name of Clusters | Total Population | Total Sample |
|----|------------------|------------------|--------------|
| 1 | Derwati Salted Egg Industry Cluster | 9 | 7 |
| 2 | Pindang Cijaura Fish Industry Cluster | 13 | 9 |
| 3 | Cigondewah Opak Industry Cluster | 8 | 6 |
| 4 | Kopo Bread Industry Cluster | 23 | 17 |
| 5 | Cibuntu Tofu Industry Cluster | 50 | 36 |
| 6 | Tempe and Oncom Situsauer Industry Cluster | 19 | 14 |
| 7 | Fried Tempe Leuwi Panjang Industry Cluster | 21 | 15 |
| 8 | Palembang Madesa Crackers Industry Cluster | 9 | 7 |
| | **Total** | **152** | **110** |

Malhotra (1981) stated that the Likert scale submitted to respondents should use a 5-point scale, namely 5 = Strongly agree, 4 = Agree, 3 = Neither agree nor disagree, 2 = Disagree, 1 = Strongly disagree. The construction of the questionnaire came from four variables, based on theoretical studies reduced to dimensions and indicators of research with 45 items of research questionnaire.

The data analysis used to see the influence and hypothesis testing by using Structural Equation Model (SEM). The data processing in this research uses *Partial Least Square* (PLS) with SmartPLS-3 software, because all of the variables are latent variables and they are measured by dimensions and indicators. In the current study we have adopted the multidimensional constructs include combinations of composite and reflective measurement (Jarvis et al., 2003). This means that both for the first-order constructs and the second-order construct the type of measurement model can and should be determined separately (MacKenzie et al., 2005). A particularly important configuration of second-order constructs is a composite of common factors. In a composite of common factors configuration, the first-order constructs employ a reflective measurement model, whereas the second-order construct is a composite formed by the first-order constructs. This is the most frequently used approach in research in the social sciences (Ringle et al., 2012), implying a need to deeper examine this type of hierarchical component model.

In this paper, latent variable social capital is a second-order reflective constructs as formed by first-order reflective such are social bonding with four indicators, social bridging with three indicators, and social linking with two indicators (Andriani & Christoforou, 2016; Coleman, 2000). Financial capability is a second-order reflective constructs as formed by first-order reflective such as literacy financial with two indicators, financial access with two indicators, functional financial with three indicators (Huang et al., 2015). Entrepreneurial orientation is a second-order reflective constructs as formed by first-order reflective such as autonomy with three indicators, innovation with three indicators, taking risk with two indicators, proactive with three indicators, and aggressiveness competitive with four indicators (Lumpkin & Dess, 1996). Sustainable competitive advantage is a second-order reflective constructs as formed by first-order reflective such as valuable with two indicators, rare with two indicators, inability to be imitated with two indicators, and non-substitutable with three indicators (Barney, 1991).

## RESULTS AND DISCUSSION

This research uses the Structural Equation Model (SEM) analysis technique with Partial Least Square (PLS). We followed the Chin (1998) and Ghozali (2014) study to run the second order confirmatory factor analysis approach. In the first step, we have evaluation outer model with validated the reflective type first-order constructs and reported the Cronbach's alpha, composite reliability, and average variance extracted (AVE). In the second step is an analysis of the second-order constructs, we took the latent variable score from the first model and made a repeated indicators approach (Chin, 1998; Ghozali, 2014). For the reflective measurement model confirmation to run the bootstrapping on 500 resampling, we have reported the weights and the maximum variance inflation factor or path coefficients to validate the measurement model for reflective constructs (Hair et al., 2016).

### Outer model evaluation in first-order constructs

According to Chin (1998) and Gaskin et al. (2018) for construct reliability testing was measured by Cronbach's alpha and composite reliability. Constructs are stated reliable if they have Cronbach's alpha above 0.60 and composite reliability values above 0.70. While the sufficient value of average variance extracted (AVE) to measure the validity is 0.5 (Ghozali,

2014). Based on the criteria of Table 3, then the output of the data shows the results of all criteria of the outer model can be fulfilled so that it can be concluded that the research data has good validity and reliability, therefore it can proceed to the analysis of the inner model.

**Table 3. Cronbach alpha, composite reliability and average variance extracted**

| Second-order constructs | First-order constructs | Cronbach's Alpha | Composite Reliability | Average Variance Extracted |
|---|---|---|---|---|
| Social capital | Social bonding | 0.766 | 0.853 | 0.596 |
| | Social bridging | 0.624 | 0.797 | 0.569 |
| | Social linking | 0.842 | 0.926 | 0.863 |
| Financial capability | Financial literacy | 0.635 | 0.782 | 0.554 |
| | Financial access | 0.691 | 0.864 | 0.760 |
| | Functional financial | 0.675 | 0.768 | 0.458 |
| Entrepreneurial orientation | Autonomy | 0.957 | 0.972 | 0.921 |
| | innovation | 0.701 | 0.834 | 0.626 |
| | Taking risk | 0.862 | 0.935 | 0.878 |
| | Proactive | 0.603 | 0.791 | 0.565 |
| | Competitive aggressiveness | 0.677 | 0.800 | 0.503 |
| Sustainable competitive advantage | Valuable | 0.911 | 0.956 | 0.917 |
| | Rare resources | 0.638 | 0.797 | 0.666 |
| | Inability to be imitated | 0.630 | 0.843 | 0.728 |
| | Non-substitutable | 0.773 | 0.876 | 0.715 |

**Inner model evaluation**

The results of inner model testing are done in two steps, first by evaluating the model between constructs first-order and the second-order construct (Gaskin et al., 2018). The aim is to see how much the reflective level and the significant influence of the first order construct reflect the second-order construct. Second, evaluating the model between second-order constructs or structural models. The structural model was evaluated by using $R$ square for endogenous constructs and comparing t-statistics with t-tables at a confidence level of 95% or with the value of loading factor 1.96.

*Evaluate the inner model of the second order construct*

Based on the results of running SmartPLS-3, all loading factors on indicators and dimensions that are first-order constructs have values above 0.50, thus indicating that the indicators and dimensions used in this study are reliable. This shows that the indicators and dimensions used in this paper reflect latent variables. The highest first-order construct is a social bonding with a score of 0.889. This finding proves that social ties can create a sustainable competitive advantage. Table 4 is the result of recapitulation of the value of loading factors in the first-order construct.

*Evaluate the inner model of the second order construct*

Inner model analysis between second-order constructs is carried out to ensure that the structural model built is robust and accurate (Ghozali, 2014). Robust regression is a regression method that is used when the error distribution data is abnormal or there are some outliers that influence the model (Chin, 1998). Evaluation of the inner-order construct inner model can be seen from several indications which include the coefficient determination ($R^2$), Predictive Relevance ($Q^2$), Goodness of Fit Index (GoF).

**Table 4. Loading factor value of the first-order construct**

| Second-order constructs | First-order constructs | Indicators | Loading factor indicators | Loading factor first-order |
|---|---|---|---|---|
| Social capital | Social bonding | MS1 | 0.859 | 0.889 |
| | | MS2 | 0.835 | |
| | | MS3 | 0.757 | |
| | | MS4 | 0.613 | |
| | Social bridging | MS5 | 0.819 | 0.810 |
| | | MS6 | 0.788 | |
| | | MS7 | 0.644 | |
| | Social linking | MS8 | 0.940 | 0.638 |
| | | MS9 | 0.918 | |
| Financial capability | Financial literacy | KF3 | 0.875 | 0.764 |
| | | KF4 | 0.867 | |
| | Financial access | KF5 | 0.913 | 0.832 |
| | | KF6 | 0.828 | |
| | Functional financial | KF9 | 0.605 | 0.748 |
| | | KF10 | 0.644 | |
| | | KF11 | 0.826 | |
| Entrepreneurial orientation | Autonomy | OK1 | 0.968 | 0.582 |
| | | OK2 | 0.959 | |
| | | OK3 | 0.953 | |
| | Innovation | OK4 | 0.767 | 0.649 |
| | | OK5 | 0.814 | |
| | | OK6 | 0.792 | |
| | Taking risk | OK7 | 0.944 | 0.813 |
| | | OK8 | 0.931 | |
| | Proactive | OK10 | 0.569 | 0.673 |
| | | OK11 | 0.822 | |
| | | OK12 | 0.835 | |
| | Competitive aggressiveness | OK13 | 0.605 | 0.772 |
| | | OK14 | 0.678 | |
| | | OK15 | 0.762 | |
| | | OK16 | 0.777 | |
| Sustainable competitive advantage | Valuable | KBB1 | 0.944 | 0.646 |
| | | KBB2 | 0.970 | |
| | Rare resources | KBB3 | 0.916 | 0.694 |
| | | KBB4 | 0.702 | |
| | Inability to be imitated | KBB5 | 0.826 | 0.883 |
| | | KBB6 | 0.880 | |
| | Non-substitutable | KBB7 | 0.523 | 0.821 |
| | | KBB8 | 0.967 | |
| | | KBB9 | 0.968 | |

## a. Coefficient Determination ($R^2$)

The following is the value of $R^2$ output software smartPLS-3.

**Table 5. Value $R^2$ of output software**

| | *R* Square | *R* Square Adjusted |
|---|---|---|
| Financial capability | 0.338 | 0.332 |
| Entrepreneurial orientation | 0.439 | 0.429 |
| Sustainable competitive advantage | 0.332 | 0.316 |

According to Chin (1998), the *R* square value is 0.67 (strong), 0.33 (moderate) and below 0.19 (weak). This research model is categorized to have a strong relationship between the variables

being analyzed. In this research, there are two endogenous variables namely entrepreneurial orientation and sustainable competitive advantage and two exogenous variables. Based on $R$ square and $R$ square adjusted values, there is a strong relationship between exogenous variables either independently or together.

## b. Predictive Relevance ($Q^2$)
To calculate $Q^2$ the following formula can be used

$$Q^2 = 1-(1-R1^2)(1-R2^2) \ldots (1-Rn^2) \tag{1}$$

$$Q^2 = 1-(1-(0.338\ x\ 0.338)) \ x \ (1-(0.439\ x\ 0.439)) \ x \ (1-(0.332\ x\ 0.332)) \tag{2}$$

$$Q^2 = 0.364 \tag{3}$$

This test is conducted to determine the predictive capability with the blindfolding procedure. According to Chin (1998), if the value obtained is 0.02 then the model has a small predictive capability. If the value obtained is 0.15 then the model has a small predictive capability. And if the value obtained is 0.35 then the model has a large predictive capability. If the calculation of the $Q^2$ value is 0.364, then the model has a large predictive capability.

## c. Goodness of Fit Index (GoF)
Goodness of Fit index (GoF) is obtained by the AVE value squared and multiplied by $R^2$.

$$AVE = \frac{\sum \lambda_i^2}{\lambda_i^2 + \sum_i var(\varepsilon_i)} \tag{4}$$

$$AVE = 0.5540 \tag{5}$$

Where $\lambda_i$ is a loading component to the indicator and $var(\varepsilon_i) = 1 - \lambda_i^2$
GoF values in SEM-PLS are calculated manually (Tenenhaus et al., 2005) with the following formula:

$$GoF = \sqrt{AVE^2 x R^2} \tag{6}$$

With AVE of 0.5540 and the average $R$ Square in first-order is 0.5541. So that the GoF can be calculated as follows:

$$GoF = \sqrt{0.5540^2 \ x \ 0.5541} \tag{7}$$

$$GoF = \sqrt{0.3069 \ x \ 0.5541} \tag{8}$$

$$GoF = 0.4123 \tag{9}$$

According to Tenenhaus et al. (2005) GoF small value = 0.1, medium GoF = 0.25 and large GoF = 0.38. Based on the calculation of the GoF value it can be seen that the model has a large GoF value so that the formed a model represents the real phenomenon.

## Hypothesis Testing
The test of hypotheses in SEM PLS is done with a bootstrapping process that produces t-statistics values. If the t- statistics value is greater than that of the t-statistic with a 95% confidence level (>1.96) then the hypothesis is significant. Here are the results of

bootstrapping of SmartPLS-3 software. Whereas to find out how much influence among the variables, then find out the value of the loading factor of the original sample output of smartPLS-3. This can be seen in the path coefficients table on the smartPLS-3 output. The following table present the Path Coefficients.
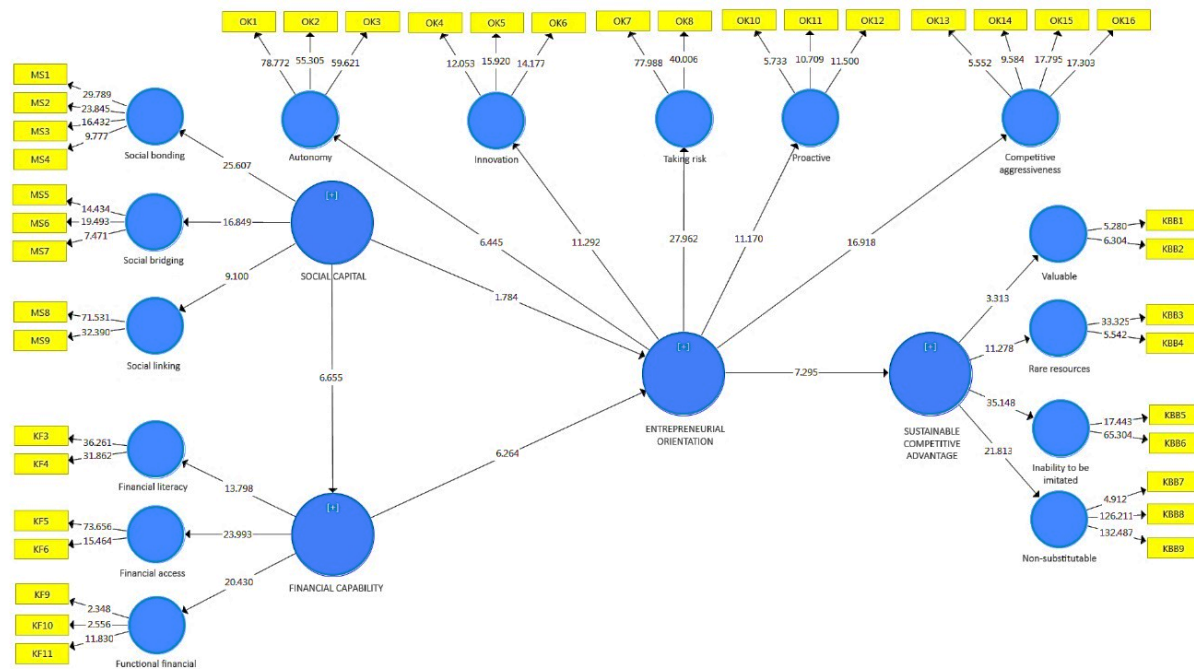


**Figure 2. Structural model second-order constructs SEM-PLS**

Based on the bootstrapping output of the SEM-PLS, the path coefficient values are presented in the table as follows:

**Table 6. Path coefficients (Mean, STDEV, t- value, p-value)**

| Hypotheses | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | T Statistics (|O/STDEV|) | P Values |
|---|---|---|---|---|---|
| Social capital → financial capability | 0.582 | 0.587 | 0.087 | 6.655 | 0.000 |
| Social capital → Entrepreneurial orientation | 0.221 | 0.189 | 0.101 | 1.784 | 0.075 |
| Financial capability → Entrepreneurial orientation | 0.509 | 0.533 | 0.085 | 6.264 | 0.000 |
| Entrepreneurial orientation → Sustainable competitive advantage | 0.568 | 0.571 | 0.078 | 7.295 | 0.000 |

The t- statistics obtained that as many as four hypotheses have a value of t- statistics above 1.96 and one hypothesis has t-statistics below 1.96. This means that from the four research hypotheses, three hypotheses proved to have a positive and significant influence. While one hypothesis is not significant. Social capital has no significant effect on entrepreneurial orientation with t-statistics 1.784 (<1.96). To summarize the results of the hypothesis test, Table 7 is presented and summarized the results of the research hypothesis test.

**Table 7. Summary of research hypothesis test results**

| | Hypothesis | Results |
|---|---|---|
| H1 | Social Capital has a significant effect on Financial Capability | Accepted |
| H2 | Social Capital has a significant effect on Entrepreneurship Orientation | Denied |
| H3 | Financial capability has a significant effect on Entrepreneurship Orientation | Accepted |
| H4 | Entrepreneurship Orientation has a significant effect on Sustainable Competitive Advantage | Accepted |

## DISCUSSION

The results of this research confirm the findings of previous research that entrepreneurial orientation is positively related to sustainable competitive advantage (Dess & Lumpkin, 2005; Filser et al., 2014; Hussain et al., 2015; Maria Jose et al., 2015; Martins, 2016; Sirivanh et al., 2014). Thus, there is a tendency that entrepreneurial orientation will increase when social capital (Andriani & Christoforou, 2016; Chen & Tzeng, 2007; Guiso et al., 2004; Heikkilä et al., 2016; Mwangi & Ouma, 2012; Yusuff et al., 2018) give an access to external financial though financial capability processes (Heikkilä et al., 2016; Kamukama & Natamba, 2013; Kim et al., 2009; Mwangi & Ouma, 2012; Yusuff et al., 2018).

In this context, the analysis shows that social capital act primarily to achieve firm's efficiency (Andriani & Christoforou, 2016; Fatoki, 2011; Omri et al., 2014). Based on previous research (Fatoki, 2011; Nahapiet & Ghoshal, 1998) Social capital represents family-based ties and the linkages that are built by Industries in Clusters from time by time (Andriani & Christoforou, 2016; Fonseka et al., 2014). Food industry clusters in developing countries operate in highly uncertain and dynamic market conditions (Teece, 2007). The results of interviews from respondents obtained information that most of the external financial sources from the Banking Institute (57%). The source of external finance is not only from Baking, but also from biological families (20%), immediate family (5%) and cooperative institutions (3%).
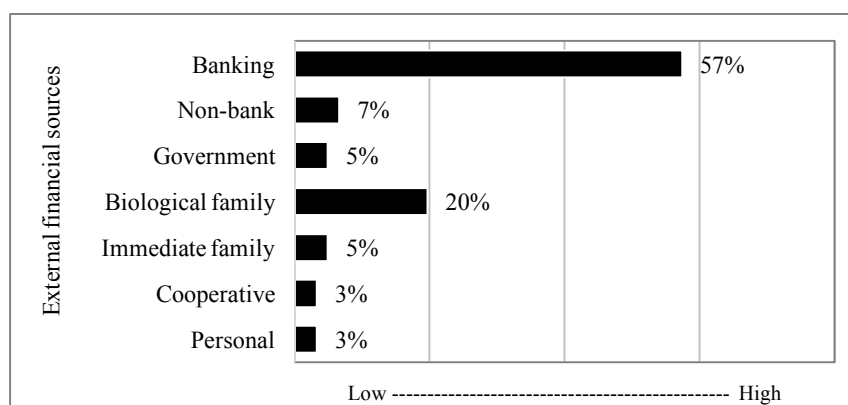


**Figure 3. Financial sources of SMIs in Food Industry Clusters**

Mwangi & Ouma (2012) argue that social capital can give the ability to accessing sources of financial information. Kamukama & Natamba (2013) found that is clear the true drivers of access to financial sources in the microfinance institutions are social intermediation and social capital. According to Andriani & Christoforou (2016) social capital creates linkages. Linkages enhance enterprise competitiveness through the realization of economies of scale and scope and are the source of sustainability, as they increase the capacity of the economic actors to collectively react to crisis and turning points.

This paper explains that social capital has a significant effect on financial capability. The SEM-PLS test results show the original sample is positive with loading factor 0.582 and the result of the t-statistic value is 6.655 (> 1.94). These results indicate that the majority of SMIs in the

Bandung Food Industry Clusters have a family relationship. Based on interviews, there were several other SMIs led by their families, immediate families, siblings or those who still had family relations.

In line with previous research, Filser et al. (2014) showed that financial capability has a positive effect on entrepreneurial orientation. Financial capability will affect the entrepreneurial capacity of SMIs because after SMIs are able to manage the company's finances, it will open opportunities to do innovation, dare to take risks, be able to be proactive and have an aggressive power to compete in a turbulent environment (Horowitz & Valentin, 2014; Lumpkin & Dess, 2001; Treche et al., 2002).

The behavior of SMIs in the food industry cluster that is the subject of this research shows a mutual bond if one of their business partners gets into trouble. In practice, not all SMIs get as expected because many SMIs collapsed due to continuous losses. The impact is not only on SMIs but also causes employees to lose their jobs. This phenomenon indicates that the relationship of social relations is very strong in the food industry cluster in Bandung. Therefore, SMIs are able to shape entrepreneurial actions in their business activities.

Unlike the research conducted by Chen & Tzeng (2007) and Wimba (2015) which examined the effect of social capital on entrepreneurial orientation, the results of this paper indicate that social capital has no significant effect on entrepreneurial orientation. The results of previous studies conducted by Omri & Ayadi-Frikha (2014) showed that industry with complexity operations make a leader had to move with an entrepreneurial orientation principle. Entrepreneurial orientation will be created if an industry has competitive action. Entrepreneurial orientation reflects the company's social interaction with its employees. Such as autonomy, where company leaders give authority to employees to make decisions, proactive and innovate.

The difference in this study from other studies there are respondents used. Locus of this paper used Small and Medium-sized Industries (SMIs), while in the previous research (Chen & Tzeng, 2007; Omri & Ayadi-Frikha, 2014; Rodrigo-Alarcón, García-Villaverde, Ruiz-Ortega, & Parra-Requena, 2018; Wimba, 2015; Yusuff et al., 2018) it examines large-scale Industries and Companies not small-scale Industries, and they also used Small and Medium-sized Enterprises (SMEs) as the respondents, it's very different from this paper's case. Therefore, there are differences in the role of resources that can create a sustainable competitive advantage. In SMIs the capability must be able to become a resource that can be the beginning of the formation of corporate excellence. Capability can identify highly competitive market opportunities and make small industries more adaptable to adapt to the conditions in their business environment. This is in accordance with the results of research by Inkpen & Tsang (2005), Ring & Nooteboom (2003), and Rodrigo-Alarcón et al. (2018) which states that social capital as a SMIs resource cannot be changed directly into an entrepreneurial orientation, but must go through a capability process.

Hypothesis 2 shows social capital has no significant effect on entrepreneurial orientation. This is acceptable because social capital is the firm's capacity to be able to interact with internal and external stakeholders of the industries so as to achieve conformity with the changing business environment by being able to adapt, integrate, and reconfigure industry competencies, and other industrial resources. However, the field findings in this paper emphasize that with the social capital it has not made these SMIs able to create sustainable competitive advantages through entrepreneurial orientation. Because the barriers of industries to being sustainable

are limited operational and production costs. Even though financial capability will be able to create innovative, proactive and aggressiveness to competitive can be sustainable.

Previous research have proven that entrepreneurial orientation influences competitive advantage. Cohen (2006), Dess & Lumpkin (2005), Sirivanh et al. (2014) examined the factors that are directly and indirectly related to the growth of SMIs. According to Dess & Lumpkin (2005) all dimensions of entrepreneurial orientation in small businesses of SMIs in Food Industry Clusters in Bandung have high dimensional values. This can be understood because SMIs are very likely to take aggressive steps to taking risk. According to Porter (2008), taking risk decisions tend to occur for businesses with low-cost operations. For example, producing tempe chips because of the cheap raw materials, but with these raw materials makes it unique, this condition is very suitable for small industries. With the low-cost operation, it is more possible for the business owner to be more proactive and dare to take risks independently, without the involvement of other parties (Covin & Lumpkin, 2011; Dess & Lumpkin, 2005).

Finally, entrepreneurial orientation is a source of sustainable competitive advantage when social capital given an access to external finance makes it difficult for competitors to compete and imitate (Hussain et al., 2015). Entrepreneurial orientation is the source of achieving sustainable competitive advantage (Bruton et al., 2008; Entebang et al., 2006; Said et al., 2016).

## CONCLUSION

The empirical results show social capital doesn't directly affect the entrepreneurial orientation of SMIs in Food Industries Clusters in Bandung, Indonesia. Social capital in SMIs will affect an entrepreneurial orientation only if it's through financial capability. After entrepreneurial orientation has been created, so that will directly affect sustainable competitive advantage.

The conclusion of the results of this paper ensures that SMIs in the Food Industry Cluster in Bandung Indonesia have been able to create sustainable competitive advantages, but this does not guarantee that small-scale industries become large-scale industries. Problems faced by SMIs such as limited financial resources can be overcome by strengthening social capital. If the social capital in the SMIs is strong, then the SMIs will have the opportunity to access financial resources such as bank loans, loans from the family and from the local cooperative.

The findings in this paper confirm two theories, first the resource-based view theory (Barney, 1991) and the second is the creation theory of entrepreneurial action (Alvarez & Barney, 2007). First, this study confirms that social capital in eight Food Industry Clusters in Bandung has been strong, thus creating opportunities to gain external financial access as financing industrial operations to produce valuable products through financial capabilities. According to Barney (1991) a valuable product is a resource that is difficult to imitate by competitors. Social capital tends to be dynamic and as a basis for long-term organizational policy based on family and entrepreneurial orientation. This explanation is in accordance with the RBV theory which states that sustainable competitive advantage will be created if other companies fail to imitate. Second, this research confirms that to achieve sustainable competitive advantage, entrepreneurial opportunities are created by entrepreneurs, not discovered. This statement proves the creation theory of entrepreneurial action from Alvarez & Barney (2007). In this paper entrepreneurial orientation is created, because it is formed from the process of social capital and financial capability.

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