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## **THE INFLUENCES OF COMPANY CHARACTERISTICS, ENTREPRENEURSHIP BEHAVIOR AND BANK RELATIONSHIP TOWARD SMALL AND MEDIUM ENTERPRISES (SMES) PERFORMANCE**

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### **Abstract**

This study analyses the influences of company characteristics, entrepreneurship behavior and bank relationship toward Small and Medium Enterprises (SMEs) performance. The object used in this research were 124 owners of SMEs Batik Pekalongan, Central Java. Multiple regression analysis is utilized in this research to examine the hypothesis. The results of the analysis shows that company characteristics, entrepreneurship behavior and bank relationship positively influence the performance of SMEs. The empirical result indicates that the owners of the SMEs of Batik Pekalongan should pay attention on some factors, such as entrepreneurship behavior and bank relationship if they want to increase the performance of their company.

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## **PENGARUH KARAKTERISTIK PERUSAHAAN, PERILAKU KEWIRAUSAHAAN DAN RELASI DENGAN BANK TERHADAP KINERJA USAHA KECIL DAN MENENGAH (UKM)**

### **Abstrak**

Penelitian ini menganalisis pengaruh karakteristik perusahaan, perilaku kewirausahaan dan hubungan bank dengan kinerja Usaha Kecil dan Menengah (UKM). Objek yang digunakan dalam penelitian ini adalah 124 dari pemilik UKM Batik Pekalongan, Jawa Tengah. Metode yang digunakan dalam penelitian ini adalah regresi berganda. Hasil analisis menunjukkan bahwa karakteristik perusahaan, perilaku kewirausahaan dan hubungan dengan Bank mempunyai pengaruh positif dan signifikan untuk UKM. Hasil empiris menunjukkan bahwa pemilik UKM Batik Pekalongan harus memperhatikan, perilaku kewirausahaan dan hubungan perbankan jika mereka ingin meningkatkan kinerja UKM mereka.

JEL Classification: L2, L26

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## INTRODUCTION

The existence of Small and Medium Enterprises (SMEs) in developing countries, such as in Indonesia, is closely related to the economics and social problems in that country such as high level of poverty, the magnitude of unemployment, the unequal distribution of income, the uneven development between urban and rural areas, and urbanizations. The development of SMEs is expected to provide a significant contribution to solve those problems. The result shows that the existence of SMEs in Indonesia can survive even in the economic crisis or the global crisis.

The development of SMEs requires good performance. The characteristics of company should support the expected goals. The company characteristic is one of the factors that deciding the business strategy used. It affects the improvement of company performance. The specific characteristics of the company is owned by the company that can be developed to have the benefit, so that it becomes a competitive advantage.

On the other hand, another key of SMEs success is the role of bank in the giving fund support and other services to support of SMEs. Considering the bank as a financial institution that has intermediary function, the relationship between SMEs and banks are mutually beneficial (Hadjimanolis, 2000).

Moreover, the existence of entrepreneurial behavior is crucial factor that needs to be taken into account in achieving superior performance because it contains the appropriate decision-making process, creativity and innovation, and the courage to take the risk. It encourages the SMEs to be more dynamic in facing business

environment (Sukirman, 2012). The essence of entrepreneurship is creativity, innovation and having capabilities to decide the purpose of life/ business, self-motivated, initiative, creative behavior, the ability to manage the funds, time management, mental ability and can take the wisdom in every experience (Wilbert, 2003)

This research was supported by the research gap in some previous studies that examined the several crucial factors affect the performance of the company. The study of Mirow (2005) and Hadjimanolis (2000) showed that the level of company performance is influenced by the company characteristics. Meanwhile, the results of Becherer and Mauer (1998)'s research showed that there is no significant influence from the company characteristics. The study of Slatter et al. (2006) found that the level of company performance is influenced by the entrepreneurship behavior while the study of Watson et al. (1998) showed that there is no significant influence. Furthermore, Hankinson (2000) stated that one of the keys to SMEs business success is the bank relationship while the study of Watson et al. (1998) showed that there is no significant effect on the bank relationship with the company's performance.

Based on the research gap above, there should be further research to examine the effect of company characteristics, behavior and relationships with banks entrepreneurship on the performance of the company. It will be more interesting to correlate those factors to the phenomenon of batik industrial center or on the SME Batik Pekalongan in Central Java. The average of SMEs Batik Pekalongan's earnings growth can be described in Table 1.

**Table 1.** The average of SMEs Batik Pekalongan's earnings growth Period: 2008-2012

No	Description	Year				
		2008	2009	2010	2011	2012
1	Profit Margin	12,7	12,5	12,1	11,4	11,2
2	Profit Growth	2,7	2,4	2,2	2,1	1,9
3	Number of SMES Batik	79	73	69	66	64

Source: data processed (2013)

Table 1 show that there is a decline in the average of profit margin and profit growth from 2008 to 2012; it might affect the decline number of SMEs Batik Pekalongan in the five-year period. This phenomenon is crucially researched through the study of the crucial factors as described above to improve the performance of SMEs Batik Pekalongan.

Based on the result above, it can be affirmed that the problem arises is the gap phenomenon that the decline of profit growth average in 2005-2012 caused the decline of the number of SMEs Batik. Meanwhile, there are some contradiction findings about the influence of company characteristics, entrepreneurship behavior and bank relationships to a company performance. Based on those problems, the writer developed a research problem: "how to improve the company performance through the company characteristics, entrepreneurship behavior and relationships with banks?"

The purpose of this study is to examine and analyze the effect of company characteristics, entrepreneurship behavior and bank relationships to SMEs performance.

### **Company Performance**

Company performance is variable that commonly used to measure the impact of a company's strategy. It is the company achievement. The company performance used to achieve the company objectives which is to generate profit (profit-oriented), and hopefully sustain the company growth and development or the sustainable survival and growth (Kitching et al., 2009).

Performance measurement is a complex and challenging work for the researchers as it is a multidimensional performance. Therefore, the performance measurement with a single measurement dimension won't be able to provide a comprehensive understanding. Generally, there are two methods used to measure the company performance; financial and non-financial performance measurement. The financial information used to measure the company performance includes: profit, profit margins, sales, market share, ROI, and aspects of other financial measurements. Slatter and Olson (2000) measured sales growth, market share, sales

volume, and profitability. Furthermore, Knight (2000) measured business performance based on market share, sales growth, and profit growth.

The study conducted by Voss and Voss (2000) revealed that there is correlation between subjective and objective performance measurement. It means that the company performance can be measured by using a subjective measurement. That is based on the perceptions of all of the staff and managers in various dimensions of corporate performance measurement. According to Miles et al. (2000), performance measurement is subjectively chosen for several reasons: First, companies are very cautious and keep the financial data of their company tightly.

Second, objective financial data is not published accurately and sometimes it is not available, so that it is hard to investigate the accuracy of the reported financial performance. Third, by assuming the company's financial data, the reported, data are mostly difficult to be interpreted. Fourth, generally the companies are in a competitive environment with performance tends to decline, the subjective assessment by comparing performance to other companies would be more appropriate to use.

### **Company Characteristics**

Characteristics is defined as things that typical on something. Therefore, the company characteristic is a specific condition that different from other companies. Company characteristic is one of the factors that might affect the company's business strategy and performance. Characteristics of a company can be developed to the company's interests. These characteristics can be different in the number of employees and the technology used.

In the study conducted by Mirow (2005) revealed that company characteristics consists of three things: (1) company size, (2) management commitment and (3) the behavior management toward the business. The study found that company characteristics have a positive relationship with performance, whereas some of them show a negative relationship. Results of this study showed the different results each other; moreover there are few researches

on the influence of the small firms characteristics toward the business strategy and performance, especially small companies debtor of a bank.

Based on characteristics of the enterprise, SMEs has advantages in terms of simple bureaucracy, fast decision making, risk taking decision, motivation, commitment to the management, the speed and effectiveness of internal communication, fast reaction to market changes, narrow market niches) the efficiency of research and development (R & D), capacity for customization, be able to learn quickly and adapted (Hankinson, 2000; Paulina & Wardoyo. 2012). Research Cavusgil and Zou (1994) provides the empirical evidence that company characteristics affect the SMEs performance. A research conducted by Shah et al. (2012) showed that the size of a company is one of the companies characteristic that have a significant impact on the achievement of better financial performance.

The study Hadjimanolis (2000) found that company characteristic has a significant influence to a company performance. It is based on the indicators of size, business experience, the presence of experts, and cooperation with technology providers. Thus, the company characteristic belongs to one of factors in the company strategy. Demographic characteristics in a company such as size, business experience can be considered as an indirect structural measurement and resources. Similarly, Ayyagari et al. (2003) in their research explained that company characteristics have significant influence on business strategy and efforts to improve performance by dividing characteristics in terms of (1) the company size and (2) international experience.

The existence of experts is one of the variables related to the Human Resources measurement because it reflects the intensity of knowledge and the absorption capability of the company. Technical personal is the core of the source technology of the company which is very specific and cumulative (Mugabi, 2010). Thus, various characteristic of the company has not only advantages but also disadvantages that ultimately impact on performance. Based on the explanation above, the hypothesis of this study can be formulated as follows:

H1: Company characteristics has a positive effect on company performance.

### **Entrepreneurship Behavior**

The study Covin and Slevin (1988) define entrepreneurship approach as a tendency of managers to take business risks (risk-taking dimensions), like changing and innovation (innovation dimension), and proactive. Hankinson (2000) in his study of 90 small companies in South Coast during 1997-2000 revealed that key variables to small companies/SMEs to be success are behavior and lifestyle, skills and capabilities, management methods, motivation, future perspectives, small firms and bank relations, identity, and commitment.

Entrepreneurship behavior is a behavior towards a creative and full of risk, creates an informal structure evenly and formulates strategies to take every existed opportunity (Smith et al., 2003). Furthermore, Smith et al. (2003) also noted a correlation between innovations with the implementation of participatory-collaborative behavior management; entrepreneurship behavior is also correlated with the attributes of organization. Purnomo (2011) entrepreneurship behavior as a persuasive behavior management entrepreneurship not a govern, team building, seeking input from other parties, behaved politically sensitive, and share awards and recognition voluntarily; moreover entrepreneurial behavior like this is not absolutely necessary in carrying out the basic activities (activities of non-innovative), even the traditional autocratic style may be just as effective.

The study Dess et al. (1997) emphasize that in complex environment need a strong entrepreneurial attitude in formulating the strategies. They stated that passive attitude weaken the performance since the base company's competitive advantage, industrial structure and product performance standards could not last long or constantly changing. Product and market success can only be achieved through an aggressive and proactive attitude to encourage companies far ahead leaving their competitors. In short, entrepreneurship



behavior is very useful in uncertain and constantly changing business environments. Due to this globalization, only SMEs that has entrepreneurship oriented can survive better than companies that are not oriented that way. Based on the explanation above, the hypothesis of this study can be formulated as follows:

H2: Entrepreneurship behavior has a positive effect on company performance.

### **Bank Relationship**

A study shows that there are two dominant sources of funding in a company; internal funds and banks. The study Hankinson (2000) in his study mentioned that the key for a small business to improve their performance is good relationship with bank, which will affect the credit facility given by bank. As a key part of successful SMEs, the business relationship between the entrepreneur and the bank should be continued not only in relation to the continuity of funds management, but also aspects of business consultancy (Mugabi, 2010). Business consulting service is a part of the bank functions that should be communicated with the debtor in the context of business development (expansion), as well as the problems faced in business. However the bank concerns about the sustainability of bank debtors, which would give certainty to return the credit.

On the other hand, SMEs' commitment to the bank should also be maintained for the sake of its sustainability. In some conditions, the successful SMEs makes effort to prioritize and fulfill its commitment with the banks despite it is being hit by the crisis. Business can not be separated from the problem of credit. SMEs should concern with a sufficient cash flow. A cash flow shortage is when company starts operations or economic conditions decline.

The study Mugabi (2010) suggested that small business success is measured by the business survival, numbers of employee, and income. In this study, the performance is linked to the performance of small company in fulfilling the credit obligations. The business world can not be separated from the support of the banking system in the field of capital. Various

credit facilities disbursed to entrepreneurs who have commitment in fulfilling the obligations to the creditor, whether it is an interest or principal payments.

The study Slatter et al. (2006) argued that the small business loans types includes the General Obligation Loan, Working Capital Loan for financing Receivable and Inventory, Loan Terms or long-term investment loans. There are some ways to measure the SMEs performance in fulfilling its obligations: 1) business continuity (business survival); it is about company continuity, whether it is sustained, sold or transferred to another party, 2) the growth of employees; it is about business development so that the company should increase employees both full-timers and part-timers, 3) credit quality, there are divided into various categories, namely L category (Fluent), DPK (Under Special Surveillance), KL (Substandard), D (Doubtful), M (Loss), 4) growth credits obtained from the SME entrepreneurs, 5) the use of credit, in this case how the use of the credit facility is already in line with the plan for working capital and investment, and 6) bank monitoring, in the form of coaching and determining the restrictive loan covenants or agreement which contains restrictions on the debtor by the banks such as investment policy, dividends, financing and so on (Slatter et al., 2006).

Bank relationships is one of the key aspects in the SMEs development that relies on the SMEs satisfaction and loyalty level as a creditor. Debtor commitment to the bank depends on the satisfaction and loyalty level. In Expectation Theory, it is stated that a company get the customer loyalty if the company is able to satisfy the customers' expectations towards their products. If the product is not able to meet their expectations, they will move to another company's product. Additionally, Control Theory emphasized the need for the debtor to feel familiar with bank products. This familiarity will cause a person to feel familiar with these products debtor and bring a positive response to the product concerned, which in turn will foster a sense of trust borrowers to use the bank products with the best (Hankinson, 2000).

A study conducted by Gray (1999) revealed that the bank relationship in case of credit performance has a relationship and a significant impact on the SMEs performance since the capital aspect is an important aspect in the SME business. The capital from bank to SMEs shows a beneficial relation between the businessmen as debtors to the bank as creditor (Masanell & Ricart, 2009).

Bank Relationship in case of credit facility has effect on the business strategy that also affects the company's performance. Furthermore, the SMEs needs not only simple and reliable bank products that help their business (Sanberg et al., 2001), but also human touch in dealing with banks (Hankinson, 2000). The use of relationship approach such as human touch supported by the proximity of the bank to the SMEs residence or business, the debtor will be more quickly served; their needs can be identified and met effectively, so that the debtors will not be worried about the rate offered by the bank (Hankinson, 2000). From the explanation above, the hypothesis of this study can be formulated as below:

H3: The Bank Relationship has a positive effect on business performance.

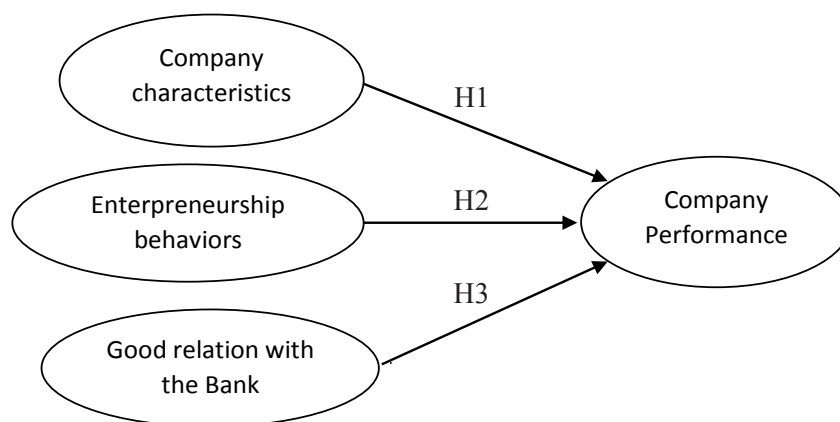
## METHOD

Definition of terms and indicators of research variables used in this study can be seen in Table 2. Primary and secondary data were used in this study. The primary data were

obtained by questionnaires and interviews given to employers and agencies. List of the questions consist of two parts, the first part is identity and company managed and the second part is variables of this study; SMEs characteristics, entrepreneurship behavior, relationship with the bank, and the performance of SMEs Batik. The secondary data were obtained by the literatures, journals, and a wide range of information from business associations and government institutions to strengthen the primary data. Population is a group of people, events or things that have certain characteristics. The population used in this study was 124 businessmen of SMEs Batik in Pekalongan.

The sample used in this study was census or saturated sampling methods, so that the sample of this study is the population used. Survey method was used to collect the data in this study. It was by giving some questionnaires directly to the respondents (SMEs Batik in Pekalongan, Central Java). The whole statements were used to measure the attitude expressed by the respondents in giving agreement or disagreement on the subjects, objects or specific events that were measured by a scale that has intervals of 1-10.

Multiple linear regression was used to analyze the influence of independent variables to the dependent variable in this empirical study. In the multiple linear regression, there were 3 independent variables and 1 dependent variable. SPSS application was used to assist in analyzing the data used in the study.



**Figure 1.** Empirical Research Model

**Table 2.** Definition of Terms and and indicators of Research Variables

No	Variable	Definition of Variable Operational	Indicators
1	Company Characteristics	Special thing of a company	1. Company size 2. Company age 3. Number of stores 4. Technology availability
2	Entrepreneurship Behavior	Behavior towards the growth of creative culture and bold risk, creating an informal structure evenly and formulate strategies to take advantage of the opportunities that exist	1. Inovating behavior 2. Proactive willingness 3. Desire to take the risks 4. Keep moving forward orientation
3	Relationship with the Bank	A cooperative and mutually relationship between companies with banks related to the capital.	1. The use of credit 2. Bank monitoring 3. Credit quality
4	Company Performance	The result of company's effort.	1. Profitability 2. Sales 3. Market Share 4. Company Growth

Source: data processed (2014)

## RESULTS AND DISCUSSIONS

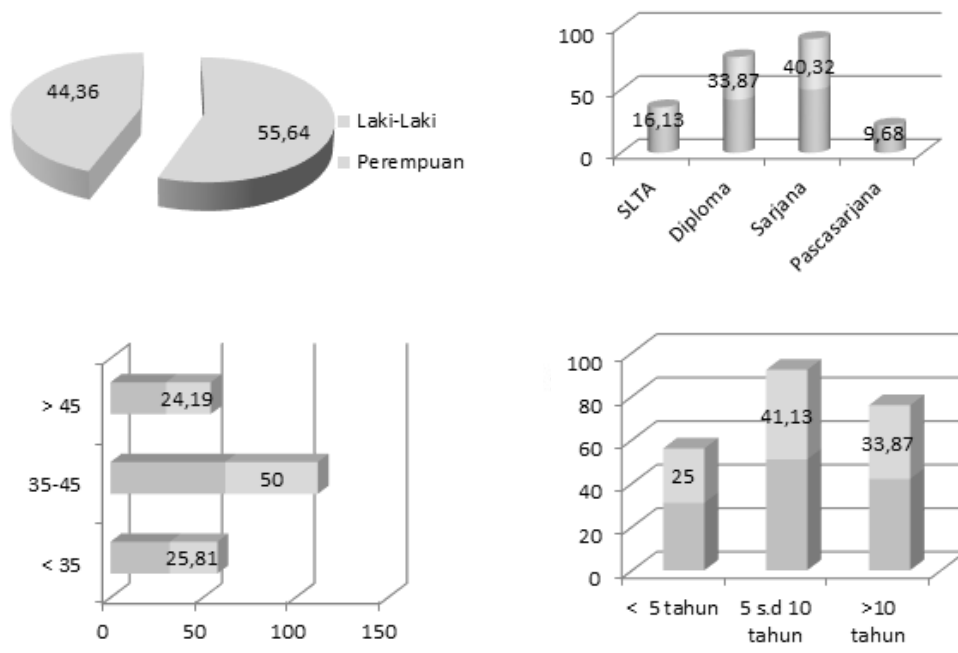
Figure 2 showed that most of the respondents who participated in this study were 55.64% male from the total 124 respondents. It indicates that male business owners are more dominant than female business owners. Based on education, it shows that most respondents are (40.32%) educated scholar. Based on the age, it shows that most respondents (50%) who participated in this study are 35-45 years old. Furthermore, most respondents (41.13%) have between business experience for about 5-10 years.

Validity test was done by using factor analysis method and calculated by SPSS. If the loading factor value is more than 0.4, it indicates a valid item. Table 3 shows that all the indicators used to measure the variables have loading factor value more than 0.4. Thus, all of these indicators are valid.

Reliability test was used to test the extent of a measuring device to be used again for the same research. Reliability test used in this research is Cronbach Alpha formula. Reliability test shows in Table 4. The results of reliability of relationship with the bank, entrepreneurship behavior, and performance of the company showed that the Alpha value were more than 0.60. It means that all of variables are reliable.

Fit test results by SPSS shows that three independent variables (characteristics of the company, the relationship with the bank and behavior entrepreneurship) jointly affect the company's performance. It confirms that the research model is a fit model.

The result showed that F value was 2.470 and the significance value was 0.012. If the significance value is smaller than the confidence level used 5%, the significant effect of company



**Figure 2.** Respondents Profile

**Table 3.** Validity Test Result

Variable/Indicator	Loading Factor	KM0	Note
Company Characteristic			
- Indicator 1	0.781	0,4	Valid
- Indicator 2	0.629		Valid
- Indicator 3	0.676		Valid
- Indicator 4	0.759		Valid
Entrepreneurship Behavior		0,4	
- Indicator 1	0.403		Valid
- Indicator 2	0.553		Valid
- Indicator 3	0.687		Valid
- Indicator 4	0.539		Valid
Relationship with the Bank		0,4	
- Indicator 1	0.501		Valid
-Indicator 2	0.749		Valid
- Indicator 3	0.713		Valid
Company performance		0,4	
- Indicator 1	0.442		Valid
-Indicator 2	0.490		Valid
- Indicator 3	0.611		Valid
-Indicator 4	0.420		Valid

Source: data processed (2014)



characteristics, relationship with the bank, entrepreneurship behavior jointly related fit to company performance. Thus, it is a goodness of fit.

Table 6 shows that the coefficient of determinant (Adjusted R<sup>2</sup>) is 0.513 or 51.3%, it means that only 51.3% of the company performance variation can be explained by the three independent variables; company characteristics, entrepreneurship behavior, and relationships with banks, while 48.7% is explained by other causes outside the model.

Partially, the influence of three independent variables (company characteristics, entrepreneurship behavior, and the relationship with the bank) to the company performance

is shown in Table 7. The value of the variable regression coefficient characteristics of the company, entrepreneurship behavior, and relationships with the bank are 0.321; 0.411; and 0.397, so it can be formulated a multiple linear regression equation as follows:

$$KiP = 0,321KP + 0,411PE + 0,397HdB$$

The calculation of the partial test shows that t value is 2.260 and a significance value of 0.029. Since t value is greater than t table and significance value less than 5%, the hypothesis (H1) is accepted. It means that company characteristic has a positive and significant impact to company performance.

**Table 4.** Realibility Test Result

Variable/Indicator	Alpha	Note
Company Characteristic	0,878	Reliable
Relationship with the Bank	0,802	Reliable
Entrepreneurship Behavior	0,744	Reliable
Company Performance	0,649	Reliable

Source: data processed (2014)

**Table 5.** Fit Test Results

		ANOVA <sup>b</sup>				
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1,458	3	0,486	2,470	0,012 <sup>a</sup>
	Residual	124,167	120	1,035		
	Total	125,625	123			

a. Predictors: (Constant), HdB, PE, KP

b. Dependent Variable: KiP

Source: data processed (2014)

**Table 6.** Adjusted R

Model	R	R Square	Adjusted R Squared	Std. Error	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	,608 <sup>a</sup>	,522	,513	1,01721	,522	2,47	3	120	,012

Predictors: (constant), Hdb, PE, KP

Source: data processed (2014)

Three box method was used to analyze the respondents' answer descriptively. From the result, it can be concluded that the average index of company characteristics is 69.1 (average) with the provision of technology as the highest indicator. It can be affirmed that high technology can improve the company performance. This result indicated that Batik SMEs management should improve their technology to support the innovation and shorten the production process.

The results showed that company characteristics or a company who has certain advantages or specific differences that ultimately have an impact on performance. Batik SME management should improve the provision of technology to support the product innovation and shorten the production process. They also should improve their business experience in batik business, because the longer the business the better the performance. Compared with previous studies, the results of this study support previous studies, such as Hadjimanolis (2000) and Mirow (2005).

From the calculation of the partial test, it shows that t value is 2.746 and a significance value is 0.002. Since t value is more than t table and significance value less than 5%, the hypothesis (H2) is accepted. It means that entrepreneurship behavior has positive and significant to company performance.

Based on the descriptive analysis, the entrepreneurship behavior shows a high average (70.3) with a willingness to be proactive as the

highest indicator. It indicates that the proactive greatly contributes to increase the profitability, sales, market share and company growth as the indicator of company performance.

These results indicate that companies which have entrepreneurial behavior can conduct product market innovations, dare to run a business at risk and launch innovations proactive in supporting the company's performance. Therefore, Batik SMEs management should maintain proactive willingness to improve the market and be ready to take greater risks to get greater profit level. They can use the philosophy of minimize risk and maximize value. Compared with previous studies, the results of this study support previous studies like Slatter et al. (2006) and Dess et al. (1997).

Based on the calculation of the partial test, the results show that t value is 2.386 and the significance value is 0.019. Since t value is more than t table and significance value less than 5%, the hypothesis (H3) is accepted. It means that the relationship with the bank has positive and significant effect on the company performance. Based on the analysis found that the average index of the relationship with the bank is 67.9 (average) with the use of credit as the highest indicator. It indicates that the use of appropriate credit based on the financial planning can improve the company performance.

The credit facility granted to the debtors has positive impact to the business strategy that ultimately affects the company performance.

**Table 7.** Partial Regression Calculation Results

Model B	Coefficients <sup>a</sup>					
		Unstandardized		Standardized	t	Sig.
		Std. Error	Beta			
1	(Constant)	8,175	0,749		10,915	0,000
	KP	0,391	0,173	0,321	2,260	0,029
	PE	0,379	0,138	0,411	2,746	0,002
	HdB	0,377	0,158	0,397	2,386	0,019

a. Dependent Variable: KiP  
Source: data processed (2014)

Batik SMEs management should maintain safe use of credit with an optimal level of return. They should improve the monitoring of credit taken, with good monitoring that received relatively low risk. Compared with previous studies, the results of this study support the research Hankinson (2000), and Kitching et al. (2009).

### CONCLUSION

Hypothesis 1 that examines the effect of company characteristics on the company performance is accepted. The results of this study confirm that the company characteristic affect the performance achievements. Hypothesis 2 that examines the effect of entrepreneurship behavior on the company performance is accepted. The results indicate that companies that have a more entrepreneurial behavior are able to conduct the product market innovations, dare to run a business at risk and launch innovations proactive in supporting the company's performance.

Hypothesis 3 that examines the effect of the relationship with the bank on firm performance is accepted. It means that the credit facility granted to the debtors has significant effect on business strategy that also affects the company's performance directly and indirectly. The results of this study have been able to prove and answer the research problem in this study that the company's performance can be improved by the company characteristics, entrepreneurship behavior and relationships with banks.

The limitations of this study is the results of R<sup>2</sup> (51.3%). Thus, it is possible to add other variables outside the model developed in the study. Further researchers are suggested to add more independent variables which affect the company performance such as customer commitment, image, and quality of service. They are also suggested to carried out the research on the other SMEs to extend the generalization of the results

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