

**SRIWIJAYA INTERNATIONAL JOURNAL OF DYNAMIC
ECONOMICS AND BUSINESS**

<http://ejournal.unsri.ac.id/index.php/sijdeb>

**An Investigation on How Entrepreneurial Orientation
Determines SMEs Survival**

Sulhaini Sulhaini¹, Baiq Handayani Rinuastuti² and Siti Nurmayanti³

^{1,2,3}Universitas Mataram

¹sulhaini@unram.ac.id; ²hrinuastuti@unram.ac.id; ³mayaramli24@unram.ac.id

Abstract: This study aims to fill some fundamental research gaps by examining a model of the chain effect of entrepreneurial orientation (EO) on a firm's ability to survive during a pandemic. With the help of research assistants, the team collected data from five districts in the Lombok Island, Indonesia. Data were collected from purposively selected small and medium-sized enterprises (SMEs) that were established before the pandemic and were able to get through it. The findings provided some interesting understandings. First, EO does not directly strengthen knowledge assets (KAs). However, in difficult situations, EO becomes the foundation for redirecting and redesigning internal human resource practices (IHRPs) and relational capability (RC) to strengthen KAs and ensure firm survival. Second, EO prevents firms from failing by being proactive and innovative risk takers in reformulating and energizing internal practices and capabilities to strengthen KAs and survival. Third, survival requires innovativeness, proactiveness and risk taking behavior to quickly and efficiently redesign strategy, capability and assets.

Keywords: Entrepreneurial Orientation; Internal Human Resource Practices; Relational Capability; Knowledge Asset; Firm Survival

Introduction

During the COVID-19 pandemic, small and medium-sized enterprises (SMEs) were challenged by volatile and highly uncertain market environment (Al-Omouh et al., 2020; Zahoor et al., 2022). Entrepreneurial orientation (EO) has been widely viewed as the key to company's success and ability to survive in such situations (Zighan et al., 2021; Liu et al., 2022; Kabir & Abubakar, 2023). However, the pandemic has left the question of how EOs can actually determine the ability of SMEs to survive. Regarding the pandemic situation, Nasar et al. (2022) called for further research on the EO of SMEs in developing countries. In line with that, Baumöhl et al. (2020) stated that prior firm survival (FS) studies focused more on firms from developed countries than those of developing countries and only

evaluated financial variables. This means future studies should uncover how SMEs' survival in developing countries by analysing various variables in order to attain a richer understanding of how SMEs facing market downturn.

In developing countries, the success of SMEs depends on the enthusiasm, competence, resources, and commitment of one person, the owner who does manual work and is responsible for managing human resources (Agarwal & Jha, 2015; Mamman et al., 2019). With their small size due to the small number of human resources, SMEs are more adaptable than large companies. SMEs do not have long and rigid bureaucratic problems, and decision making is in the hands of the owner as well as the leader/manager. A small size seems to be an advantage for SMEs; however, this size also has several limitations, especially human resource management competencies. Internal practices in managing human resources (IHRPs) during the pandemic should strengthen employee trust and satisfaction (Gillespie et al., 2020) to achieve business success and survival (Ferdous et al., 2013). However, research on IHRPs is still limited, especially with regard to knowledge assets (KAs) (Sung & Choi, 2018). Understanding of how human resources relate to various internal resources and the ability of SMEs to survive is still lacking (McClean & Collins, 2019).

Researchers believe that high-quality human resources do not directly lead to high organizational performance, but rather through the development of company capabilities (Jerez-Gómez et al., 2019). Various mediating variables have been proposed and tested in various previous studies, and the debate regarding mediating variables continues to grow. Nonetheless, Park & Tran (2020) and Olson et al. (2018) noted that studies on the role of relational capability (RC) in mediating human resource management with company performance and sustainability are still limited. Therefore, this study aims to fill those fundamental research gaps by examining a model of the chain effect of EO on a company's ability to survive during the pandemic.

Literature Review

Entrepreneurial Orientation (EO)

EO is viewed as a fundamental organizational orientation that captures the pervasiveness of an entrepreneurial theme across various elements of organizational conducts, such as strategies, priorities, processes, and activities (Wales et al., 2020). Moreover, EO is an organizational propensity to be proactive, innovative, and risk taking (Cho & Lee, 2018), which shapes managerial behavior and approaches in a different way from other companies (Wolff et al., 2015). Entrepreneurs are the owners whose personal characteristics and orientation influence the processes, practices, and decision-making styles in the firm (Diabate et al., 2019). The success of an SME is highly dependent on the enthusiasm, competence, thought, and commitment of one person, the owner who embodies his entrepreneurial spirit (Agarwal & Jha, 2015). In the organizational context and market environment, the top management's style, thinking, and decisions reflect EO (Diabate et al., 2019; Wales et al., 2020). Thus, the EO of the SME owner/leader represents the EO of his business organization.

Entrepreneurs with high EO are risk takers, placing a high level of innovative and proactive approach to doing business. These approaches play an important role in the

implementation of human resource management (Gyepi-Garbrah & Asamoah, 2015). IHRPs help evaluating how SMEs are innovative, proactive, and evaluative in achieving the company's vision. The implementation of the practices alone will not be sufficient in a volatile environment. Florén et al., 2016) argued that IHRPs require EO to guide employee behavior, skills, and abilities. IHRPs can be effective for company survival when strengthened by EO. Decisions, policies, and mechanisms related to IHRPs are energized by EO.

Given the various limitations they face, SMEs should creatively establish their internal practices, approaches, or strategies to ensure the organization's ability to strengthen their resilience to external shocks. IHRPs are based on the philosophy of human resource management that aims at maintaining employee trust, confidence, satisfaction, and commitment (Gillespie et al., 2020). The practices are aimed at advancing employee talent, skill and competencies (Wolff et al., 2015). Through the right internal practices and mechanisms, the characteristics of employees who are creative, willing to take risks, visionary, flexible, and adaptable stimulate SMEs to achieve success (Jerez-Gómez et al., 2019). Therefore, SMEs with strong EO will have strong attention on how to support their main resource, i.e., human beings through developing favorable IHRPs (Gillespie et al., 2020). Hence, the first hypothesis is as follows:

H1: the stronger the SME's EO, the greater the SME's internal human resource practices

Sulhaini & Sulaimiah (2017) and Lin et al., (2020) explained that because of the various limitations an SME has, an entrepreneur takes advantage of their business relationships to overcome these limitations. Realizing their weaknesses, SMEs, especially in developing countries, try to develop collaborations; strong business relationships/networks are the starting point for new ideas (Öberg, 2019). A proactive and innovative approach and a tendency to take risks underline the ability to develop business relationships because entrepreneurs rely on the benefits they can get from these relationships (Nieminen & Lemmetyinen, 2015).

An entrepreneur has a strong motivation to gain benefits in various forms of activities with other parties (Al-Omouh et al., 2020). The entrepreneur can get ideas, information, problem solving, new business opportunities, or even free suggestions and solutions from their business partners. Entrepreneurial-oriented individuals are more motivated to seek these benefits to stimulate business growth and continuity by leading change quickly and appropriately. They develop RC informally, interactively, spontaneously, individually, or even opportunistically (Nuryakin, 2020). Entrepreneurs with strong EO will be more proactive and innovative in developing their relational skills because they believe that they can rely on their business relationships to achieve many great benefits (Sulhaini & Sulaimiah, 2017). Business relationships with customers, suppliers, and even competitors offer benefits to SMEs. This means that SMEs with higher EO will proactively develop their business network to maintain business continuity. Strong relational abilities require strong EO. Therefore, the below hypothesis is proposed:

H2: the stronger the SME's EO, the stronger the SME's RCs

KAs are argued to be the sum total of all knowledge resources—organisational, human and social—that determine value creation processes, activities and capabilities (Asiaei et al.,

2021). With strong EO, SMEs tend to be more active in seeking opportunities for knowledge acquisition to support growth by leading change and innovation. Mehrabi et al. (2019) argued that EO underlies an exploitation and exploration approach for the development of ideas and knowledge. To take this approach, entrepreneurial companies need to acquire and develop skills and knowledge in various activities. Entrepreneurial firms rely on an aggressive yet affordable approach to doing business; it must be creative to continuously redesign and adapt their approaches to stay competitive against large market players. Strong EO leads to proactive behavior, which provides experiential learning where they can gather important knowledge for competitive advantage (Politis & Gabrielsson, 2009). They also acquire entrepreneurial knowledge through learning from trial and error and understanding their mistakes or failures in taking advantage of opportunities. SMEs with strong EOs view that KAs are essential for survival by stimulating learning through various mechanisms. Therefore, hypothesis three is as follows:

H3: the stronger the SME's EO, the greater the SME's KAs

Internal Human Resource Practices (IHRPs)

Small companies tend to lack financial, human resources, knowledge, and expertise (Gillespie et al., 2020; Zahoor et al., 2022). As entrepreneurs, owners/managers often carry out activities that involve discovery, evaluation, and exploitation of opportunities to implement new approaches for resource and process management (Polas & Raju, 2021). Employers must design internal practices in a proactive and innovative manner to ensure employee competence, trust, satisfaction, commitment, and comfort; however, it depends on the decision of the owner/manager and the approach adopted to change the quality of their human resources (Agarwal & Jha, 2015). Human resources are the most important resource for small companies because they are the only resources capable of being creative and making innovative and adaptive efforts, especially when the market is worsening (Gillespie et al., 2020).

(Gillespie et al., 2020) explained further that SMEs can develop internal practices related to human resources to maintain and strengthen employee confidence. The practices reassure employees that the firm continues to be trustworthy and behaves predictably in how it responds to the crisis and treats its employees. IHRPs reduce employee perception of vulnerability by decreasing the uncertainty felt by employees during the pandemic/crisis. Entrepreneurs can develop various internal practices to build a mental bridge, show care and support, and empower employees while treating them fairly (Gillespie et al., 2020). These practices are approaches that can be applied by entrepreneurs in quickly and efficiently managing human resources internally.

IHRPs shape employee behavior and attitudes to strengthen strong internal and external relationships (Ferdous et al., 2013). It is a key driver of employee performance related to relational work. The right IHRPs provoke employees' spirit and cooperation to strengthen internal relationships among employees and satisfy customers or business partners as the company cultivates economic and social benefits from those relationships. The application of proper human resource management is a prerequisite for serving customers better (Modi & Sahi, 2018), namely practices that focus on building lasting external relations (Grönroos, 2017).

SMEs must develop human resources that aim to encourage proactive behavior and relational skills (Sulaimiah & Sulhaini, 2017). This implies that IHRPs as a set of approaches to instill the values, norms, and employee behavior necessary to serve and respond to partners' needs. Park & Tran (2020) showed that managing human resources leads to greater ability of employees in solving customer problems, helping customers to make satisfying purchase decisions, and growing, maintaining, and developing business relationships. Therefore, employees who perform relational tasks will have a strong focus on their role of building external relationships. The main objective of having strong external relations is to derive long-term value, both monetary and non-monetary benefits, from these relationships. Success depends on the employees' ability in developing relationships as they bridge the gap between their company and business partners. Favorable IHRPs motivate and maintain employees' trust, comfort, and job satisfaction, which stimulates their enthusiasm and commitment to strengthening external relations.

H4: the greater the SME's IHRPs, the stronger the SME's RCs

Companies with a strong focus on knowledge will pay greater attention to implementing IHRPs. Employees are facilitated to work together to share and make sense of collective experience and knowledge, and their work environment is directed as a learning environment for knowledge development (Jerez-Gómez et al., 2019). This suggests that when companies have strong IHRPs, they have highly motivated employees who work together to create, develop, and exchange knowledge that leads to greater KAs. Additionally, prior knowledge develops from work experience, aiding in the discovery of opportunities. Knowledge is in human's mind. Their previous work experience and training and involvement in knowledge sharing and interactions will make them more creative and innovative. Employees need to improve their previous knowledge and expertise to develop new insights or new knowledge (Hajizadeh & Zali, 2016). Heffernan et al. (2016) asserted that good human resource practice stimulates internal learning, which leads to the emergence of new ideas to do things in new ways. Further, with the growth of mutual trust, shared values and mutual respect can strengthen employee loyalty, which aims to maintain the valuable knowledge of employees within the company for future growth (Wolff et al., 2015). Such practice is seen as a key driver of knowledge generation, circulation, and up-dation. Sharing knowledge is not fundamentally a natural human activity as it usually starts and ends in the minds of individuals (Hume & Hume, 2015). Therefore, it is very important to create and update knowledge. As a result, IHRPs need to be directed at facilitating employees to share knowledge voluntarily within their company, which increases KAs.

H5: the stronger the SME's IHRPs, the stronger the SME's KAs

Relational Capability (RC) and Knowledge Assets (KAs)

The RC of a company requires the ability to develop certain relational governance that encourages customers/business partners to engage in sharing information. Strategic information obtained from relationships facilitates the development of new ideas, which are useful for new products and creative approaches to marketing (Vázquez-Casielles et al. 2013). Meanwhile, Nuryakin (2020) argued that RC consists of a company's ability to build relationships, both internally and externally. Thus, RC is not only the ability to develop and maintain relationships with external partners but also with internal partners, i.e., employees.

This view is suitable for current research because the definition recognizes the important role of human capital as learners, owners, and users of knowledge. SMEs can learn from and within business relationships and develop further internal knowledge among employees, who also learn from doing their jobs. SMEs must consider it important to gather knowledge related to customers, competitors, market trends, technicalities, and from external and internal interactions. The better the relational ability, the greater the KAs that can be obtained.

Learning mechanisms are available in business relationships, where repeated interactions and collaborations facilitate co-creation of SME knowledge (Sulhaini & Sulaimiah, 2017), which is better than developing alone or without external collaboration (Nieminen & Lemmetyinen, 2015). External partners are seen as sources of knowledge, which includes customer/market knowledge, new product ideas, market opportunities, and trends, among others, and developing RC stimulates greater opportunities to utilize useful knowledge without having to invest heavily in seeking such knowledge through formal market research, which may be expensive for SMEs. When they rely on benefits, they exploit, develop, and incorporate their resources and skills into relationships to maximize their knowledge (García-Villaverde et al., 2018). Simply put, each party is seen as a co-creator of knowledge, and the business relationship is an arena for knowledge transfer and creation. Therefore, when SMEs have a lack of valuable knowledge due to limited RandD activities, they rely on business relationships to increase knowledge. Furthermore, an internal learning mechanism characterized by strong cooperation and information sharing through interactive communication between individuals can help SMEs to increase the knowledge stock of their employees. This involves a purposeful and ongoing exchange of ideas and experiences among employees.

H6: the stronger the SME RCs, the stronger the SME KAs

Strong relationships resulting from strong RC stimulate customer satisfaction and loyalty leading to higher marketing success (Chen & Wu, 2016). SMEs face various obstacles when facing market shocks during pandemic, and they need to collaborate with other companies while strengthening internal cooperation to maintain business during a volatile market environment (Acheampong & Hinson, 2019). With a strong RC, SMEs are more likely to survive market downturns as they leverage their external relationships to compensate for their limited resources. So, it makes sense to put forward the following hypothesis:

H7: the stronger the relational ability of SMEs, the higher the survival of SMEs

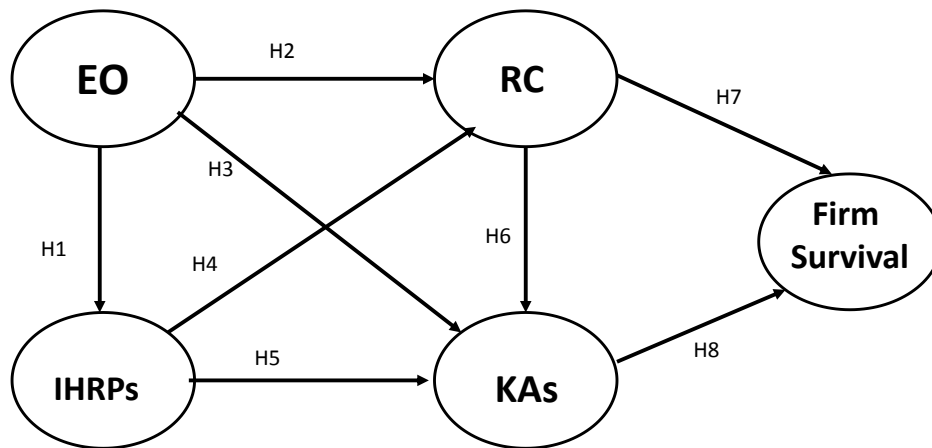
KAs refer to intangible assets obtained through experience and learning that can be used in a series of value creation processes for performance enhancing purposes (Wu & Chen, 2014). KAs also refer to knowledge acquired and developed internally and externally by companies, including knowledge related to competition, market trends, customer needs, and technical issues (García-Villaverde et al., 2018). It includes the accumulation of corporate knowledge that is embedded at the individual or organizational level, developed, enriched, expanded, and updated through knowledge transfer or recreation internally among individuals within the company. Knowledge is created and developed over time within individuals or companies; this knowledge can be adapted, and it guides the exploration and exploitation of market opportunities (Nuryakin, 2020). With strong KAs, SMEs can generate new solutions and new ways of doing things or carry out marketing

activities in a better way to meet customer needs, expectations, and satisfaction (Dong et al., 2015). Therefore, KAs are critical to SMEs' marketing success and survival (Mwaura, 2016; García-Villaverde et al., 2018). Business continuity depends on the ownership, development, and exploitation of knowledge. KAs stimulate companies to find ways to survive in the pandemic.

H8: the stronger the KAs of SMEs, the higher the viability of SMEs

All the hypotheses are described in the figure below

Figure 1. The Research Model



Methods

Data Collection and The Samples

In order to collect data, 10 research assistants distributed 200 questionnaires in five districts in the island of Lombok, Indonesia. This number was twice the minimum amount suggested by Hair et al. (2014). The research assistants used a door-to-door approach to distribute the questionnaires to ensure gathering of a maximum data. The samples were purposively selected, with the criteria being that the firms had been operating before the pandemic; they experienced normal and declining market conditions. The criteria for small businesses rely on the category set by the world bank, namely that they employ at least 5 people. The sample firms were: 152 firms had 5–10 employees, 36 firms had 11–20 employees, and 12 firms had >21 employees. There were 157 self-owned, 27 family-owned, and 16 joint ownerships. Their business was mainly food and drink (60% of the samples), followed by handicraft (24%), and retail (16%). Most of the sample firms (>50%) faced a decline in sales during the pandemic.

Instrument and Measurement Models

In order to develop the research instrument, we first reviewed the literature to build a greater knowledge of each construct and ascertain its dimensions. Second, we conducted interviews with five entrepreneurs. This helped us to determine relevant items to be

adopted and adapted. To measure EO, the three dimensions developed by (Hughes, Hughes & Morgan, 2007), namely risk taking, proactivity, and innovation, were used. In addition, the construct of IHRPs is measured by adopting relevant items based on the insights of Gillespie et al. (2020), whereas the construct of KAs is measured by adapting the relevant dimensions and items developed by Wu and Chen (2014). RC is measured by relying on the work of Nuryakin (2020), while for FS, we adopted items from (Naidoo, 2010). Each variable uses a Likert-type scale of 1–7, corresponding to strongly disagree–strongly agree.

We carried out confirmatory factor analysis (CFA) using the AMOS-22 program to evaluate the overall model fit. The results of the fit model on the CFA model are chi square = 565.219 (df = 332), GFI = 0.839, AGFI = 0.804, CFI = 0.939, TLI = 0.930, RMSEA = 0.059, and NFI = 0.865. The ratio of chi square to degrees of freedom is <2 and GFI and AGFI > 0.80. RMSEA < 0.08 is an absolute indication of a good fit. Meanwhile, CFI and TLI > 0.92, indicating a good incremental fit. The results confirm a high model fit.

The measurement model was also evaluated. According to (Hair et al., 2014). Factor loading of each item should be equal to or above the threshold of 0.50. Similarly, the recommended level of the average variance extracted (AVE) of each construct is ≥ 0.50 . Meanwhile, the common cut-of value for the Cronbach's alpha (α) values and composite reliability (CR) is ≥ 0.70 . The results verify the reliability and convergent validity of the scales (Table 1).

Table 1. The Measurement

Items	Loading Factor	AVE	CR	Cronbach's Alpha
Entrepreneurial orientation (Hughes, Hughes & Morgan, 2007)				
<i>First Order</i>				
INO (innovatiness)	0.799	0.701	0.875	0.830
PRO (proactiveness)	0.924			
RT (risk taking)	0.782			
<i>Second Order</i>				
INO				
INO3	0.758	0.621	0.766	0.754
INO4	0.817			
RT				
RT1	0.757	0.726	0.840	0.828
RT2	0.938			
PRO				
PRO1	0.840	0.533	0.700	0.669
PRO2.	0.600			
Internal Human Resources Practices (Gillespie et al., 2020)				
<i>First Order</i>				
IHRPs1 (mental bridge)	0.908	0.837	0.939	0.932
IHRPs2 (care and support)	0.914			
IHRPs3 (empower)	0.923			
<i>Second Order</i>				
IHRPs1				
IHRPs1-1	0.746	0.724	0.912	0.907

Items	Loading Factor	AVE	CR	Cronbach's Alpha
IHRPs1-2	0.913			
IHRPs1-3	0.892			
IHRPs1-4	0.842			
IHRPs2				
IHRPs2-1	0.840	0.724	0.840	0.834
IHRPs2-2	0.862			
HRPs 3				
IHRPs3-2	0.783	0.658	0.852	0.847
IHRPs3-3	0.809			
IHRPs3-4	0.841			
Knowledge Asset (Wu & Chen, 2014)				
<i>First Order</i>				
HC (human capital)	0.889	0.802	0.924	0.906
RelCap (relational capital)	0.942			
SC (structural capital)	0.854			
<i>Second Order</i>				
HC				
HC2	0.734	0.615	0.761	0.756
HC3	0.832			
RelCap				
RelCap1	0.797	0.640	0.842	0.840
RelCap2	0.848			
RelCap3	0.753			
SC				
SC1	0.913	0.837	0.911	0.910
SC2	0.917			
Relational capability (Nuryakin, 2020)				
Internal	0.584	0.502	0.748	0.740
External	0.810			
Relationships with other (government, other organizations)	0.713			
<i>Firm Survival</i> (Naidoo, 2010)				
FS1	0.927	0.704	0.875	0.845
FS2	0.901			
FS3	0.665			

Moreover, following (Fornell & Larcker, 1981) suggestion, we tested the discriminant validity by contrasting the square root of every construct's AVE to its correlation with the other constructs. The results are revealed in Table 2, which confirms the discriminant validity. Discriminant validity was also proven as no item loaded significantly on a factor for which it was not projected.

Tabel 2. Discriminant Validity

Variabel	Mean	St Dev	(1)	(2)	(3)	(4)	(5)
Entrepreneurial Orientation (1)	6.19	0.72	<i>(0.837)</i>				
Internal Human Resource Practices (2)	6.23	0.74	0.465	<i>(0.915)</i>			
Knowledge Assets (3)	6.05	0.81	0.554	0.509	<i>(0.896)</i>		
Relational Capability (4)	6.58	0.54	0.632	0.478	0.707	<i>(0.709)</i>	
Firm Survival (5)	6.08	0.91	0.495	0.537	0.813	0.706	<i>(0.839)</i>

All significant at $p < .01$, the diagonal (in italics) shows the square root of the average variance extracted for each construct

Findings

After confirming the empirical validity of the measurement model, the structural model was examined. The results suggest a good fit to the data, the results are as follows: chi square = 570.266 (df = 335), GFI = 0.839, AGFI = 0.804, CFI = 0.938, TLI = 0.929, RMSEA = 0.059, and NFI = 0.864. The results of the ratio of chi square to degrees of freedom are in the range of 2–3 and GFI and AGFI > 0.80. RMSEA < 0.08 are indications of a good absolute fit. Further, CFI and TLI > 0.92. Therefore, the results indicate a high model fit. The results of the hypothesis test are shown on Table 3.

Table 3. The Results of Hypotheses Test

			□	C.R.	P	Conclusion
Endogen :						
Internal Human Resources Practices; R ² = 21%						
IHRPs	<---	EO	0.462	4.825	<0.001	supported
Endogen :						
Relational Capability; R ² = 43%						
RC	<---	EO	0.497	4.332	<0.001	supported
RC	<---	IHRPs	0.260	2.868	0.004	supported
Endogen :						
Knowledge Assets; R ² = 55%						
KAs	<---	EO	0.093	0.955	0.340	unsupported
KAs	<---	IHRPs	0.212	2.658	0.008	supported
KAs	<---	RC	0.552	4.365	<0.001	supported
Endogen :						
Firm Survival; R ² = 84%						
FS	<---	RC	0.262	3.104	0.002	supported
FS	<---	KAs	0.709	7.220	<0.001	supported

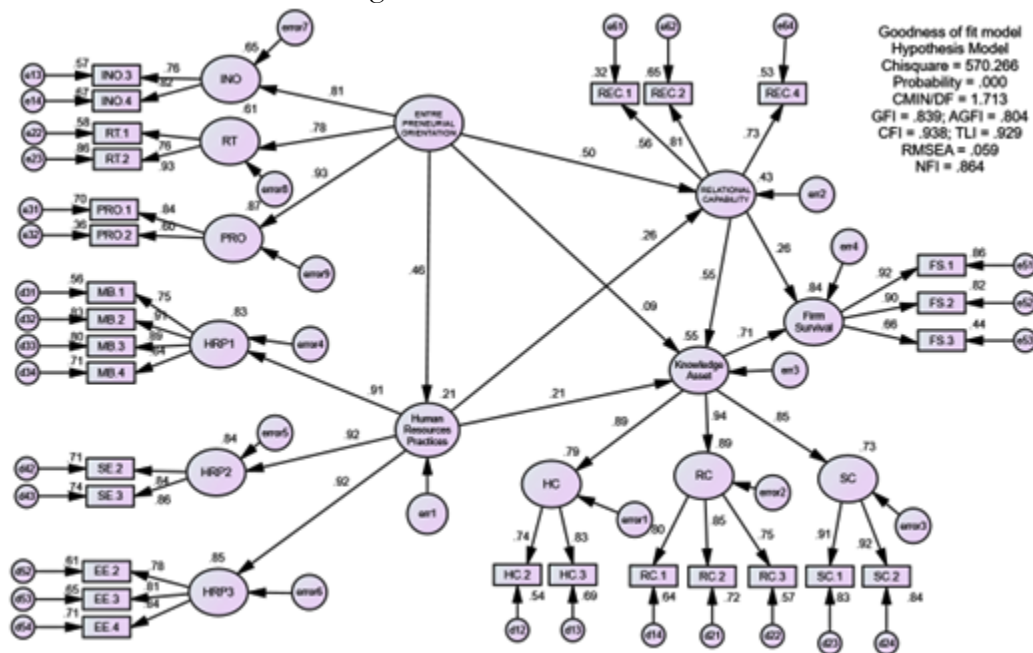
In order to evaluate the predictive power of the research model, we calculated the value of the determinant coefficient (R²). Cohen (1992) established categories as follows: R² weak = 0.02; R² medium = 0.13 and R² strong = 0.26. Data from this research shows that the R² value is 0.21 to predict IHRPs, 0.43 for RC, 0.55 for KAs, and 0.84 for FS, therefore R² values are strong.

The results of the hypothesis test show that there is one hypothesis (the path of EO to KAs) that is not supported by the data in this study. Meanwhile, the seven hypotheses are supported by data. The indirect effect of EO to KAs through IHRPs is 0.462×0.212 at $p < 0.001$ and 0.497×0.552 at $p < 0.001$ through RC. In addition, RC mediated the effect of EO on FS as follows: 0.497×0.262 at $p < 0.0001$. Thus, RC has a very essential role in mediating the effect of EO on other constructs. EO does not directly guarantee FS without the existence of RC.

Several variables (EO, IHRPs, and KAs) are multidimensional. EO was composed of INO, RT, and PRO. The loading of PRO exceeded that of the others, meaning SMEs reflected a stronger proactiveness than innovativeness and risk taking when facing hard situations such as the pandemic. Similarly, the loading value of relational capital (RelCap) is the highest among all dimensions of KAs, indicating that SMEs have a greater orientation on RelCap followed by HC and SC in shaping KAs. Regarding IHRPs, all dimensions have a rather similar loading factor, suggesting a similar level of relative importance of each dimension when constructing IHRPs.

The dimensions of those constructs also differ in terms of r value with subsequent constructs. First, EO-IHRPs: INO-IHRPs = 0.373, RT-IHRPs = 0.360, and PRO-IHRPs = 0.430 suggests that proactiveness has a greater power than others in predicting IHRPs. Second, EO-RC, INO-RC = 0.498, RT-RC = 0.481, and PRO-RT = 0.574, which is similar to the r value between EO dimensions and IHRPs. Third, EO-KAs, INO-KAs = 0.429, RT-KAs = 0.414, and PRO-KAs = 0.495 suggests that proactiveness had a greater power in predicting KA. Fourth, IHRPs-RC, IHRPs1-RC = 0.445, IHRPs2-RC = 0.449, and IHRPs3-RC = 0.451 indicates a similar power of those dimensions in predicting RC. The result is similar to that of IHRPs-KAs as follows IHRPs1-KAs = 0.478, IHRPs2-KAs = 0.481, and IHRPs3-KAs = 0.484. And lastly, KAs-FS, HC-FS = 0.794, RelCap-FS = 0.845, and SC-FS = 0.763 shows that RelCap is the strongest dimension in predicting FS. The result model can be seen on the figure below:

Figure 2. The Result Model



Discussion

Our discussion is presented in three parts according to the hypothesis group.

Hypotheses 1–3

Hypotheses 1, 2, and 3 predict the effect of EO on IHRPs, RC, and KAs. EO has a significant effect on IHRPs, which shows that when SMEs have strong EO, SMEs will design human resource management that is able to improve employees' capabilities in accordance with environmental conditions. SMEs generally do not have a special department to manage human resources, and the entrepreneur/owner determines human resource management approaches and policies. Viitala et al. (2022) stated that how the IHRPs was implemented illustrates the thoughts and priorities of entrepreneurs regarding the importance of human resources in dealing with sudden market shocks. Entrepreneurs proactively develop internal practices that can strengthen employees' trust in them without using large costs and resources. These practices can also dispel doubts and worries and can even empower employees.

In addition, a strong EO encourages companies to develop their ability to build internal–external relationships. EO encourages SMEs to expand their business networks to obtain various benefits, both financial and non-financial (Lin et al., 2020). However, this study shows that a strong EO does not mean strong KAs. EO does not guarantee that SMEs have a great KAs directly but through its influence on other variables, i.e., RC and IHRPs. Also, EO does not guarantee FS through KAs but through the existence of RC and IHRPs. This result is inconsistent with the findings of Lin et al. (2020), which implied that EO is a driver of knowledge acquisition activities as well as KAs.

The finding of the study suggests that firm survivors tend to be more proactive to align IHRPs and RC during market downturn. However, their survival cannot be guaranteed through a direct effect of EO on KAs. The study reveals that survival requires proactiveness, innovativeness, and risk taking behavior of SMEs in reconfiguring or redesigning human resource management and improving relational capability as well as their knowledge asset.

Hypotheses 4–6

Hypothesis 4 expects that IHRPs strengthens KAs and is supported by the data in this study. Human resources and KAs are important assets, and the management of both allows SMEs to leverage the knowledge and skills of employees to be able to face the challenges of environmental change (Sánchez et al., 2015). An effective IHRPs can strengthen trust and emotional attachment among employees and between employees, and the top management can shape the behavior, attitude, and commitment of employees to learn and develop their knowledge and skills (Banmairuoy et al., 2022). IHRPs can create a sense of comfort and calm for employees and can facilitate the creation and transfer of knowledge among them. IHRPs encourages employees to become knowledge creators or seekers, which leads them to become more valuable resources to maintain business continuity.

In a pandemic situation, employers tend to reduce the number of employees for reasons of rationalization. This creates anxiety, discomfort, and distrust of employees toward employers. Gillespie et al. (2020) emphasized that in facing a bad market situation during a pandemic, IHRPs must emphasize communication, mutual trust, care, mutual support, and respect to create confidence, calm, certainty, and comfort in employees. SMEs do not have the resources to develop complex training programs, but IHRPs, which emphasize mutual trust, can be an incentive for employees to have constant learning (Agarwal & Jha, 2015). IHRPs that promote a positive atmosphere promotes a greater willingness and desire in employees to learn and exchange knowledge and perform mutual learning and expand KAs.

From this study, it can also be seen that IHRPs strengthen RC. IHRPs, which are able to create a sense of comfort, satisfaction, and mutual trust, shapes the behavior, attitudes, and motivation of employees that strengthen harmonious internal relations and mutually beneficial external relations. The results of this study indicate that IHRPs are the determinants of positive employee behavior, attitudes, and orientation in building internal and external relations.

The result of hypothesis test shows a significant effect of RC toward KAs. Human resources possess knowledge, skills, experience, and abilities. Interactions among individuals within and across organizations provide opportunities for staff to access a wider network of acquaintances and information and thus greater KAs (Lin et al., 2020) and internal practices can promote and facilitate the transfer of individual tacit knowledge. With a strong RC, SMEs are able to maintain strong relationships with other parties through which they can easily access resources such as knowledge, complementary skills, and opportunities (Acheampong & Hinson, 2019). A strong KAs require a strong RC, and it is favorable IHRPs that can stimulate learning and co-creation of knowledge internally and externally to the firm. The interactions and collaborations within and outside the organization may ease resource and knowledge fluidity. They become learners, searchers, and KAs creators as well as relationship developers.

Hypotheses 7–8

The two hypotheses are supported by the data suggesting both RC and KAs are strong predictors of SME survival during the pandemic. FS can provide an indication of the resilience of SMEs in bad market situations, such as during a pandemic. The results show that RC and KAs guarantee FS, and that these two variables mediate EO and IHRPs in guaranteeing FS. This explains that FS is guaranteed by a strong EO and IHRPs through their influence on RC and KAs. This research confirms that KAs remain an essential resource for the ability of SMEs to survive in difficult times. During the pandemic, SMEs are seeking ways to cut business operating costs, effectively serve customers, and identify and exploit opportunities quickly and intelligently. With strong KAs, SMEs can find the right way to survive. Nevertheless, EO can strengthen KAs after it strengthens IHRPs and RC in order to survive. Meanwhile, Nasar et al. (2022) found that EO encouraged SMEs in Pakistan to try to respond quickly to market changes during the pandemic. However, limitations in owning KAs and skills limit SMEs' ability to properly address the tough challenges that arise.

Conclusion

This study aims to investigate the role of EO on FS during a pandemic. The study examines a model of the chain effect of EO on firm ability to survive. This research was conducted in Indonesia, which is a developing country and has faced a multidimensional crisis in 1997–1998 during which, SMEs became the nation's economic savior. This research shows that in a bad situation, EO is not able to strengthen KAs directly to ensure their ability to survive, but SMEs need IHRPs and RC. To be able to strengthen KAs, SMEs must be proactive, innovative, and making them risk takers in developing their human resources and RC, which can then guarantee their FS. This research has explained the chain effect of EO in increasing the ability of SMEs to survive in difficult times.

EO aligns a firm's IHRPs and RC to a certain degree and speed. This is to respond to the market turbulence during the pandemic. From this research, SMEs with a strong EO have the courage to take proactive and innovative steps to design IHRPs and develop their RC to update and enrich KAs to strengthen their ability to survive in difficult times. The development of IHRPs and RC can be seen as an investment decision that can carry a risk of failure because SMEs generally do not have a special department to handle them.

Doz (2020) emphasized that the pattern of relationships between companies and their environment is never stable. However, stability can arise from the entrepreneurial spirit and organizational culture, allowing realignment and redirection to transform the organization to suit the changing environment. Thus, in an environment that changes drastically, such as during a pandemic, EO becomes the foundation for redirecting and redesigning IHRPs and RC through which KAs improves to ensure FS. EO prevents firms from failing by being proactive, innovative, and making them risk takers in reformulating internal processes and capabilities to strengthen FS. KAs are firm resources that requires specific capability (i.e., RC) and internal practices (IHRPs). These should be designed, synchronized, and orchestrated in order to gain the desired results (Asiaei et al., 2021). This study provides evidence of how FS, RC, and IHRPs are driven by EO. Therefore, survival requires proactiveness, innovativeness, and risk taking behavior of SMEs to enhance their strategy, capability and asset.

Policy and Managerial Implications

The finding of this study has potentially important implications for entrepreneurs/managers/firm owners. This suggests that they need to exercise and enhance their ability to be proactive, innovative, and risk taking. They need to move away from maintaining business stability and sustainability by focusing on old ways and approaches in managing human resources and internal–external relationships. With the various limitations they face, entrepreneurs must be wise, fast, and smart in growing trust, confidence, and calmness that can empower employees at work. This has an impact on strengthening relational capabilities, KAs, and FS.

The result of the study also suggests that survival of SMEs is attainable during a very devastating situation such as the covid pandemic. They have a pivotal role in industrial and economic growth. Their survival is an indication of industry resilience (Engeset, 2020), thus it shapes resilience in a wider context (Sulhaini et al., 2023). Therefore, strengthening their survival and resilience should receive a great attention from public policy

makers/government. Training programs and other initiatives shall also be implemented as market conditions may experience more severe downturns and challenges in the future.

Limitation and Future Research Directions

This research provides interesting findings, however it has some limitations that present an opportunity for future studies. The research model can be further advanced by adding technology adoption and government assistance. Further studies may also explore cultural and social factors that relate to EO or compare how EO determines FS between men and women entrepreneurs in developing countries. However, we also urge future investigations to examine the research model in other industries, especially transportation, tourism and hospitality industries that have been badly affected by the pandemic. The survey data obtained from SMEs in manufacturing and retailing businesses but does not provide understanding of how EO determines SME survival in those industries.

Acknowledgement

We have been fortunate, as a number of people helped us for the research and this publication. We thank our research assistants who have shown their high dedication on collecting data in various regions on the island of Lombok. We also express our gratitude and appreciation to the respondents who provided their precious time and useful information.

Declaration of Conflicting Interests

The authors declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

References

- Acheampong, G., & Hinson, R. E. (2019). Benefitting from alter resources: network diffusion and SME survival. *Journal of Small Business and Entrepreneurship*, 31(2), 141–158. <https://doi.org/10.1080/08276331.2018.1462620>
- Agarwal, U. A., & Jha, S. (2015). Human Resource Practices in Indian SMEs – An Exploratory Study. *Indian Journal of Industrial Relations*, 50(4).
- Al-Omoush, K. S., Simón-Moya, V., & Sendra-García, J. (2020). The impact of social capital and collaborative knowledge creation on e-business proactiveness and organizational agility in responding to the COVID-19 crisis. *Journal of Innovation and Knowledge*, 5(4), 279–288. <https://doi.org/10.1016/j.jik.2020.10.002>
- Asiaei, K., Rezaee, Z., Bontis, N., Barani, O., & Sapiei, N. S. (2021). Knowledge assets, capabilities and performance measurement systems: a resource orchestration theory approach. *Journal of Knowledge Management*, 25(8), 1947–1976. <https://doi.org/10.1108/JKM-09-2020-0721>
- Banmairuoy, W., Kritjaroen, T., & Homsombat, W. (2022). The effect of knowledge-oriented leadership and human resource development on sustainable competitive advantage through organizational innovation's component factors: Evidence from Thailand's new S-curve industries. *Asia Pacific Management Review*, 27(3), 200–209. <https://doi.org/10.1016/j.apmrv.2021.09.001>
- Baumöhl, E., Iwasaki, I., & Koenda, E. (2020). Firm survival in new EU member states. *Economic Systems*, 44(1). <https://doi.org/10.1016/j.ecosys.2020.100743>

- Chen, J. H., & Wu, S. I. (2016). The impact of customer relationship management and internal marketing on business performance: a comparison of lodging industries. *Total Quality Management and Business Excellence*, 27(1–2), 17–33. <https://doi.org/10.1080/14783363.2014.935567>
- Cho, Y. H., & Lee, J.-H. (2018). Entrepreneurial orientation, entrepreneurial education and performance. *Asia Pacific Journal of Innovation and Entrepreneurship*, 12(2), 124–134. <https://doi.org/10.1108/apjie-05-2018-0028>
- Cohen, D. (1992). “Tests of the 'convergence hypothesis': a critical note.” CEPR Discussion Paper no. 691.
- Diabate, A., Sibiri, H., Wang, L., & Yu, L. (2019). Assessing SMEs’ sustainable growth through entrepreneurs’ ability and entrepreneurial orientation: An insight into SMEs in Côte d’Ivoire. *Sustainability (Switzerland)*, 11(24). <https://doi.org/10.3390/su11247149>
- Dong, Y., Liao, H., Chuang, A., Zhou, J., & Campbell, E. M. (2015). Fostering employee service creativity: Joint effects of customer empowering behaviors and supervisory empowering leadership. *Journal of Applied Psychology*, 100(5), 1364–1380. <https://doi.org/10.1037/a0038969>
- Doz, Y. (2020). Fostering strategic agility: How individual executives and human resource practices contribute. *Human Resource Management Review*, 30(1). <https://doi.org/10.1016/j.hrmr.2019.100693>
- Engeset, A. B. (2020). “For better or for worse”—the role of family ownership in the resilience of rural hospitality firms. *Scandinavian Journal of Hospitality and Tourism*, 20(1), 68–84. <https://doi.org/10.1080/15022250.2020.1717600>
- Ferdous, A. S., Herington, C., & Merrilees, B. (2013). Developing an integrative model of internal and external marketing. *Journal of Strategic Marketing*, 21(7), 637–649. <https://doi.org/10.1080/0965254X.2013.817474>
- Florén, H., Rundquist, J., & Fischer, S. (2016). Entrepreneurial orientation and human resource management: effects from HRM practices. *Journal of Organizational Effectiveness*, 3(2), 164–180. <https://doi.org/10.1108/JOEPP-03-2016-0029>
- Fornell, C., and Larcker, D. F. 1981. Evaluating Structural Equation Models with Unobservable Variables and Measurement Error, *Journal of Marketing Research*, 18 (1), 39–50.
- García-Villaverde, P. M., Parra-Requena, G., & Molina-Morales, F. X. (2018). Structural social capital and knowledge acquisition: implications of cluster membership. *Entrepreneurship and Regional Development*, 30(5–6), 530–561. <https://doi.org/10.1080/08985626.2017.1407366>
- Gillespie N, Searle R, Gustafsson S, Hailey VH. (2020). Preserving employee trust during crisis. *Behav. Sci. Policy* 6:1–10
- Grönroos, C. (2017). Relationship marketing and service: An update. *Journal of Global Scholars of Marketing Science*, 27(3), 201–208. <https://doi.org/10.1080/21639159.2017.1318666>
- Gyepi-Garbrah, T. F., & Asamoah, E. S. (2015). Towards a holistic internal market orientation measurement scale. *Journal of Strategic Marketing*, 23(3), 273–284. <https://doi.org/10.1080/0965254X.2014.931877>
- Hair Jr, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2014). *Multivariate Data Analysis (Seventh Edition)*. In *Pearson New International Edition*.
- Hajizadeh, A., & Zali, M. (2016). Prior knowledge, cognitive characteristics and opportunity recognition. *International Journal of Entrepreneurial Behaviour and Research*, 22(1), 63–83. <https://doi.org/10.1108/IJEER-05-2015-0110>

- Heffernan, M., Harney, B., Cafferkey, K., & Dundon, T. (2016). Exploring the HRM-performance relationship: the role of creativity climate and strategy. *Employee Relations*, 38(3), 438–462. <https://doi.org/10.1108/ER-06-2015-0110>
- Hughes, M., Hughes, P., & Morgan, R. E. (2007). Exploitative learning and entrepreneurial orientation alignment in emerging young firms: Implications for market and response performance. *British Journal of Management*, 18(4). <https://doi.org/10.1111/j.1467-8551.2007.00519.x>
- Hume, C., & Hume, M. (2015). The Critical Role of Internal Marketing in Knowledge Management in Not-for-Profit Organizations. *Journal of Nonprofit and Public Sector Marketing*, 27(1), 23–47. <https://doi.org/10.1080/10495142.2014.934567>
- Jerez-Gómez, P., Céspedes-Lorente, J., & Pérez-Valls, M. (2019). Do high-performance human resource practices work? the mediating role of organizational learning capability. *Journal of Management and Organization*, 25(2), 189–210. <https://doi.org/10.1017/jmo.2017.55>
- Kabir, I., & Abubakar, Y. A. (2023). Public policy responses to COVID-19 and the survival of ethnic minority businesses (EMBs): does entrepreneurial orientation (EO) matter? *International Journal of Entrepreneurial Behaviour and Research*, 29(3), 561–586. <https://doi.org/10.1108/IJEBr-05-2021-0429>
- Lin, Z., Cao, X., & Cottam, E. (2020). International networking and knowledge acquisition of Chinese SMEs: the role of global mind-set and international entrepreneurial orientation. *Entrepreneurship and Regional Development*, 32(5–6), 449–465. <https://doi.org/10.1080/08985626.2019.1640459>
- Liu, Q., Qu, X., Wang, D., Abbas, J., & Mubeen, R. (2022). Product Market Competition and Firm Performance: Business Survival Through Innovation and Entrepreneurial Orientation Amid COVID-19 Financial Crisis. *Frontiers in Psychology*, 12. <https://doi.org/10.3389/fpsyg.2021.790923>
- Mamman, A., Rees, C. J., Bakuwa, R., Branine, M., & Kamoche, K. (2019). Employee advocacy in Africa: the role of HR practitioners in Malawi. *Employee Relations*, 41(1), 2–15. <https://doi.org/10.1108/ER-12-2017-0296>
- McClellan, E., & Collins, C. J. (2019). Expanding the concept of fit in strategic human resource management: An examination of the relationship between human resource practices and charismatic leadership on organizational outcomes. *Human Resource Management*, 58(2), 187–202. <https://doi.org/10.1002/hrm.21945>
- Mehrabi, H., Coviello, N., & Ranaweera, C. (2019). Ambidextrous marketing capabilities and performance: How and when entrepreneurial orientation makes a difference. *Industrial Marketing Management*, 77, 129–142. <https://doi.org/10.1016/j.indmarman.2018.11.014>
- Modi, P., & Sahi, G. (n.d.). *Toward a Greater Understanding of the Market Orientation and Internal Market Orientation Relationship*.
- Mwaura, S. (2016). The productivity of knowledge mobilisation, knowledge capitalisation and product-related firm transmutation: exploring the case of small-scale garment-makers in Nairobi, Kenya. *Industry and Innovation*, 23(7), 575–594. <https://doi.org/10.1080/13662716.2016.1195251>
- Naidoo, V. (2010). Firm survival through a crisis: The influence of market orientation, marketing innovation and business strategy. *Industrial Marketing Management*, 39(8), 1311–1320. <https://doi.org/10.1016/j.indmarman.2010.02.005>
- Nasar, A., Akram, M., Safdar, M. R., & Akbar, M. S. (2022). A qualitative assessment of entrepreneurship amidst COVID-19 pandemic in Pakistan. *Asia Pacific Management Review*, 27(3), 182–189. <https://doi.org/10.1016/j.apmr.2021.08.001>

- Nieminen, L., & Lemmetyinen, A. (2015). A value-creating framework for enhancing entrepreneurial learning in networks. *Journal of Enterprising Communities*, 9(1), 76–91. <https://doi.org/10.1108/JEC-04-2013-0012>
- Nuryakin, N. (2020). Exploring SMEs Marketing Performance Through Networking Capacity and Relational Capability. *Asia Pacific Management and Business Application*, 009(02), 137–150. <https://doi.org/10.21776/ub.apmba.2020.009.02.5>
- Öberg, C. (2019). The role of business networks for innovation. *Journal of Innovation and Knowledge*, 4(2), 124–128. <https://doi.org/10.1016/j.jik.2017.10.001>
- Olson, E. M., Slater, S. F., Hult, G. T. M., & Olson, K. M. (2018). The application of human resource management policies within the marketing organization: The impact on business and marketing strategy implementation. *Industrial Marketing Management*, 69, 62–73. <https://doi.org/10.1016/j.indmarman.2018.01.029>
- Park, J. H., & Tran, T. B. H. (2020). From internal marketing to customer- perceived relationship quality: evidence of Vietnamese banking firms. *Total Quality Management and Business Excellence*, 31(7–8), 777–799. <https://doi.org/10.1080/14783363.2018.1446754>
- Polas, M. R. H., & Raju, V. (2021). Technology and Entrepreneurial Marketing Decisions During COVID-19. *Global Journal of Flexible Systems Management*, 22(2), 95–112. <https://doi.org/10.1007/s40171-021-00262-0>
- Politis, D., & Gabrielsson, J. (2009). Entrepreneurs' attitudes towards failure: An experiential learning approach. *International Journal of Entrepreneurial Behaviour and Research*, 15(4), 364–383. <https://doi.org/10.1108/13552550910967921>
- Sánchez, A. A., Marín, G. S., & Morales, A. M. (2015). The mediating effect of strategic human resource practices on knowledge management and firm performance. *Revista Europea de Direccion y Economia de La Empresa*, 24(3), 138–148. <https://doi.org/10.1016/j.reded.2015.03.003>
- Sulhaini, Saufi, A., Herman, L. E., & Scott, N. (2023). Network behaviour for tourism business resilience. *Tourism and Hospitality Research*. <https://doi.org/10.1177/14673584231151900>
- Sulhaini, & Sulaimiah. (2017). Assessing Value Co-Creation and New Product Success from Cultural Orientations and Relationship Marketing Perspectives. *Journal of Relationship Marketing*, 16(1), 21–39. <https://doi.org/10.1080/15332667.2016.1242394>
- Sung, S. Y., & Choi, J. N. (2018). Building knowledge stock and facilitating knowledge flow through human resource management practices toward firm innovation. *Human Resource Management*, 57(6), 1429–1442. <https://doi.org/10.1002/hrm.21915>
- Vázquez-Casielles, R., Iglesias, V., & Varela-Neira, C. (2013). Collaborative manufacturer-distributor relationships: The role of governance, information sharing and creativity. *Journal of Business and Industrial Marketing*, 28(8), 620–637. <https://doi.org/10.1108/JBIM-05-2011-0070>
- Väitala, R., Vesalainen, J., & Uotila, T. P. (2022). SME managers' causal beliefs on HRM as success factor of the firm. *Journal of Small Business Management*, 60(6), 1379–1403. <https://doi.org/10.1080/00472778.2020.1758528>
- Wales, W. J., Covin, J. G., & Monsen, E. (2020). Entrepreneurial orientation: The necessity of a multilevel conceptualization. *Strategic Entrepreneurship Journal*, 14(4), 639–660. <https://doi.org/10.1002/sej.1344>
- Wolff, J. A., Pett, T. L., & Ring, J. K. (2015). Small firm growth as a function of both learning orientation and entrepreneurial orientation: An empirical analysis. *International Journal of Entrepreneurial Behaviour and Research*, 21(5), 709–730. <https://doi.org/10.1108/IJEBr-12-2014-0221>

- Wu, I. L., & Chen, J. L. (2014). Knowledge management driven firm performance: The roles of business process capabilities and organizational learning. *Journal of Knowledge Management*, 18(6), 1141–1164. <https://doi.org/10.1108/JKM-05-2014-0192>
- Zahoor, N., Golgeci, I., Haapanen, L., Ali, I., & Arslan, A. (2022). The role of dynamic capabilities and strategic agility of B2B high-tech small and medium-sized enterprises during COVID-19 pandemic: Exploratory case studies from Finland. *Industrial Marketing Management*, 105, 502–514. <https://doi.org/10.1016/j.indmarman.2022.07.006>
- Zighan, S., Abualqumboz, M., Dwaikat, N., & Alkalha, Z. (2021). The role of entrepreneurial orientation in developing SMEs resilience capabilities throughout COVID-19. *International Journal of Entrepreneurship and Innovation*. <https://doi.org/10.1177/14657503211046849>

