

The Influence of Strategic Orientation on Family Business Survival Mediated by Innovation in Service Industry

Velly Anatasia¹, Willy Arafah², Bahtiar Usman³

¹Universitas Trisakti, Jakarta, Indonesia, <u>vellyanatasia@gmail.com</u> ²Universitas Trisakti, Jakarta, Indonesia, <u>willyarafah@trisakti.ac.id</u> ³Universitas Trisakti, Jakarta, Indonesia, <u>bachtiar.usman@trisakti.ac.id</u>

Corresponding Author: vellyanatasia@gmail.com

Abstract: This research aimed to investigate the influence of strategic orientation on SME family businesses survival mediated by innovation in service industry. In this study, we analyze the impact of strategic orientation includes entrepreneurial orientation, market orientation, technological and orientation on the innovation of SME family businesses as well as the impact of those strategic orientations on SME family businesses survival. A total 225 owners or managers of SME family businesses participated in this study. The sample was collected based on purposive method. The respondent population of this research is all family business owners or managers located in DKI Jakarta and Tangerang area and have been running their business for at least two years and survive during Covid-19 Pandemic. To analyze the relationship among latent variables, we implemented Structural Equation Model (SEM). The results show that only market orientation has a higher direct effect on family business survival, while entrepreneurial orientation and technological orientation requires mediation role from innovation. In this study, market orientation had the highest impact on family business survival with or without mediated by innovation. The results of this study provide insight for SMEs family business owners or managers, in order to use their strategic orientations through implemented innovation to adapt unpredictable situation and crisis that emerge due to Covid-19 pandemic, in order to survive. This study was limited to the sample of business that is in service industry and located on DKI Jakarta and Tangerang only. For the further research the model can be broaden to add the role of government support for the family business survival and overspread to another location in Indonesia.

Keyword: Family Business Survival, Strategic Orientation, Innovation, SMEs, SEM

INTRODUCTION

The Novel Coronavirus (Covid-19) is an unprecedented pandemic phenomenon in the world history (Yang et al, 2020; Spinelli and Pellino, 2020). Since Covid-19 spread worldwide, there are so many countries have experienced a decline in economic activity, global health, social, and psychological disruption a (Peeri et al, 2020; Guerreri et al, 2020). Response to the pandemic included social distancing, business closures, introduction of Covid-19 vaccines, and huge effort from the global community to understand, address, and

combat the spread of the virus. The uncertainty and broad impact of Covid-19 pandemic has made it a historic phenomenon and give challenges in many sectors of human life around the world. Some studies classify this as the impact of a disaster caused by the lockdown policy that emerged in this situation (Baum et al, 2020; Dube et al, 2021; Gretzel et al, 2020; Ntounis et al., 2022).

Small and medium enterprises (SMEs) are one of the business entities that have been hardly hit by the crisis in Indonesia. Some enterprises managed to survive during the pandemic situation, even though they could not bounce back to what they were before. Nonetheless, many SMEs in Indonesia can hardly survive and are worth being eliminated from the market. Data show that about 30 million SMEs in Indonesia are bankrupt and can no longer operate during the pandemic (Kadin, 2021). Based on a survey collected by Katadata (2020) in Jakarta area, most SMEs (82.9%) felt negative impact of the Covid-19 pandemic, only 5.9% actually experienced positive growth in their business. In the perspective of Indonesia as an emerging market country, the number of SMEs stopping operations will cause many problems, such as unemployment and increased poverty. So far, SMEs have played an essential role in the Indonesian economy (Najib et al, 2020), in which the majority of employees (99,9%) in Indonesia work in SMEs. Therefore, the business survival of the SMEs must be maintained in such a way so that it does not harm the country's economic and social situation. During the Covid-19 pandemic, people must stay at home and limit their movement, and thus economic activities decline. Such conditions harm SMEs, even endanger SMEs' survival. Based on Statistics Indonesia survey, economic sector that hardly hit were accommodation services such as hotels, motels, guest houses, apartments, bungalows, home stays, cottages, and food and beverage services such as restaurants, supermarkets, catering, etc. Overall, service industry become the most top three business sectors most affected in Indonesia.

In order to increase company competitiveness in depressed macroeconomic conditions, SMEs need to concern to the strategies they implement (Ho et al., 2010). Strategic orientation could increase the company's ability to identify the crisis, prevent it cause bad impact significantly (Herbane, 2015). One of strategic orientation called entrepreneurial orientation could help companies to be proactive, innovative, dare enough to take a risk, and have high-competitive aggressiveness will support the companies to build new ideas, new solutions for conquering their obstacles and fulfill their needs (Lumpkin and Dess, 1996). Business who has higher entrepreneurial orientation tends to be up against uncertain environment (Chrisman et al., 2003; Dimitratos et al., 2004).

Besides, market orientation also helps companies to build a strategy accordance to the market. Companies with high market orientation have competitive advantage regarding their ability to understand and satisfy their customers. Through these companies' performance will be increased as much as the commitment and loyalty of their customers (Osman, 2014). In the other hand, market orientation drives the companies to be more sensitive about their competitors' weakness and strength. The combination of those two assist the companies to build competitive advantage especially when there's uncertain economic condition.

Gatignon and Xuereb (1997) explain that one of strategic orientation that focus on technology also can create new innovation that can build competitive advantage. In this case, innovation has clearly had a significant impact on competitive advantage (Madrid et al, 2009). In the last two decades, innovation capability has gained so much significance as a dynamic capability characteristic that enables companies to outperform their competitors (Norman et al, 2016). These dynamic capabilities also help SMEs to remain competitive (Tan et al, 2009). In return, this innovation become so important for SMEs and eventually will give an impact to their survival (Cakar and Erturk, 2010). Therefore, it is essential for SMEs to use all their capabilities and build their strong strategies in order to survive and maintain their competitive advantage (Naidoo, 2010).

Previous researches show about 70-95% business in the world were operated by family (Obermayer et al, 2021; Piramanayagam et al., 2022; Royer and Bradley, 2020; Veloso et al, 2021). In service industry, most of businesses have been classified as SMEs and most of them are business family (Camilleri and Valeri, 2021; Peters and Kallmuenzer, 2018; Getz and Carlsen, 2000). So far, there's very limited consensus about how family business reacts through Covid-19 pandemic (Calabro et al, 2021). Some previous studies about how Covid-19 pandemic influences family business performance was so ambiguous, where some state family business obtain better performance compare to non-family business (Amore et al, 2022; Gomez-mejia et al, 2022; Rahman et al, 2022), while others state vice versa (Bessler et al, 2021). Therefore, this study aims to examine how strategic orientations related to innovation could help family business SMEs to survive during Covid-19 pandemic. Referring to the background, the problems of this research are formulated as follows:

- 1. Is there a positive effect of entrepreneurial orientation on family business survival?
- 2. Is there a positive effect of market orientation on family business survival?
- 3. Is there a positive effect of technological orientation on family business survival?
- 4. Is there a positive effect of entrepreneurial orientation on family business innovation?
- 5. Is there a positive effect of market orientation on family business survival?
- 6. Is there a positive effect of technological orientation on family business survival?
- 7. Is there a positive effect of family business innovation on family business survival?
- 8. Does family business innovation mediate the relationship between entrepreneurial orientation and family business survival?
- 9. Does family business innovation mediate the relationship between market orientation and family business survival?
- 10. Does family business innovation mediate the relationship between technological orientation and family business survival?

METHOD

In this research, Hypothesis Testing design was used to examine the influence of strategic orientation which consists of entrepreneurial orientation, market orientation, and technological orientation which eventually affects the family business survival. Causal relationship between variables was studied, that indicate allegations about the influence between two or more variables. The respondent population of this research is all family business owners or managers of SMEs in service industry located in DKI Jakarta and Tangerang area and have been running their business for at least two years, and still operating their business during Covid-19 pandemic. However, the population data of the respondents is not available. The sample size is very important for the statistical tests. Hence, determination of representative samples according to Hair et al (2010) was taken based on the number of indicators that will be multiplied by 5 to 10. This study has 44 indicators, based on these criteria the minimum sample size used is (5 x 44 indicators) 225 respondents.

Source of data in this research is primary data. While technique used for data collection is by questionnaire technique, done by distributing questionnaire to the respondents through online media in DKI Jakarta and Tangerang area. The family business SMEs used as respondents here are limited to SMEs in service industry such as restaurant; catering; local accommodation; school; hotel; salon; travel transportation service; event organizer; photography; laundry; laboratory; toys rental; property agency; pleating service; advertising; banking; printing service; import service; and graphic design service.

In this research there are three independent variables consist of entrepreneurial orientation, market orientation, and technological orientation, one intervening variable that is family business innovation, and one dependent variable that is family business survival as shown in Table 1.

	Table 1. Variables Measurement			
Variables	Dimension/Indicators	Resources		
Entrepreneurial Orientation	Proactiveness (3 indicators)	 Morgan et al., 2015 Gonzalez-Benito et al, 2015 Buli, 2017 Venter and Hayidakis, 2021 Calado et al., 2022 		
	Risk taking (3 indicators)	Buli, 2017Venter and Hayidakis, 2021Calado et al.,2022		
	Competitive aggressiveness (2 indicators)	 Boso et al., 2012 Buli, 2017 Calado et al., 2022 		
Market Orientation	Customer Orientation (5 indicators)	 Narver and Slater, 1990 Spanjol et al., 2012 Takeda et al., 2017 Gorondutse et al., 2020 		
	Competitor Orientation (3 indicators)	 Narver and Slater, 1990 Spanjol et al., 2012 Takeda et al.,2017 Gorondutse et al.,2020 		
	Inter-functional coordination (3 indicators)	 Narver and Slater, 1990 Spanjol et al., 2012 Gorondutse et al., 2020 		
Technology Orientation	(4 indicators)	 Gatignon and Xuereb, 1997 Zhou et al., 2005 Bamgbade et al., 2019 Haug et al., 2020 		
Innovation	(13 indicators)	 Jansen et al., 2006 Li et al., 2008 Kocak et al., 2017 Gani et al., 2021 Venter and Hayidakis, 2021 		
Family Business Survival	(5 indicators)	 Christensen et al., 1998 Naidoo, 2010 Wenzel et al., 2020 Bartik et al., 2020 Krishna, 2020 Gani et al., 2021 Calado et al.,2022 		

Research instruments testing is done by testing validity and reliability. This test is done by using confirmatory factor analysis. The indicator used is valid if the factor loading value is at least 0.7 (Hair et al, 2010). Reliability testing is performed to see if the indicator used is reliable or not by referring to the coefficient of Cronbach's Alpha; with the following basic decision making (Sekaran and Bougie, 2013):

a. If Cronbach's Alpha ≥ 0.7 then the construct used reliable

b. If Cronbach's Alpha ≤ 0.7 then the construct used unreliable

RESULTS AND DISCUSSION

Results

Table 1.					
Validity Testing for Entrepreneurial Orientation Results					
Items and Variables Loading Factor Decision					
EO1	<u>0.943</u>	Valid			

EO2	0.894	Valid
EO3	0.893	Valid
EO4	0.908	Valid
EO5	0.899	Valid
EO6	0.899	Valid
EO7	0.938	Valid
EO8	0.909	Valid
EO9	0.899	Valid
EO10	0.909	Valid
EO11	0.909	Valid

Based on Table 1 above, it is concluded that 11 indicators of entrepreneurial orientation variable have Confirmatory Factor Analysis value > 0.7, so all the elements are considered valid and can measure entrepreneurial orientation.

Table 2.					
Validity Testing for Market Orientation Results					
Items and Variables Loading Factor Decision					
MO1	0.852	Valid			
MO2	0.790	Valid			
MO3	0.859	Valid			
MO4	0.860	Valid			
MO5	0.843	Valid			
MO6	0.881	Valid			
MO7	0.875	Valid			
MO8	0.866	Valid			
MO9	0.888	Valid			
MO10	0.873	Valid			
MO11	0.870	Valid			

Based on Table 2 above, it is concluded that 11 statement items from market orientation variable have Confirmatory Factor Analysis value > 0.7, so they can be declared as valid indicators and can be used to represent the variable.

Table 3.					
Validity Testing for	Validity Testing for Technological Orientation Results				
Items and Variables	Items and Variables Loading Factor Decision				
TO1	0.910	Valid			
TO2	0.912	Valid			
TO3	0.893	Valid			
TO4	0.883	Valid			

Based on Table 3 above, it is concluded that 4 indicators of technological orientation variable have Confirmatory Factor Analysis value > 0.7, so all the elements are considered valid and can measure technological orientation.

Table 4. Validity Testing for Family Business Innovation Results				
Items and Variables Loading Factor Decision				
INN1	0.846	Valid		
INN2	0.807	Valid		
INN3	0.852	Valid		
INN4	0.824	Valid		
INN5	0.840	Valid		
INN6	0.853	Valid		
INN7	0.822	Valid		

INN8	0.852	Valid
INN9	0.851	Valid
INN10	0.834	Valid
INN11	0.858	Valid
INN12	0.805	Valid
INN13	0.865	Valid

Based on Table 4 above, it is concluded that 13 statement items from family business innovation variable have Confirmatory Factor Analysis value > 0.7, so all the elements are considered valid and can measure family business innovation.

Table 5. Validity Testing for Family Business Survival Results						
Items and Variables	Items and Variables Loading Factor Decision					
BS1	0.884	Valid				
BS2	0.903	Valid				
BS3	0.876	Valid				
BS4	0.825	Valid				
BS5	0.855	Valid				

Based on Table 5 above, it is concluded that 5 statement items from family business survival variable have Confirmatory Factor Analysis value > 0.7, so all the elements are considered valid and can measure family business survival.

Table 6. Reliability Testing Results					
Variables	Statements Cronbach's Alpha Decision				
Entreprenurial Orientation					
- Proactiveness	3	0.896	Reliable		
- Innovativeness	3	0.885	Reliable		
- Risk-taking	3	0.902	Reliable		
- Competitive Aggresiveness	2	0.789	Reliable		
Market Orientation					
- Customer Orientation	5	0.896	Reliable		
- Competitor Orientation	3	0.844	Reliable		
- Inter-functional coordination	3	0.850	Reliable		
Technological Orientation	4	0.921	Reliable		
Family Business Innovation	13	0.965	Reliable		
Family Business Survival	5	0.918	Reliable		

Based on Table 6 above, it is seen that the variables of entrepreneurial orientation, market orientation, technological orientation, family business innovation, and family business survival are declared reliable because they have Cronbach's Alpha value > 0.7. It can be concluded that all the variables tested are reliable.

		Table 7. 5 of fit Test Results		
Indicators	Size of fit	Cut-off value	Estimate	Conclusion
Absolute fit measures	Chi-square	Small chi-square	2643.493	Poor fit
	p-value chi-square	≥ 0.05	0,000	Poor fit
	RMSEA	≤0.10	0,088	Good fit
Incremental fit measures	GFI	≥ 0.90	0,619	Poor fit
	NFI	≥ 0.90	0,802	Marginal fit
	TLI	≥ 0.90	0.850	Marginal fit
	RFI	≥ 0.90	0,790	Poor fit
	CFI	≥ 0.90	0,859	Marginal fit

-	IFI	≥ 0.90	0,859	Marginal fit
_	AGFI	≥ 0.90	0,578	Poor fit
Parsimonious fit measure	CMIN/DF	Lower limit: 1.0 Upper limit: 2.0; 3.0 atau 5.0	2.964	Good fit

Goodness-of-Fit evaluation is conducted to assess the extent to which the data and models used meet the SEM assumptions. The evaluation is done on the overall model and followed by an evaluation of the measurement and structural model separately (Hair et al., 2010). Hair et al., (2010) states that from some Absolute Fit Measure and Incremental Fit Measure test results, if the result of one "fit" test, it can be concluded that the model used fit. Based on Table 7 above, the result of goodness of fit test can be stated that the research model is stated goodness of fit as seen from RMSEA value, and CMIN / DF stated Good Fit can be interpreted that the model passed the goodness of fit test and can be done next test stage. Based on the results of conformity test of this model then the next step in the form of hypothesis testing by using Structural Equation Modeling (SEM) can be done. The model of Structural Equation Modeling is shown by Figure 1 below, Hypothesis testing is done by comparing p-value with significance level, with the following conditions (Hair et al, 2010 and Sekaran and Bougie, 2010):

- 1. If p-value ≤ 0.05 then Ho is rejected and research hypothesis supported (supported).
- 2. If p-value > 0,05 then Ho fails to be rejected and research hypothesis is not supported (not supported).

Hypothesis Test Results						
Hypothesis	Coefficient	p-value	Decision			
The Effect of Strategic Orientation on Family Business Survival (Direct Effect)						
H1: Entrepreneurial Orientation has positive effect on Family Business Survival	-0.105	0.596	not supported			
H2: Market Orientation has positive effect on Family Business Survival	0.420	0.014	supported			
H3: Technological Orientation has positive effect on Family Business Survival	-0.301	0.051	not supported			
The Effect of Strategic Orientation on Family Business Innovation						
H4: Entrepreneurial Orientation has positive effect on Family Business Innovation	0.300	0.014	supported			
H5: Market Orientation has positive effect on Family Business Innovation	0.444	0.000	supported			
H6: Technological Orientation has positive effect on Family Business Innovation	0.260	0.000	supported			
H7: Family Business Innovation has positive effect on Family Business Survival	0.877	0.000	supported			
The Effect of Innovation on the relationship between Strategic Orien (Indirect Effects)	tation and I	Family Bus	iness Survival			
H8: Innovation mediates the influence of Entrepreneurial Orientation to Family Business Survival	0.2631	0.036	supported			
H9: Innovation mediates the influence of Market Orientation to Family Business Survival	0.3893	0.002	supported			
H10: Innovation mediates the influence of Technological Orientation to Family Business Survival	0.2280	0.010	supported			
Source: SFM Output						

Table 8. Hypothesis Test Result:

Source: SEM Output

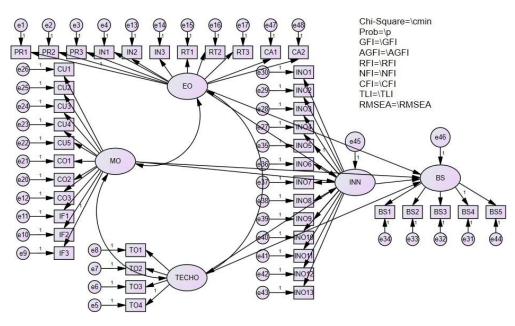


Figure 1. Output Structural Equation Modeling (SEM)

Discussion

Based on the research results above, the findings are:

Hypothesis 1 (H1) is not supported, where the p-value > 0.05, it means entrepreneurial orientation has no significant influence on family business survival. In line with previous research conducted by Indah et al (2023), where entrepreneurial orientation that entrepreneurs have couldn't boost directly to their business performance significantly. Entrepreneurs need other efforts to improve their business performance such as environmental factors that are beyond their business control. Supported by Alhnity et al (2016) research that conclude entrepreneurial orientation has no significant influence on the performance of SME scale businesses, and in order to maintain business continuity in difficult times, it is important to have government involvement in organizing regulations for business players. The pandemic situation requires business players to be able to adapt to all changes that may occur, so entrepreneurial orientation without being accompanied by real implemented actions cannot help companies survive through Covid-19 economic crisis.

Hypothesis 2 (H2) is accepted, where there is a positive influence between market orientation on family business survival. In line with previous research (Marutschke et al, 2019; Shenoy et al, 2020) where during the pandemic or any economic crisis, in order to maintain business continuity, businesses must be able to adjust product and service prices and provide innovative products and services to be more competitive in the market. In addition, companies compete effectively with competitors by focusing on their customer purchasing experience, including their relationship with customers (Grewal et al, 2009). In that uncertain situation caused by the Covid-19 pandemic, SME businesses who can't understand the importance of their customers role and increasingly fierce competition caused by external factors, will be eliminated. Therefore, market orientation has a positive influence on business survival ability.

Hypothesis 3 (H3) is not supported, where the p-value > 0.05, it means technological orientation has no positive significant influence on family business survival. According to research conducted by Kocak et al (2017); Masa'deh et al (2018); and James (2021) stated that technological orientation does not significantly influence business performance. Technology orientation requires adequate investment to boost R&D activities which tend to be carried out over a shot period of time. This supports this research where it is suspected that

respondents in this research who are 100% family-business-based SMEs who are in the service industry need more than product or service output in order to survive, but also skills. Those SMEs also do not produce their own goods so changes in technology used to produce services do not have an impact on business performance which can help businesses survive during the Covid-19 pandemic.

Hypothesis 4 (H4) is accepted, the results of this study indicate entrepreneurial orientation has significant positive influence on family business innovation. In line with Asemokha et al (2019); Ferreras-Mendez et al (2021); Bouncken et al (2016); and Tiep Le et al (2023) researches where entrepreneurial orientation has a positive and significance influence on innovation, especially for SMEs. Ani et al (2022) and Davis et al (2021) stated that in service industry is very vulnerable and sensitive to environmental changes, especially when there are so many players are arising in the same market. Therefore, entrepreneurial orientation become notable factor for building up innovation within SMEs (Collins and Retzel, 2017).

Hypothesis 5 (H5) is accepted, the results of this study indicate market orientation has significant positive influence on family business innovation. According to Grinstein (2008), Renko et al (2009), Beck et al (2011) found positive relationship between market orientation and innovation is well maintained by inter-generational family business owners. Market orientation makes family business entrepreneurs strive to continue to be responsive, disseminating knowledge from one generation to the next by continuing to innovate so superior values are well maintained can be inherited to the next generation. Basically, market orientation is a company culture that prioritizes on creating customers value on an ongoing basis.

Hypothesis 6 (H6) is accepted, the results of this study indicate technological orientation has significant positive influence on family business innovation. This result is supported by previous research conducted by Ali et al (2021); Hult et al (2004); Poudel et al (2019); and Voss and Voss (2000) where technology orientation has positive influence on innovation. Technology orientation is a company's understanding of how importance of developing technology can be used to create new ideas that help business owners to satisfy existing customer needs (Zhang et al, 2018). Technology orientation helps business players to understand how utilize their capacity to create technological knowledge to answer customer needs and provide better choices and build customer satisfaction. During the Covid-19 pandemic, people are limited to access public places, go outside even for work, study or running their business. However, the use of internet technology through gadgets has increased. In education sector, learning activities are delivered online, from elementary to university level, buy and sell activities which have done conventionally face to face, are carried out online. This shows technology orientation of business owners or managers builds a positive perception of technology absorption within the company become major changes that brings the business even perform better during the Covid-19 pandemic.

Hypothesis 7 (H7) is accepted, the results of this study indicate family business innovation has significant positive influence on family business survival. This research has been supported by Najib et al (2021) that said innovation that are generally carried out by SMEs area marketing innovation, product innovation and process innovation. Innovation process is realized to modify or change, improve or update procedures to be more effective and efficient. Both marketing innovation and process innovation have a positive contribution to business survival because they are used to retain existing customers and acquire new customers. For instance, many family businesses utilize social media in marketing innovation practices to reach wider consumers. Due to conventional marketing activities are difficult to be implemented at that time.

Hypothesis 8 (H8) is accepted, the results of this study indicate innovation mediates the influence of entrepreneurial orientation on family business survival. It shows the more

company has higher entrepreneurial orientation, the higher innovation will be built and the higher chance for family business survive during Covid-19 pandemic. In this research results show innovation mediates the influence of entrepreneurial orientation on family business survival. This is possible due to the implementation of business growth strategies will be influenced by environmental changes, so the owner's ability to make appropriate decisions in different environments is required. The results of this research in line with researches conducted by Olson and Currie (1992) and Boohene et al (2008) that state a key factor in strategy creation and implementation in small businesses is based on owner values. The owner's values determine the business goals and influence their management style, problem solving and decision making as well as the business structure and innovation strategies used.

Hypothesis 9 (H9) is accepted, the results of this study indicate innovation mediates the influence of market orientation on family business survival. It shows the more company has higher market orientation, the higher innovation will be built and the higher chance for family business survive during Covid-19 pandemic. Previous research has been done by Chirume and Kaseke (2020) conclude that market orientation of SMEs in the context of survive during Covid-19 pandemic helps SMEs to build diversifying products. This shows that SMEs should change their product offerings in line with consumer demand. This requires business owners to innovate by changing their product or services to adapt to customer needs and wants which have shifted in the Covid-19 era.

Hypothesis 10 (H10) is accepted, the results of this study indicate innovation mediates the influence of technological orientation on family business survival. It shows the more company has higher technological orientation, the higher innovation will be built and the higher chance for family business survive during Covid-19 pandemic. The Covid-19 era has become an era where the strongest business players in the market can survive, think strategically and are able to apply creative ideas to enable SMEs players to conquer this storm. This research is in line with previous research conducted by Manyati and Mutsau (2021) where the use of information technology will be very useful for small companies (Verhees and Meulenberg, 2004). So, that advanced information technology can mediate the SMEs technological orientation to be more innovative and at the end survive in certain times, especially during Covid-19 pandemic. The use of digital platforms such as social media and websites have been adopted on a large scale by business owners as a survival strategy (Guo et al, 2020).

CONCLUSION

The general conclusion or main finding of this study is to reveal that Family Business Innovation as complete mediation variabel on the relationship between Strategic Orientation (Entrepreneurial Orientation, Market Orientation, and Technological Orientation) with Family Business Survival. Where the results show Entrepreneurial Orientation and Technological Orientation has no significant impact on Family Business Survival directly, however need to be mediated by innovation. While Market Orientation can influence Family Business Survival directly in a positive way, and it is better for this orientation to influence directly rather than has been mediated by Family Business Innovation. For the further researches, researchers can add new variables as external aspects in strengthening the SMEs ability to survive by adding government support or leadership strategies to SMEs family business owners in improving family business survival. Research that conducted in different sectors also can improve the results such as manufacturing industry.

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