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Capabilities over orientation: A contingency-based explanation of early-stage startup performance in emerging markets in Indonesia

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ABSTRACT

In today's dynamic business environment, startups face various uncertainties that can influence their success. This study aims to analyze the driving factors of startup success through the influence of entrepreneurial orientation, financial capability, and networking capability on startups in Indonesia. A quantitative research approach was employed, utilizing surveys to measure the relationships among five constructs: entrepreneurial orientation (EO), financial capability (FC), networking capability (NC), startup performance (SP), and environmental turbulence (ET). The study focused on startup companies that met specific criteria: having received a maximum of Series A early-stage funding, operating as a Limited Liability Company (PT), and being in operation for no more than 10 years since establishment. The findings indicate that SP is not significantly impacted by EO (p 0.667 > 0.05). Conversely, FC is positively and significantly influenced by EO (p 0.000 < 0.05). SP is not significantly affected by FC (p 0.252 > 0.05), but it is positively impacted by NC (p 0.019 < 0.05). The study also found that the relationship between EO and SP is not mediated by FC (p 0.254 > 0.05). Additionally, environmental turbulence does not have a significant effect on the relationships between SP and EO (p 0.614 > 0.05), SP and FC (p 0.861 > 0.05), or NC and SP (p 0.971 > 0.05). These results suggest that networking capability plays a crucial role in startup performance, while entrepreneurial orientation's influence is limited within the studied context.

Contribution/Originality: Contribution of this research: Overall, this research highlights critical factors that can determine startup success in times of uncertainty. This research provides a valuable contribution by enriching the understanding of financial capability as a strategic capability relevant for early-stage startups.

1. INTRODUCTION

In today's ever-changing business environment, startups increasingly face uncertainties that can drive or destroy their success. The turbulent business environment is characterized by economic changes and technological advancements, so startups need to have the right combination of capabilities and resources to get through tough times and grow stronger.

The growth of digital customers in Indonesia over the past decade has reached 15%, which is significantly higher than other ASEAN countries, where the digital customer growth rate was between 5% and 9% in 2020 (Facebook & Bain & Company, 2020). Even during the COVID-19 pandemic, there has been a faster acceleration in digital customer

growth in Indonesia. The digital penetration target, which was previously estimated to be achieved in 2023, has actually been achieved in 2021, two years earlier than previously estimated (East Ventures, 2022).

The growth of the startup ecosystem plays a significant role as an agent of change that will position Indonesia strategically in the global competitive landscape. Data from January 2022 indicates that the largest startup ecosystem in the world is in the United States, with 70,715 startups, followed by India, England, Canada, and Indonesia, which ranks fifth with 2,330 startups (Startupranking.com, 2020). Although Indonesia has an advantageous position in the world's startup ecosystem, Indonesia's Digital Readiness Score is still in 75th position with a score of 11.68, which is below the world average score of 11.90. There are seven criteria in the Country Digital Readiness Score, namely basic needs, government investment, ease of doing business, human resources, startup ecosystem, technology adoption, and available infrastructure (Cisco, 2019).

Studies showed that early stage startups has high failure rates (Cantamessa, Gatteschi, Perboli, & Rosano, 2018). To be considered successful, a startup must survive for the first 3-5 years (Frank, Lueger, & Korunka, 2007; Keister, 2005). The ability to survive is an indicator of a startup's success (Brüderl & Preisendörfer, 1998; Keogh & Johnson, 2021; Matricano, 2020). The startup failure rate is closely related to its life cycle. US Bureau of Labor Statistics (2020) the startup failure rate increases over time. At the end of the first year, 20% of startups fail, while at the end of the second year, the failure rate reaches 30%. At the end of the fifth year, 50% of startups fail, and the figure increases to 70% at the end of the tenth year. These data show that the startup failure rate is much higher than that of conservative businesses. In addition, as many as 82% of startup businesses face cash flow problems and fail midway (Cerdeira & Kotashev, 2021).

Over the past 10 years, the startup world has experienced strong growth with abundant investment funding available. However, in mid-2021, a growth correction phase began, driven by environmental and technological changes, which started to impact funding availability and market orientation. Startups began to face the challenges of environmental turbulence, including uncertainty and changes in their operational environment. Environmental changes such as the pandemic, geopolitical conflicts, and rapid technological developments altered market orientation and impacted startup business success. In 2022, funding for digital startups in Asia declined by 60% year-on-year, equivalent to 33% in the third quarter, which also impacted the Indonesian startup ecosystem.

To understand the key drivers of successful startup performance, especially for early-stage startups, this study examines the roles of strategic orientation (Entrepreneurial Orientation) and startup capabilities (Financial Capability and Networking Capability).

There is controversy regarding the influence of social connectedness vs. founder expertise on startup funding (Banerji & Reimer, 2019). While networking is important for startup success, networking capabilities do not necessarily guarantee success (Teixeira, Ferreira, Fraz, & Moreira, 2021), and competition can weaken its influence (Yang, Zhu, Zhang, & Yao, 2024). Opinions vary on the influence of funding type: VC investment supports growth (Cavallo, Ghezzi, Dell'Era, & Pellizzoni, 2019) while angel investment is less influential unless supported by government subsidies (Berger & Gottschalk, 2021).

Traditional frameworks often assume universal relationships, for example, by stating that EO directly improves performance across contexts without considering the unique constraints and priorities faced by early-stage startups. By empirically isolating early-stage startups as the unit of analysis, this study challenges the dominant "one-size-fits-all" assumption in the literature and underscores the importance of developing stage-specific theoretical models. The novelty of this study is in the context of previous studies that place entrepreneurial orientation (EO) as a direct driver of company performance (Daradkeh & Mansoor, 2023; Seet, Lindsay, & Kropp, 2021). This study reveals that the role of EO is contingent at the startup development stage level. Given the context of the aforementioned issues, the goal of this research is to analyze the driving factors of startup success through the influence of entrepreneurial orientation, financial capabilities, and networking capabilities on startups in Indonesia.

2. LITERATURE REVIEW

The theoretical framework of this research is based on the Strategic Orientation Theory (Hakala, 2011) and the Capability-Based View Theory (Teece, 2017) which are summarized as follows.

2.1. Strategic Orientation Theory

Strategic Orientation Theory examines how organizations align their strategies, resources, and activities with the environment to achieve a competitive advantage. The roots of this theory come from early concepts of strategic management, such as the marketing concept, which evolved into market orientation through the work of Narver and Slater (1990) and Kohli and Jaworski (1990). This concept emphasizes customer focus, competitor awareness, and cross-functional coordination. At the same time, Miller (1983) and Covin and Slevin (1989) proposed an entrepreneurial mindset that emphasizes creativity, initiative, and taking risks. Chandler (1962) and Lawrence and Lorsch (1967) also, the foundation of strategic orientation emphasizes how firms utilize resources and align strategies with environmental conditions. Hakala (2011) extends this framework by integrating the various orientations and emphasizing their role in achieving synergy and adaptability.

2.2. Capability-Based View (CBV)

A strategic management theory known as the Capability-Based View (CBV) emphasizes how organizational capabilities contribute to the development and maintenance of competitive advantage. Building on Wernerfelt (1984) and Barney (1991) Resource-Based View (RBV), the CBV shifts the emphasis from static resources to dynamic capabilities, or the patterns of behavior, abilities, and procedures that enable a company to adapt and prosper in a changing environment. In their conceptualization of dynamic capabilities, Teece, Pisano, and Shuen (1997) emphasized the significance of combining, developing, and rearranging internal and external skills in order to adapt to changes in the environment.

The CBV builds on key ideas such as core competencies (Prahalad & Hamel, 1990), path dependency, and the tacit nature of knowledge, which make unique capabilities difficult for competitors to imitate. The majority of startups in the startup ecosystem are still in their early stages and have a high failure rate. This is common in an environment full of uncertainty. In the first three years, the main factors causing early-stage startup failure are business model mismatch, product-market fit, running out of capital, and lack of business development initiatives. Meanwhile, for startups that fail to pass five years, the main factor is a lack of business development. The challenges of early-stage startup management are operational management (Matricano, 2020) and effective funding strategies (Prohorovs, Bistrova, & Ten, 2019; Zobnina, 2015).

2.3. Hypothesis

2.3.1. Entrepreneurial Orientation on Startup Performance

The first hypothesis investigates the connection between SP and EO. Research indicates that startup performance and entrepreneurial orientation are positively correlated (Seet et al., 2021). There is controversy regarding the influence of social connectedness versus founder expertise in startup funding (Banerji & Reimer, 2019). In emerging market businesses, an entrepreneurial mindset enhances both financial and non-financial success (Khan, Li, Safdar, & Khan, 2019).

Innovative proactivity is statistically significant to financial performance (Cho & Lee, 2020). In the early stages of a startup, exploitative innovation contributes more significantly to performance, while in later growth stages, explorative innovation becomes more important (Daradkeh & Mansoor, 2023). Based on the results of previous studies, the researcher formulated hypothesis 1 as follows.

H_1: Entrepreneurial Orientation (EO) positively affects Startup Performance (SP).

2.3.2. Entrepreneurial Orientation on Financial Capability

The second hypothesis examines the connection between financial competence (FC) and entrepreneurial orientation (EO). Entrepreneurial orientation improves financial and non-financial performance in developing nations (Khan, Shah, & Bhat, 2020), and it has a beneficial effect on SME performance and access to loan finance (Fatoki, 2014). Entrepreneurial orientation can improve financial capability, especially for female entrepreneurs (Purnomo, Adiguna, Widodo, Suyatna, & Nusantoro, 2021).

In addition, entrepreneurial orientation and financial capability together contribute to sustainable competitive advantage (Febrian, Maulina, & Purnomo, 2018) and improved business performance (Sidek, Mohamad, & Nasir, 2016). Specifically, EO has a significant influence on financial performance because it encourages innovation, risk-taking, and proactive behavior in SMEs. This study introduces new indicators for financial capability in the context of early-stage startups. These indicators build on previous research that focused more on individuals and firms. Based on the results of the previous studies above, the researcher formulates hypothesis 2 as follows.

H_2: Entrepreneurial Orientation (EO) positively and significantly influences Financial Capability (FC).

2.3.3. Financial Capability on Startup Performance

The third hypothesis examines the connection between startup performance (SP) and financial capability (FC). The findings of studies on startup performance and financial competence have been conflicting. Several studies demonstrate that financial knowledge and funding availability positively affect business success (Hong, Serfes, & Thiele, 2020). Although financial literacy can improve firm performance, its effects may depend on resource flexibility and ease of access to financing (Adomako & Danso, 2014). Several studies emphasize that access to financing plays a more significant role than financial literacy in mediating economic outcomes (Sun, Chen, Ansong, Huang, & Sherraden, 2022). Based on the results of previous studies, the researcher formulates the following hypotheses.

H_3: Financial Capability (FC) positively affects Startup Performance (SP).

2.3.4. Networking Capability on Startup Performance

The fourth hypothesis examines the connection between startup performance and networking capacity. Networking activities are a key element in the context of entrepreneurship. Research conducted by Vishwanath (2018) on the influence of control mechanisms on startup success, with relational embeddedness as a mediator, shows that the quality of operation between organizations is a determining factor in the success of a startup. Other studies have examined various types of networks, such as financial networks, business networks, and political networks, and found that they significantly and positively affect business model innovation and ultimately impact company performance (Anwar, Shuangjie, & Ullah, 2020). The existence of a network and competition can stimulate risk-taking behavior in startups, while competition can also weaken the impact of the network that is formed. Thus, networking capabilities play an important role in influencing startup performance, especially in terms of the ability to establish relationships, take advantage of opportunities, and take the right strategic positioning (SP). Although networking is important for startup success, networking capabilities do not always guarantee success (Teixeira et al., 2021), and coopetition can weaken its influence (Yang et al., 2024). The researcher developed the following theory in light of the findings of earlier studies.

H_5: Networking Capability (NC) positively affects Startup Performance (SP).

2.3.5. Entrepreneurial Orientation on Startup Performance through Financial Capability

Numerous studies have found that the impact of EO on firm success is influenced by access to financial resources (Sidek et al., 2016; Zarrouk, El Ghak, & Bakhouche, 2021). EO has been shown to positively affect access to finance and business performance (Sidek et al., 2016). Several studies have extended this model by including additional factors such as competitive advantage and financial literacy (Febrian et al., 2018). These studies cover a variety of contexts,

including the United Arab Emirates (Zarrouk et al., 2021), Malaysia (Sidek et al., 2016), Nigeria, and Indonesia. Overall, these findings highlight the importance of EO and access to finance in improving MSME performance and suggest potential areas for policy interventions to support MSME growth. For the startup context, we propose new indicators for financial literacy, including the preparation, review, and analysis of financial statements, as well as an understanding of the gross profit ratio. We also propose indicators for financial access, including access to non-bank investors, the most important funding source for the startup industry. Based on the results of previous studies, the researcher formulated Hypothesis 5 as follows.

H_5: Entrepreneurial Orientation (EO) positively affects Startup Performance (SP), mediated by Financial Capability (FC).

2.3.6. Environmental Turbulence on Entrepreneurial Orientation and Startup Performance

According to earlier studies by Wang, Dou, Zhu, and Zhou (2015) and Kam-Sing (2014), market instability moderates the positive impact of innovation and information's empowering effect on efficacy. Several previous studies related to entrepreneurial orientation confirm that the role of entrepreneurial orientation is very important, especially in situations of uncertainty (Fuentelsaz, Gonzalez, & da Silva, 2023). The level of relationship between entrepreneurial orientation and company performance depends on internal and external elements such as company size, amount of resources, level of entrepreneurial experience, business environment conditions, and inter-organizational networking behavior (Presutti & Odorici, 2019). Market factors can impact the relationship between startup performance and entrepreneurial orientation, which is not always clear-cut. Startups with a higher degree of entrepreneurial orientation may outperform their rivals in a fiercely competitive market. However, if the market is less competitive, entrepreneurial orientation may not play as significant a role in achieving startup success (Fuentelsaz et al., 2023). Based on the results of previous studies, the researcher formulated hypothesis 6 as follows.

H_6: Environmental turbulence positively and significantly affects the relationship between entrepreneurial orientation and startup performance.

2.3.7. Environmental Turbulence on Financial Capability and Startup Performance

In turbulent conditions, decision-making ability will be very important for companies; a good understanding of finance and sufficient experience are needed to identify opportunities and maintain high performance in such conditions (Anwar et al., 2020). In a highly turbulent environment, access to financial resources is also likely to be limited, making it more difficult for startups to obtain the resources needed to achieve their goals (Bodlaj & Čater, 2019). Another study found that, due to limited resources and financial constraints, it can have a negative impact on the stress and well-being of entrepreneurs (St-Jean & Tremblay, 2023) which affects performance. The researcher developed the following theory in light of the findings of earlier studies.

H_7: Environmental turbulence positively and significantly affects the relationship between financial capability and startup performance.

2.3.8. Environmental Turbulence on Networking Capability and Startup Performance

Networking capabilities help startups build relationships with customers, suppliers, and partners, thereby gaining access to new markets, developing new products, and acquiring new customers (Mokhtarzadeh, Mahdiraji, Jafarpanah, & Cao, 2022). The interaction between networking capabilities and the ability to adapt to technological change creates new competitive advantages. According to another study by Srećković (2018), networking capabilities become more important than managerial capabilities in an uncertain environment. Environmental dynamism and digital leadership can moderate the effect of networking capabilities on startup performance (Mu & Di Benedetto, 2012). In situations of high environmental dynamism, networking capabilities are more effective in reducing interaction costs, identifying opportunities, and acquiring resources, which ultimately drive product development and performance. This study proposes a measure of startup performance in the early stages, focusing on two dimensions:

the financial dimension, which includes valuation, funding, cash flow, burn rate, and runway; and the non-financial dimension, which encompasses growth, reputation, and legitimacy. Based on the results of previous studies, the researcher formulates the following hypothesis.

H_8: Environmental turbulence positively and significantly affects the relationship between networking capabilities and startup performance.

3. RESEARCH METHOD

By considering the research objectives, this research was conducted descriptively and through verification. Descriptive research aims to explain the characteristics of the population or research phenomena, including entrepreneurial orientation (EO), financial capability (FC), networking capability (NC), startup performance (SP), and environmental turbulence (ET).

3.1. Construction of the Measurement Tool

The entrepreneurial orientation variable (EO) is measured using 3 dimensions with 9 indicators adopted from research (Basco, Hernández-Perlines, & Rodríguez-García, 2020). The financial capability variable (FC) is measured using 2 dimensions with 6 indicators adopted from research by Dahmen and Rodríguez (2014); Aminu (2015) and Adomako, Danso, and Ofori Damoah (2016). The networking capability variable (NC) is measured using 3 dimensions with 12 indicators adopted from research by Mu and Di Benedetto (2012) and Kurniawan, Budiastuti, Hamsal, and Kosasih (2021). The startup performance variable (SP) is measured using 2 dimensions with 6 indicators adopted from research by Simon, Wong, and Orton (2015); Costa Jr et al. (2022); Kurniawan et al. (2021); Suchman (1995) and Bahta, Yun, Islam, and Bikanyi (2021). The research data sources were obtained from interviews with industry practitioners, investors, founders, VCs, and accelerators. The object of the research is a startup company with the following criteria: having received a maximum of Series A early-stage funding, having the status of a Limited Liability Company (PT), and having been operating for a maximum of 10 years since its establishment.

3.2. Statistical Methods used for Data Analysis

To analyze quantitative data in this study, Partial Least Squares (PLS) analysis was used, a multivariate statistical technique employed in research to test the relationship between several independent and dependent variables. Effect size values of 0.02 indicate a small influence, 0.15 indicate a medium influence, and 0.35 indicate a large influence.

4. RESULTS AND DISCUSSION

4.1. Results

A total of 117 respondents were obtained over a 14-month period. The respondents were difficult to reach, as they belonged to a hard-to-reach group. Data cleanup was performed based on the completeness of the survey and the identification of outliers. A clean sample of 90 respondents was obtained, representing 54% of the original plan. Partial least squares (PLS) is variance-based, so the sample size used was small, ranging from 30 to 100 respondents. Ninety suitable respondents were acquired via questionnaire distribution in Jakarta and West Java. All 90 respondents, whose profiles are detailed in Table 1. Of the 90 respondents who participated in this survey, most of them have positions as Founders and Co-Founders (41%), company age 1-5 years (51%), with the last pre-seeding funding (57%), with business vertical classification (57%), Fintech, Game, and SaaS each accounting for 14%, with the number of employees fewer than 10 (40%), and company location in Jakarta (82%). For more details, it can be explained as follows.

Table 1. Respondent profile.

Demographic profile		Sample (n)	Percentage
Respondent's position	Founder and co-founder	38	41%
	CEO of the company	36	40%
	Commissioner	10	13%
	CxO	5	5%
	CFO	1	1%
Company age	< 1 year	10	11%
	1 – 5 years	46	51%
	5 – 10 years	27	31%
	>10 years	7	7%
Final funding	Pre-Seeding	52	57%
	Seeding	14	16%
	Series A	15	17%
	> Series A	9	10%
Vertical classification of business	Fintech	13	14%
	Game	13	14%
	SaaS	13	14%
	Edutech	10	11%
	AI & Deeptech	7	8%
	Ecomm & Logistic	7	8%
	Agritech	6	7%
	HealthTech	6	7%
	Sport	6	7%
	Event, Entertainment & Media	5	6%
	Greentech	2	2%
	F&B	1	1%
	HR	1	1%
Number of employees	< 10	36	40%
	10-50	30	34%
	51-100	10	11%
	101-200	3	3%
	>200	11	12%
Company location	Jakarta	74	82%
	Bandung – West Java	16	18%

38 indicators in this study's outer model output test satisfy the outer loading specifications. Ten indicators were selected from the research survey's 42 reflecting indicators; NC6, SP4, SP6, EO1, EO2, ET1, and ET2 were removed from the test variables.

Table 2 outer model test results demonstrate that every trustworthy indicator in the study model complies with the necessary outer loading values. Based on Table 2. Indicator Variable Entrepreneurship Orientation: there are 7 valid indicators with Outer Loading indicator values between 0.765 and 0.896. Indicator Variable Financial Capability: There are 6 valid indicators with Outer Loading indicator values between 0.723 and 0.845. Indicator Variable Networking Capabilities: There are 10 valid indicators with Outer Loading indicator values between 0.710 and 0.796. Indicator Variable Environmental Turbulence: There are 7 valid indicators with Outer Loading indicator values between 0.813 and 0.883. Indicator Variable Startup Performance: There are 8 valid indicators with Outer Loading indicator values between 0.754 and 0.888.

Table 2. Construct reliability and validity.

Variable & indicators		Outer loading	CA	CR	AVE
Entrepreneurship orientation					
EO3:	Changes to a product or service are usually quite dramatic.	0.775	0.909	0.928	0.648
EO4:	When faced with competitors, a company usually initiates an action to which its competitors then respond.	0.825			
EO5:	Often, this is the first time a company introduces a new product or service.	0.765			
EO6:	Compared to other companies, my company has a strong tendency to take a pioneering role in the introduction of new ideas or products.	0.784			
EO7:	The stronger the tendency to take higher risks in projects (with very high returns), the greater the probability.	0.896			
EO8:	In general, top company managers believe that the nature of the business environment requires bold and comprehensive action to achieve company goals.	0.774			
EO9:	When companies are faced with decisions involving uncertainty, they tend to approach the problem boldly to maximize the likelihood of being able to capitalize on opportunities.	0.806			
Financial capability					
FC1:	We prepare monthly financial reports for companies, including profit and loss statements and balance sheets.	0.845	0.871	0.903	0.609
FC2:	We review monthly financial reports.	0.723			
FC3:	Monthly financial reports serve as the basis for our financial analysis.	0.756			
FC4:	We are aware of the company's gross profit margin and its portion of total profit.	0.829			
FC5:	Bank loans: The extent to which the company receives financial support from private and/or public banks.	0.787			
FC6:	Non-bank loans: The extent to which companies access financing from credit institutions, cooperatives, and micro-institutions.	0.732			
Networking capabilities					
NC1:	We can locate the appropriate partners in our area using a system or process that our organization has in place.	0.754	0.914	0.928	0.563
NC2:	We can locate the ideal partners worldwide with the aid of a method or process that our firm has in place.	0.796			
NC3:	We can identify the proper partners with the aid of a system or process that our firm has in place.	0.783			
NC4:	Our organization can develop appropriate mechanisms to manage the dynamics of the partner network.	0.756			
NC5:	Our organization can enhance networks, partnerships, and relationships	0.767			
NC7:	Network activities can be dynamically incorporated into our company's operational business procedures.	0.707			
NC8:	Our partners can provide our organization with the help it requires in the most precise way.	0.754			
NC9:	Our partners can quickly provide our organization with the support it needs.	0.710			
NC10:	If our partners are unable to help us directly, they may recommend other individuals who can assist.	0.737			
NC11:	Their resources are available when we need them.	0.733			
Environmental turbulence					
ET3:	Customers who have never bought our goods and services before are showing a desire for them.	0.813	0.931	0.944	0.707
ET4:	Typically, the needs of new consumers differ from those of current customers.	0.816			
ET5:	We serve many of the same customers as before	0.853			
ET6:	Our industry's technology is evolving quickly.	0.824			

Variable & indicators		Outer loading	CA	CR	AVE
ET7:	For our industry, technological advancements present excellent prospects.	0.883			
ET8:	What level of technology our industry will achieve in the next two to three years is truly difficult to predict.	0.819			
ET9:	In our industry, technological advancements are enabling an increasing number of new goods and innovative concepts.	0.875			
Startup performance					
SP1:	Increase stock prices	0.885	0.905	0.927	0.681
SP2:	Marketing investment in (Total investment) approx.	0.867			
SP3:	Our organization can achieve higher cash flow.	0.789			
SP4:	The company is able to maintain its monthly expenditures in accordance with the budget.				
SP5:	Our company has sufficient runway funds for the next 18–24 months.	0.754			
SP6:	Our company is capable of increasing its customer growth rate.	0.827			
SP7:	Our company's reputation is highly respected.	0.888			
SP8:	Our company is regarded by our customers as a well-established organization.	0.777			

According to Table 2, all indicators have external loadings > 0.708 as needed, and the construct's internal consistency is dependable if Cronbach's alpha and composite reliability are both higher than 0.7. When all values have AVE ≥ 0.50, which indicates that all constructs explain at least 50% of the item variance and hence establish validity, the convergent validity check is measured by AVE (Hair, Risher, Sarstedt, & Ringle, 2019). Therefore, it can be said that every indicator in this study model has sufficient discriminatory power to measure the constructs it assesses.

Table 3. Means, standard deviations and correlation coefficients of each variable.

Variables	Mean	St. dev	1	2	3	4	5	6
Entrepreneurial orientation	35.33	5.401	1					
Financial capabilities	24.20	3.669	0.892**	1				
Networking capabilities	42.04	6.822	0.809**	0.740**	1			
Environmental turbulence	34.63	5.729	0.787**	0.711**	0.863**	1		
Startup performance	30.61	4.901	0.823**	0.789**	0.896**	0.813**	1	

Note: **p < 0.01, n = 90.

Table 3 shows that the smallest mean is 24.20 for (Financial Capability), and the largest mean is 35.33 for (Entrepreneurial Orientation). The standard deviation ranges between 3.669 (Financial Capability) and 6.822 (Networking Capability). The correlation coefficient uses heterotrait and monotrait relationships in (HTMT). According to the study's findings, each indicator can identify and quantify its own construct. Every indicator has the ability to measure its design precisely and accurately. Table 3 shows that the correlation coefficient values of Financial capabilities (0.892**), Networking capabilities (0.740**), Environmental turbulence (0.863**), and Startup performance (0.813**) are significant. Based on these results, the HTMT value is less than 0.9 (or 0.85), so discriminant validity is achieved, which means that the two constructs are truly different and not too correlated.

The aforementioned model can be tested for reliability and external validity using four parameters: discriminant validity (Heterotrait-Monotrait ratio), construct validity (average variance extracted), construct reliability (Cronbach's alpha and composite reliability), and indicator reliability (outer loading). Since Hair et al. (2019) proposed

that PLS-SEM does not employ the model's goodness of fit, this study measured the predictive accuracy of the test model using R2 and the predictive relevance using the Q2 cross-redundancy value. According to Henseler, Ringle, and Sinkovics (2009) and Hair, Ringle, and Sarstedt (2011), R^2 values of 0.75, 0.50, and 0.25 are generally regarded as substantial, moderate, and weak, respectively. $R^2 = 0.812$ and $Q^2 = 0.420$ were found for Financial Capability, whereas $R^2 = 0.910$ and $Q^2 = 0.370$ were found for Startup Performance.

Significant predictive accuracy was demonstrated by both Startup Performance and Financial Capability (Hair et al., 2019). To ascertain the impact of variables and whether the hypotheses put forth in this study were supported, hypothesis testing was conducted using the bootstrap approach. The relevance of the data was assessed using the bootstrap method (Memon et al., 2021). The criterion for assessing whether or not the hypothesis was supported was the T-statistic cutoff value > 1.645 (one-sided) with an alpha of 0.05. Table 4 displays the findings. Furthermore, as advised, mediation analysis was carried out to ascertain the importance of mediation through certain indirect effects.

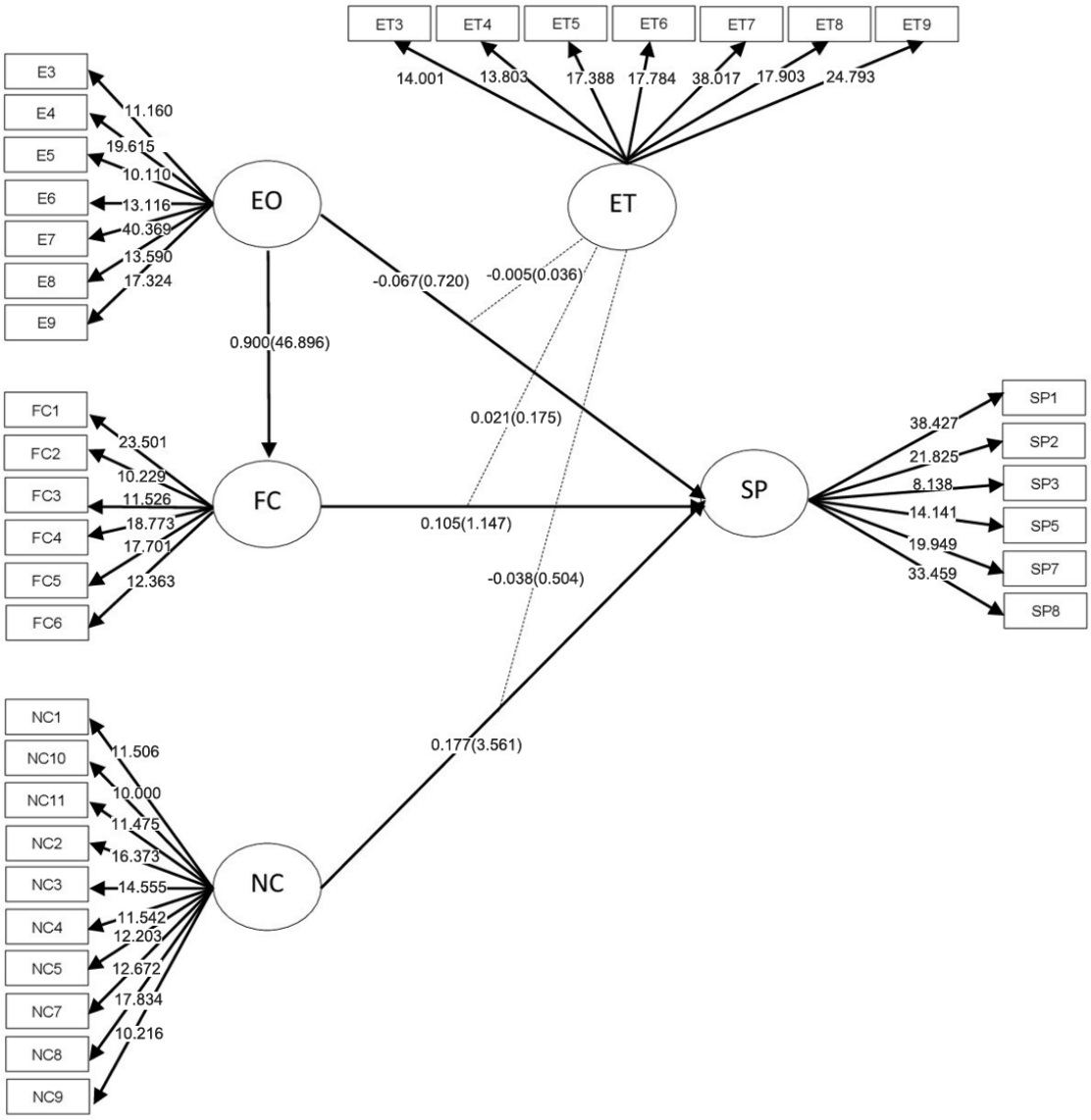

Figure 1. PLS bootstrap results.

Figure 1 illustrates that of the nine hypotheses made in this study, five hypotheses were supported, and four hypotheses were not supported.

Table 4. Significant and coefficient.

Hypothesis		Standardized coefficient	T-statistics	P-values	Result
H1:	Entrepreneurial orientation → Startup performance	0.063	0.431	0.667	Hypothesis not supported
H2:	Entrepreneurial orientation → Financial capability	0.019	46.896	0.000	Hypothesis supported
H3:	Financial capability → Startup performance	0.092	1.147	0.252	Hypothesis not supported
H4:	Networking capabilities → Startup performance	0.086	3.561	0.019	Hypothesis supported

4.2. Discussion

4.2.1. Entrepreneurial Orientation (EO) Positively Affects Startup Performance (SP)

In Table 4, the hypothesis test obtained a path coefficient of -0.67 with a p-value of 0.667 > 0.05, and a T-ratio of 0.431 < 1.960. This indicates that the overall structural model H1 (EO→SP) is rejected, and it can be interpreted that entrepreneurial orientation does not have a positive and significant effect on startup performance. The results of this study differ from previous hypotheses. Entrepreneurial orientation does not significantly affect company performance directly (Pratono & Mahmood, 2015). A study on startups in China revealed that the risk-taking aspect is less relevant than proactiveness and innovation in the context of company performance. Similar findings were reported by Aloulou (2018) in a study conducted on 230 companies in Saudi Arabia; a negative and insignificant relationship was found between entrepreneurial orientation and company performance. These findings reinforce the results of previous studies showing that the relationship between entrepreneurial orientation and startup performance, although widely studied, still produces mixed conclusions. This inconsistency indicates that the relationship between entrepreneurial orientation and company performance may be influenced by various contextual and mediating factors, so a more holistic and contextual approach is needed to understand these dynamics.

4.2.2. Entrepreneurial Orientation (EO) Affects Financial Capability (FC)

From the results of hypothesis testing, a path coefficient of 0.900 > 0.1 was obtained, with a p-value of less than 0.000 < 0.05, and a T-ratio of 46.896 > 1.960. This indicates that the overall structural model H2 (EO→FC) is accepted, and it can be interpreted that entrepreneurial orientation has a substantial and favorable impact on financial capability. The results of this study are consistent with previous studies. Furthermore, companies that effectively implement entrepreneurial orientation dimensions tend to be more proactive in identifying and exploiting new opportunities to obtain capital (Zarrouk et al., 2021). These findings confirm that EO plays a role not only in strategic decision-making but also in facilitating access to financial resources necessary for business growth and sustainability.

4.2.3. Financial Capability (FC) Affects Startup Performance (SP)

From the results of the hypothesis testing, a path coefficient of 0.105 was obtained, which is less than 0.1, with a p-value of 0.252, exceeding the significance level of 0.05, and a T-ratio of 1.147, which is less than 1.960. This indicates that the overall structural model H7 (FC→FS) is rejected, and it can be interpreted that financial capability does not have a positive and significant effect on startup performance. The results of this study differ from previous hypotheses. Research conducted by Hossain (2020) also reported that there was no significant relationship between the financial literacy of entrepreneurs and the growth of SMEs. The relationship between financial capability and company performance appears to be more significant in companies that have reached the mature stage (Fuertes-Callén, Cuellar-Fernández, & Serrano-Cinca, 2022). In addition, there is a possibility of a reverse causal relationship, where companies that already have good performance tend to be better able to develop their financial capabilities, rather than financial capabilities driving performance, as is often the case with startups. In other words, companies can improve financial

capabilities as a consequence of the success they have achieved, not as the main driving factor (Luo, Peng, & Zeng, 2021).

4.2.4. Networking Capability (NC) Affects Startup Performance (SP)

From the results of the hypothesis testing, a path coefficient of 0.177 > 0.1 was obtained, with a p-value of 0.019 < 0.05, and a T-ratio of 3.561 > 1.960. This indicates that the overall structural model of H4 is accepted, and it can be interpreted that networking capabilities have a substantial and favorable impact on startup performance. The findings of this study are consistent with earlier research. Research consistently shows that networking capabilities have a significant effect on startup performance. Networking capability has a positive impact on new venture financial performance, mediated by network size and relationship strength (Semrau & Sigmund, 2012). Internal capabilities and external networks, especially ties to venture capital firms, are important predictors of startup performance. Research consistently shows that networking capability has a significant effect on startup performance. Networking capability has a positive impact on new venture financial performance, mediated by network size and relationship strength (Semrau & Sigmund, 2012). Internal capabilities and external networks, especially ties to venture capital firms, are important predictors of startup performance.

Table 5. Specific Indirect Effect.

Hypothesis		Standardized coefficient	T-statistics	P-values	Result
H6:	Entrepreneurial orientation → Financial capability → Startup performance	0.083	1.140	0.254	Hypothesis not supported
H7:	Entrepreneurial orientation → Environmental turbulence → Startup performance	0.074	0.504	0.614	Hypothesis not supported
H8:	Financial capability → Environmental turbulence → Startup performance	0.122	0.175	0.861	Hypothesis not supported
H9:	Networking capabilities → Environmental turbulence → Startup performance	0.136	0.036	0.971	Hypothesis not supported

4.2.5. Entrepreneurial Orientation (EO) Affects Startup Performance (SP), Mediated by Financial Capability (FC)

In Table 5, testing hypothesis 5 (EO*FC→SP) obtained a p-value of 0.254 > 0.05, and a T-ratio of 1.140 < 1.960, with an f2 value of 0.014, which indicates a medium effect. This suggests that the overall structural model H5 is not accepted, and it can be interpreted that financial capability has not been proven to mediate the relationship between entrepreneurial orientation and startup performance. Several previous studies have found that financial capability does not mediate the relationship between entrepreneurial orientation and performance. Purnomo (2019) conducted a study on 375 small creative businesses in Yogyakarta, concluding that financial literacy does not mediate the relationship between entrepreneurial orientation and startup performance. Another study by Lee, Lee, and Pennings (2001) on 137 Korean technology startups, internal capabilities and external networks were examined in relation to performance. The results of the study showed that, depending on the context, access to financial resources does not necessarily affect performance. The impact is likely indirect and mediated by other factors, such as resource flexibility and ease of accessing financing (Adomako & Danso, 2014).

4.2.6. Environmental Turbulence and Significantly Affects the Relationship between Entrepreneurial Orientation and Startup Performance

In Table 5, testing hypothesis 6 (TL*EO→SP) obtained a p-value of 0.614 > 0.05, and a T-ratio of 0.504 < 1.960, with an f2 value of 0.030, indicating a medium effect. It was also previously found that H1 (EO→SP) was not significant. Both results suggest that the overall structural model of hypothesis 6 (TL*EO→SP) is rejected. This indicates that environmental turbulence does not significantly or positively affect the relationship between

entrepreneurial orientation and startup performance. The findings of this study differ from previous hypotheses. Prior empirical research on the moderating effect of the environment on the relationship between EO and company performance has yielded mixed results, with some studies reporting positive effects, others negative, and some showing no effect at all. For example, Balodi (2020) and Mokhtarzadeh et al. (2022) found that competitive turbulence did not affect business performance, and market turbulence had no significant impact on company performance. A study by Milovanovic (2022) analyzing 109 companies in Montenegro found that environmental turbulence did not moderate the relationship between entrepreneurial orientation (EO) and performance. Similar findings were also reported by Turulja and Bajgoric (2019), who examined the relationship between innovation processes and performance, where the moderating effect of environmental turbulence was not significant.

4.2.7. Environmental Turbulence Significantly Affects the Relationship between Financial Capabilities and Startup Performance

From the results of testing the H7 hypothesis, a p-value of 0.861 > 0.05 was obtained, and a T-ratio of 0.861 < 1.960, with an f2 value of 0.006, which indicates a small effect. However, the previous H2 (FC→SP) was not significant, so the overall structural model H7 (TL*FC→SP) was rejected. It can be interpreted that environmental turbulence does not affect the relationship between financial capabilities and startup performance positively and significantly. The results of this study differ from the previous hypothesis. Based on this study, as part of the analysis of hypothesis 7, H2 (FC→SP) from previous studies suggests that financial capability may not directly affect company performance; its impact is likely indirect through the mediation of other factors (Aminu, 2015). These mediation factors are likely to reduce the moderating effect of environmental turbulence.

4.2.8. Environmental Turbulence and Significantly Affects the Relationship between Networking Capability and Startup Performance

From the results of hypothesis testing, a p-value of 0.971 > 0.05, and a T-ratio of 0.036 < 1.960 were obtained, with an f2 value of 0.203, which indicates a large effect. Therefore, the overall structural model H8 (TL*NC→SP) was rejected. It can be interpreted that environmental turbulence does not affect the relationship between networking capability and startup performance positively and significantly. The results of this study differ from previous hypotheses. Several previous studies have confirmed the absence of a moderating effect of competitive turbulence and market turbulence on the relationship between networking capability (NC) and performance (Mokhtarzadeh et al., 2022; Tsai, Chang, & Peng, 2016). Although the relationship between NC and startup performance is positive and significant, even in conditions of environmental turbulence, NC can provide the resources, agility, and strategic position needed to effectively face these challenges (Kurniawan et al., 2021). The ability of NC to provide access to knowledge, legitimacy, and external resources is thought to be the reason why environmental turbulence does not have a significant moderating effect. In other words, NC functions as a mechanism that allows startups to remain resilient and adaptive in the face of unstable market dynamics, thereby reducing the negative impact of environmental turbulence on performance. This finding confirms the role of NC as a core dynamic capability that not only supports performance but also protects startups from external uncertainty.

4.3. Research Findings: Capability Transformation Across Startup Trajectory

These findings highlight that startup capabilities are not static or uniform across all stages of organizational development. Referring to the Capability-Based View (CBV) proposed by Teece (2007), this study emphasizes that startups' ability to integrate, build, and reconfigure internal and external competencies is critical for sustained competitive advantage, especially in rapidly evolving environments. The inherent uncertainty and operational complexity faced by startups drive the need for continuous capability evolution throughout their growth trajectories. As illustrated in Table 6 and Figure 2, financial capabilities (FC) primarily serve as a form of static slack rather than a dynamic strategic resource. This limited role arises from limited managerial experience and scarce human resources,

resulting in conservative financial practices that are less deeply integrated into strategic decision-making processes. In contrast, network capabilities (NC) clearly serve as an important leverage mechanism from the outset, facilitating startups' access to critical external resources such as capital, markets, technology, and mentorship. The contrasting roles of FC and NC observed in this study suggest a transformation from static capabilities to dynamic capabilities as startups progress through their growth phases in the Indonesian context. Therefore, this study proposes a developmental framework called the Capability Maturity Trajectory (CMT), which explicitly maps the evolutionary trajectory of startup capabilities across key growth stages. The proposed maturity trajectory details the transformation of capabilities as follows.

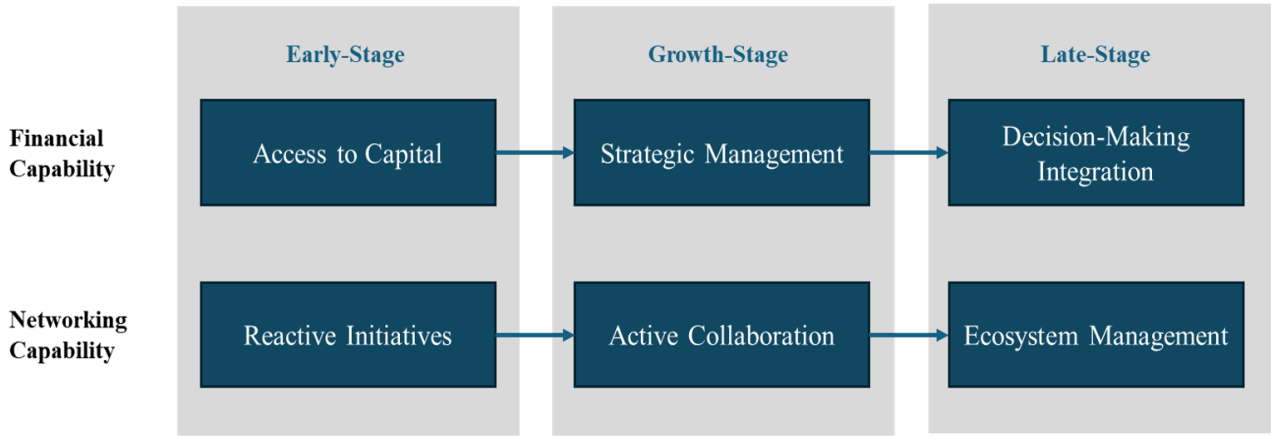

Figure 2. Capability maturity trajectory (CMT).

Table 6. Capability maturity trajectory (CMT).

Financial capability (FC)	Access to capital: Initially, startups prioritize securing basic funding and ensuring operational viability. Strategic management: With progression, financial capabilities expand into strategic financial planning and risk management practices. Decision-making integration: At advanced stages, financial capability fully integrates into holistic strategic decision-making, enhancing organizational agility and resilience.
Networking capability (NC)	Reactive initiatives: Initially, networking activities are predominantly opportunistic and driven by immediate resource needs. Active collaboration: In intermediate phases, startups strategically foster long-term partnerships and active collaboration with key stakeholders. Ecosystem management: At advanced stages, networking capability matures into comprehensive ecosystem management, strengthening strategic influence and fostering collaborative innovation across extensive networks.

Figure 2 illustrates the contrasting financial capabilities (FC) and network capabilities (NC) based on the results of this study. The contrasting roles of FC and NC observed in this study demonstrate the transformation from static capabilities to dynamic capabilities as startups navigate their growth phases in the Indonesian context. Therefore, this study proposes a development framework called the Capability Maturity Trajectory (CMT). The finding that the direct effect of financial capability (FC) on performance is not significant in this early-stage startup sample is further examined by introducing the concept of a Capability Maturity Trajectory (CMT), which explicitly maps capability evolution in accordance with startup development stages. At this phase, FC is conceptualized as access to capital, whereas networking capability (NC) reflects reactive initiatives driven by urgent resource needs. This theoretical framing explains why NC, characterized by reactive efforts to secure resources, becomes the primary driver of FC (i.e., acquiring access to funding), thereby exerting a more dominant influence.

CMT extends the theoretical implications by projecting that the roles of capabilities will transform over time. The model provides a basis for hypothesizing that the direct effect of FC on performance, currently insignificant among early-stage startups, is likely to emerge and strengthen as startups transition into the growth and late stages. At these later stages, FC evolves into strategic management and decision-making integration, where an emphasis on efficiency and strategic planning becomes critical. In the early-stage phase, startups rely primarily on founders' networks to gain access to opportunities and legitimacy. During the growth phase, the focus shifts toward institutional networks and the strengthening of financial access. In the late-stage phase, these two forms of capabilities converge into a mature relational capability, in which networks function not only as a source of resources but also as instruments of market control.

5. CONCLUSION

The results of this study reveal that entrepreneurial orientation (EO) has a positive and significant influence on financial capability (FC) and networking capability (NC). However, only NC has a direct impact on early-stage startup performance. Meanwhile, environmental turbulence (ET) based on the findings of this study, does not show a significant moderating effect in the context of early-stage startups.

This study reveals that financial capability (FC) functions as a static resource for early-stage startups. The Capability-Based View (CBV) traditionally depicts FC as a dynamic driver of performance (Teece, 2017). However, the findings of this study challenge this assumption in the context of early-stage startups, where FC does not show a direct effect or a moderated effect on early-stage startup performance. Instead, FC moderates as a static resource such as cash reserves rather than as a dynamic capability, for example, in terms of strategic resource allocation. This can be explained by the limited managerial expertise possessed by early-stage startup founders in managing financial resources effectively.

5.1. Research Implications

The results of this study provide some reinforcement of the grand theory and middle theory, as explained in the literature review. This study contributes to the understanding of how Strategic Orientation Theory and Capability-Based View (CBV) complement each other in explaining early-stage startup performance.

This study challenges universal assumptions in Strategic Orientation Theory and CBV by showing that the effectiveness of strategic orientation and capabilities is highly dependent on the stage of organizational development. These findings support the development of stage-specific theoretical models, which consider the unique context of early-stage startups, such as resource constraints and survival priorities. The Capability Maturity Trajectory (CMT) proposed in this study enhances theoretical insights into capability dynamics aligned with the Capability-Based View (Teece, 2007). CMT serves as a practical guideline for startup founders, investors, and policymakers, facilitating the phased and adaptive development of capabilities aligned with distinct organizational growth phases.

Future research needs to explore how financial capabilities (FC) can transform from mere static resources (e.g., cash reserves) to dynamic capabilities as the company matures. This transformation enables the company to achieve the flexibility and strategic agility required during the growth stage.

Implications for startup founders and policymakers include the importance of treating financial capability as a hygiene factor aimed at ensuring survival, rather than as a lever for growth. In the early stages, financial capability serves to secure cash reserves to support basic operations, rather than as a tool for strategic investment. This is due to limited managerial expertise in dynamic financial management. Although financial capability serves as a hygiene factor, startups can leverage OK to increase access to financial resources through product or service innovations that attract investors.

5.2. Limitations and Future Research

A limitation of this study is that it focuses exclusively on early-stage startup companies that have received a maximum of Series A funding and have been operating for no more than 10 years. While this focus provides rich insights into the early evolution of capabilities, it limits the generalizability to later-stage startups, where capability configurations may differ substantially. Future research should examine whether the Capability Maturity Trajectory (CMT) also applies to scaleups or mature companies. The study's use of a cross-sectional survey and self-reported data introduces potential biases, including common method bias, and limits the ability to draw causal inferences. Because capability development is inherently dynamic, a longitudinal research design would better capture the temporal transitions and cumulative learning effects that determine the transformation from static to dynamic capabilities. Furthermore, the sample is geographically and sectorally concentrated, with the majority of respondents located in Jakarta and West Java, and concentrated in the fintech, SaaS, and gaming sectors. This situation may not reflect the diversity of the broader Indonesian startup ecosystem. Future studies should explore sectoral and regional variations in capability development, particularly in underrepresented vertical sectors such as agritech, healthtech, or green tech, where the nature of required capabilities may be very different.

Addressing these limitations would enhance the robustness of the Capability Maturity Trajectory (CMT) framework and offer a more comprehensive understanding of how dynamic capabilities develop across various startup contexts and lifecycle stages.

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Transparency: The authors state that the manuscript is honest, truthful, and transparent, that no key aspects of the investigation have been omitted, and that any differences from the study as planned have been clarified. This study followed all writing ethics.
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