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## Building of export performance through product innovation, trust, technology capability and partnerships (a study on furniture industry in Jepara Regency of Indonesia)

**Abstract.** This study aims to analyze the variables that affect furniture exports' performance in Jepara, Indonesia, in the year 2020. A quantitative research approach is applied based on data of 307 furniture companies in Jepara, exporters in the international furniture trade market, with the desired error limit of 5%. Data consists of two types, namely primary data and secondary data. The primary data were obtained through a questionnaire that was personally submitted to 174 respondents. Secondary data used as a basis for determining the techniques and steps for collecting research data were obtained from BPS Jepara Regency and Jepara Regency Industry and Trade Office, in the form of Jepara Furniture SME (structural equation models) export volume in 2016-2020 and Jepara furniture exporters data for 2020. The results show that product innovation, trust, technological capabilities and partnerships are variables that affect the performance of furniture exports in the Jepara district.

**Keywords:** Export Performance; Product Innovation; Technology Capability; Partnerships; Furniture Industry

**JEL Classifications:** O00; O30

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**Підвищення ефективності експорту за рахунок інноваційних продуктів, довіри, технологічних можливостей і партнерських відносин (дослідження меблевої промисловості в регентстві Джепара в Індонезії)**

**Анотація.** Це дослідження спрямоване на аналіз змінних, які впливають на показники експорту меблів у Джепарі (Індонезія), у 2020 році. Застосовано кількісні методи дослідження на основі даних 307 меблевих компаній у Джепарі – експортерів меблів. Первинні дані були отримані за допомогою анкети, яку відправили особисто 174 респондентам. Вторинні дані, використані в якості основи для визначення методів й етапів збору даних дослідження, були отримані з відкритих статистичних джерел у вигляді обсягів експорту малих і середніх підприємств меблевої промисловості Джепарі в 2016–2020 рр.

Результати показують, що інноваційні продукти, довіра, технологічні можливості й партнерські відносини – це змінні, які впливають на показники експорту меблів у регентстві Джепара.

**Ключові слова:** експорт; продуктова інновація; технологія; партнерські відносини; меблева промисловість.

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**Повышение эффективности экспорта за счет инновационных продуктов, доверия, технологических возможностей и партнерских отношений (исследование мебельной промышленности в регентстве Джебара в Индонезии)**

**Аннотация.** Это исследование направлено на анализ переменных, которые влияют на показатели экспорта мебели в Джебаре (Индонезия), в 2020 году. Применяется метод количественного исследования на основе данных 307 мебельных компаний в Джебаре – экспортеров мебели. Первичные данные были получены с помощью анкеты, которую отправили лично 174 респондентам. Вторичные данные, использованные в качестве основы для определения методов и этапов сбора данных исследования, были получены из открытых статистических источников в виде объемов экспорта малых и средних предприятий мебельной промышленности Джебара в 2016–2020 гг. Результаты показывают, что инновационные продукты, доверие, технологические возможности и партнерские отношения – это переменные, которые влияют на показатели экспорта мебели в регентстве Джебара.

**Ключевые слова:** экспорт; продуктовая инновация; технология; партнерские отношения; мебельная промышленность.

## 1. Introduction

Referring to the 2015-2020 National Medium-Term Development Plan (RPJMN), the direction of economic policy for the creative industry (which includes the handicraft industry) is to facilitate creative people along the value chain of creation, production, distribution, and conservation. The craft sector strategy aggressively expands both the export market and the domestic market, resulting in high growth and large economic volume. Indonesian handicraft, which is famous to all corners of the world, is a superior product from several regions in Indonesia (Subagja, 2017; Patria et al., 2020; Ahmad et al., 2020; Ersoy, 2021).

As export-oriented Small and Medium Enterprises (SMEs), Furniture exporters have an economic role in contributing to a country's national products by providing goods or services and contributing to the country's overall export performance. SMEs have the potential to create jobs, improve the quality of human resources, increase purchasing power, and stimulate productive activities. The potential of these SMEs must be maintained for business continuity and economic improvement in the regions. Economic improvement in an area will have a very big role in the welfare of society. Increasing the export performance of SMEs will create more market opportunities and create more jobs and equitable welfare (Alexandri & Aulia, 2019; Ahmad et al., 2020; Tsang et al., 2021).

Indonesia is known to be one of the largest exporters of furniture products in the world. Wood-based furniture products from Indonesia are excellent in the world market and are in great demand because of their quality. Business opportunities are wide open for furniture entrepreneurs and producers in Indonesia. Indonesia's wood industry's largest export market is countries in the European Union, which amount to approximately 40 percent, followed by the United States at around 29 percent. The third is Japan, which is around 12 percent in 2020. The European Union is a target *market* that furniture exporters from Indonesia should be able to maximize; apart from other countries such as America, the Middle East, or other countries, the opportunity is still wide open for Indonesian wood furniture products which have unique and good quality wood (Ahmad et al., 2020; Patria et al., 2020).

The motive of the management greatly affects the export performance of a company; the proactive motive is the stimulation of involvement in international trade activities; this is due to the great demand for export products in industrialized countries. Usually, the products exported are primary commodities. At the same time, the reactive motive is the company's efforts to respond to environmental changes, for example, profit, product distinctiveness, taxes, and production costs (Baldauf et al., 2000). This motive is based more on the excess production of companies where the export trade is due to the domestic market's fulfillment.

There are relevant studies that have been conducted previously that examine export performance. Researches that examine the factors that influence export performance. Research conducted by Michalski et al. (2014) explored the effect of *trust* on export performance. Hernández et al. (2016) investigated the effect of *sustainability* on export performance. Michalski et al. (2014), Villena-Manzanares & Souto-Pérez (2016), Yi et al. (2013), Ersoy (2021), and (Lee, 2007) presented the research results that innovation has a positive effect on export

performance. The studies that discuss innovative capabilities are focused on increasing firm value conducted by (Yi et al., 2013; Kafetzopoulos & Psomas, 2015; Tsang et al., 2021). Based on a review of previous studies as described above, it was found that there was a **research gap** in research on export performance. The existing research gap is that there is no research on an export performance that measures export performance through the manifest variables of product innovation, trust, technology capability, and partnerships simultaneously, which are treated as a single analysis unit.

Based on this research gap, it is necessary to research the model of furniture export performance in Jepara Regency. Export performance measurement can be classified into two categories, namely objective and subjective measurement. Related to the latent variable of export performance, in essence, the company's performance is the company's performance in carrying out its duties. Company performance can be seen in various aspects, both quantitative and qualitative. One thing to remember is that an export performance management system includes both behavioral measures (what firms do) and outcomes (outputs of firm behavior).

This study aims to analyze the variables that affect the performance of furniture exports in Jepara, Indonesia. Theoretically, the results of this study are expected to be useful for scientific development. Theoretically, this study's results contribute to the development of the theory of the variables that affect export performance, the interaction between variables that affect export performance, and the relationship model of the variables that affect export performance, which specifically applies to SMEs. Furthermore, the results of this study can initiate a theory of export performance that specifically applies to SMEs.

## 2. Methods and Data

This research uses a quantitative research approach; quantitative approach aims to test the theory, build facts, show the relationship between variables, provide statistical descriptions, estimate and predict the results. The research design uses a quantitative approach which must be structured, standardized, formal, and designed as well as possible beforehand. The design is specific and detailed because the design is a research design that will be carried out. Besides, this survey was carried out in 2020.

This study's population was 307 furniture companies in Jepara, which were exporters in the international furniture trade market (Disperindag Jepara, 2016; Patria et al., 2020; Tsang et al., 2021). Primary data to be collected in this study are data obtained directly from distributing a list of questions or questionnaires based on the reference for the sample's size proposed by Ferdinand (2014), then the proportion (%) of the number of furniture producers is determined. The Slovin formula is used to determine the size of the sample representing the population in the study (Umar, 2008) as follows:

$$n = \frac{N}{1 + N\varepsilon^2} \quad (1)$$

where:

n = sample size;

N = population size;

$\varepsilon$  = critical value.

The population of the company with the desired error limit is 5%. Based on the formula above, the number of samples taken in this study using the Slovin formula is:

$$n = \frac{N}{1 + N\varepsilon^2} = \frac{307}{1 + (307 * [0.05])^2} = 173.69 = 174 \quad (2)$$

In this study, random sampling was chosen because the number of exporters and the intensity and volume of exports were by the criteria mentioned above. The number of samples needed is 174 companies.

The data can be broadly divided into two types, namely secondary data and primary data. Primary data were obtained through a questionnaire that was personally submitted to 174 respondents. Secondary data used as a basis for determining the techniques and steps for collecting research data were obtained from (1) BPS Jepara Regency, in the form of Jepara Regency PDRB

data for 2016-2020; (2) Jepara Regency Industry and Trade Office, in the form of Jepara Furniture SME export volume in 2016-2020 and Jepara furniture exporters data for 2020.

Data analysis techniques use descriptive statistics and inferential statistics. Descriptive statistical analysis was carried out to determine the profile of respondents and research variables. Descriptive statistics of respondents' profiles are presented in terms of frequency and percentage. Meanwhile, interval data are presented in the form of mean and standard deviation. Descriptive statistics of the research variables will be presented in the form of mean, theoretical and actual ranges, mean, and standard deviation. In Inferential Statistics Research, all the hypotheses proposed in this study are tested using structural equation models (SEM). The research hypothesis testing is based on parameter estimation of the complete structural equation model. Hypothesis testing using SEM is based on the parameter regression coefficient's value, namely the critical ratio (CR) and the probability value. Acceptance of the proposed hypothesis if the p-value < 0.05.

### 3. Results and Discussion

The discussion in this study is focused on variables that affect the performance of furniture exports in the Jepara district, which consists of the manifest variables of product innovation, trust, technological capability, and partnerships simultaneously.

#### 3.1. Product innovation

Based on the results of testing the measurement of product innovation variables in this study, it is known that reliable and valid indicators form product innovation variables in furniture exporters in Jepara Regency which are the research samples. The six indicators that form the product innovation variables are:

- 1) New product modification (*factor loading* 0.720).
- 2) Production process improvement (*factor loading* 0.794).
- 3) Partners involved in product design (*factor loading* 0.803).
- 4) Information related to customer desires (*factor loading* 0.781).
- 5) Communication developing new products (*factor loading* 0.705).
- 6) Presenting unique features (*factor loading* 0.755).

Based on the *factor loading* of the six indicators above, it is known that the partner indicator involved in product design is the indicator with the largest *factor loading* (*factor loading* 0.803). Thus, the indicators of partners involved in product design are the indicators that contribute the most to form the product innovation variables. Based on these empirical findings, partners involved in the design of the company's products will be able to improve their export performance if the furniture company always innovates with partners involved in designing products that are following *trends* market. The design of new products that are needed and of value is one of the most efficient ways of competing.

Companies can identify new and appropriate furniture product designs by surveying *buyers* new and then calculating the comparison of customer value with company costs for each potential product design so that the company will be able to improve its export sales performance. Companies must also consider how many people want each new furniture product design, how long it will take to introduce the product, and whether competitors can easily imitate it so that the company can produce furniture products faster by always showing new product innovations. Thus, companies prioritize the design of the products covered and find clear ways to provide information on how consumers can use and utilize the product designs.

#### 3.2. Trust

Based on the results of testing the measurement of the trust variable in this study, it is known that reliable and valid indicators form a variable of trust in furniture exporters in Jepara Regency, which is the research sample. The six indicators that form the trust variable are:

- 1) Attitude towards mutual benefits (*factor loading* 0.729).
- 2) Kepercayaan past and present experience (*factor loading* 0.706).
- 3) Never worry about partners (*factor loading* 0.734).
- 4) Never take action to take opportunities that can be detrimental (*factor loading* 0.666).
- 5) Reputation of partners is increasing (*factor loading* 0.741).
- 6) Developing a business integration process (*factor loading* 0.777).



Based on the **factor loading** of the six indicators above, it is known that the indicator of developing a business integration process is the indicator with the largest **factor loading** (**factor loading** 0.777). Thus it can be stated that the indicator of developing a business integration process is the indicator that contributes the most in shaping the trust variable.

Based on these empirical findings, the furniture exporting company in Jepara has agreed to develop a business integration process with various **stakeholders**. This is to get support from strong stakeholders to help win more resources and further optimize export performance based on the company's trust and commitment. Integration is one of the important things that can support the development of the export furniture business; namely, with many connections, companies can more easily develop and expand business networks. Trust in companies in the export furniture business in Jepara Regency is an important component of the business, which is the glue between the company and the buyer and the community where it operates. Buyers are more likely to buy products from companies they trust and the public is more likely to support business operations in their communities only if they trust the company.

### 3.3. Technological Capability

Based on the results of testing the measurement of the technology capability variable in this study, it is known that the reliable and valid indicators form the technological capability variable in furniture exporters in Jepara Regency which is the research sample. The six indicators that form the technology capability variable are:

- 1) Technology development (**factor loading** 0.747).
- 2) Operational technique (**factor loading** 0.848).
- 3) Strengthening the capabilities of the technology (**factor loading** 0.850).
- 4) Continuous partner technical system integration (**factor loading** 0.832).
- 5) Have IT experts (**factor loading** 0.802).
- 6) Identifying new technological opportunities (**factor loading** 0.834).

Based on the **factor loading** of the six indicators above, it is known that the indicator of increasing technological capability is the indicator with the largest **factor loading** (**factor loading** 0.850). Thus it can be stated that the indicator of increasing technological capability is the indicator that contributes the most in shaping the technology capability variable.

Based on empirical information system integration or appropriate information technology, it can support the plan and increase the company's technology capabilities which will provide added value in the form of **competitive advantage** in business competition. Competition for partners is quite high, considering that technology and its applications can continue to develop in the form of **business-to-business cooperation**. An export furniture company in Jepara must implement technology capability enhancement with information systems and information technology to improve company business processes because current export activities rely on technology.

### 3.4. Partnership

Based on the results of testing the measurement of the partnership variable in this study, it is known that reliable and valid indicators form the partnership variable for furniture exporters in Jepara Regency which is the research sample. The four indicators that form the partnership variable are:

- 1) Harmonious relationship (**factor loading** 0.770).
- 2) Committed to working together (**factor loading** 0.781).
- 3) Activities with business partners (**factor loading** 0.767).
- 4) Not easy to move to another business partner (**factor loading** 0.794).

Based on the four factors above, the indicators are not easy to move to another business partner, with the biggest indicator of 0.794 **loading factors**. Thus, the indicator is not easy to switch to another business partner is the indicator that contributes the most in forming the partnership variable.

This partnership is a joint effort that is expected to provide benefits to the parties, in this case, the Jepara furniture company that is collaborating. Furniture companies will run more optimally if they can collaborate with companies that are engaged in investing in housing, apartments, hotels, or restaurants. In contrast, we all know that such companies need furniture to complement their business. In such a way, there is nothing wrong with trying to collaborate with the company so that

your furniture business will be smoother in achieving success. In this case, to create information disclosure for export furniture business partners, what is needed is related to **updating** transaction information related to business partners to create trust and peace. Furniture companies will have long-term and mutually beneficial partnerships with both parties if any openness, honesty, and togetherness are carried out as well as possible, so it is not easy to switch to another business partner.

### 3.5. Export Performance

Based on the test results of the measurement of export performance variables in this study, it is known that the reliable and valid indicators form the export performance variables for furniture exporters in Jepara Regency, which are the research samples. The six indicators that form the export performance variable are:

- 1) Sales growth (**factor loading** 0.771).
- 2) Market share growth (**factor loading** 0.727).
- 3) Profit growth (**factor loading** 0.837).
- 4) Resulting in high sales volume (**factor loading** 0.717).
- 5) The performance of export products satisfies the company (**factor loading** 0.757).
- 6) The performance of export products has met expectations (**factor loading** 0.829).

Based on the **factor loading** of the six indicators above, it is known that the profit growth indicator is the indicator with the largest **factor loading** (**factor loading** 0.837). Thus it can be stated that the profit growth indicator is the indicator that contributes the most in shaping the export performance variable.

To increase the comparative advantage and export performance of Jepara furniture, it has been done well so that the growth of company profits is increasing. However, policies are needed that make it easier for producers to export, including encouraging trade cooperation with other countries, both bilateral and multilateral. Jepara export furniture performance achieved by export furniture SMEs in Jepara is in the high category. This is because the product innovation of the medium-scale furniture industry in Jepara is also in the high category. Jepara export furniture SMEs in improving export performance need to improve competitor knowledge management, wherefrom the descriptive analysis it is known that the index value for competitor knowledge management is still lacking. The existence of knowledge transfer in Jepara export furniture SMEs can be traced through the transfer of appropriate technological knowledge, which is carried out by sharing experiences and direct practices.

### 3.6. Findings

The scientific contribution of the results of this study is that this research has succeeded in developing a valid export performance model and meets the requirements of the model's feasibility. Thus, the export performance model from this research is a generic export performance model that can be used in Marketing Management to improve export performance.

In this study, the effect of product innovation, trust, technology capability on export performance was tested directly and indirectly mediated by partnerships. The results showed that the partnership played a significant role in mediating the effect of trust on export performance. This study also indicates the significant role of product innovation and technological capabilities in improving export performance. This finding strengthens the theory regarding the importance of increasing product innovation and technological capabilities in improving export performance. The results of this study contribute to the development of the theory of export performance in a relatively small number of SMEs in developing countries. The resulting research model shows that to improve export performance, besides increasing trust and partnership, it is also necessary to increase product innovation and technology capabilities.

The performance indicator for export products that have met expectations is the indicator that contributes most in shaping the export performance variable. The results of this study reinforce the theory that superior export performance is very important for three major groups: public policymakers, who view exports as far from accumulating foreign exchange reserves, increasing employment levels, increasing productivity, and improving people's welfare.

Based on the test results, it shows that the partnership affects export performance. A partnership is a formal cooperation between individuals, groups, or organizations to achieve export performance. It is evident that the partnership has a positive effect on export performance,

thereby proving that the results of the research carried out strengthen previous research (Thoumrungroj et al., 2014; Patria et al., 2020).

Based on the results of this study, it is evident that trust has a positive effect on export performance thereby proving that the results of the research conducted strengthen previous research (Ahamed, 2015), that export performance is also determined by the company's experience in export activities, which is increasingly having experienced a company in export activities, the performance is also getting higher. In terms of enhancing the experience of exporters, their level of expertise alone is not sufficient, so it needs to be considered again to increase trust for exporters. Trust allows a company that has been exporting for a long time to be able to survive in the export market.

The results of the technology capability test have a positive effect on export performance. The indicators used in measuring the technological capability construct to refer to the research of Zhou and Wu (2010), Jirayuth et al. (2011), Nuryakin and Retnawati (2016) that technology capability is the ability to manage both existing and changing technology. Meanwhile, where export performance is the company's target both economically and strategically concerning product exports to foreign markets, achieved through planning and implementing export marketing strategies. The results of this study prove that technology capability has a positive effect on export performance thereby proving that the results of the research conducted strengthen previous research by Wang et al. (2006), Jirayuth et al. (2011), Nuryakin and Retnawati (2016).

Based on the test results, it shows that product innovation affects export performance. The indicators used to measure the construct of product innovation refer to the research of Michalski (2014), Ahmad et al. (2020), where product innovation is an activity to produce new combinations by developing new unknown products, introducing new methods for production, the exploitation of new markets that have never been entered, the discovery of new resources, and the adoption of new ways of doing business. For small and medium-sized companies, product innovation is important for business continuity in a sustainable manner, and efforts to innovate products are an important function of the management of a company because product innovation can determine a quality marketing performance (Nasir, 2017; Ahmad et al., 2020).

Meanwhile, export performance refers to Makovec (2008), where export performance is a company's target both economically and strategically concerning product exports to foreign markets, achieved through planning and implementing export marketing strategies. The results of this study prove that product innovation has a positive effect on export performance thereby proving that the results of the research carried out reinforce the previous research of Haryanti (2016) and Ahmad et al. (2020). In this research, it contributes to the development of marketing management science about integration between the *Resources-based view* (RBV) and *Strategic Marketing* to be able to explain the research results regarding the relationship between Export Performance.

#### 4. Conclusion

Nowadays, product innovation, trust, technological capabilities, and partnerships are variables that affect the performance of furniture exports in Jepara district. The results showed that increasing product innovation was able to improve export performance. Product innovation elements that need to be prioritized for improvement, namely: modification of new products, improvement of production processes, partners involved in product design, customer-related information, communication of developing new products, presenting unique features. Furthermore, the research results provide strong evidence that trust can improve export performance. The elements of trust that need to be prioritized for improvement are: attitude towards mutual benefits, level of trust based on past and present experiences, we never worry about partners, our business partners never act to take opportunities that can be detrimental, our partners' reputation is increasing, develop business integration processes. The results also show that the increase in technological capability can improve export performances which need to be prioritized for improvement, namely: developing technology, operational techniques, enhancing technological capabilities, continuous technical system integration, having IT experts, identifying new technological opportunities. Besides, the research results also show that increasing partnerships can improve export performance. The partnership also acts as a mediating variable for the relationship between trust and export performance. Elements of partnership elements that need to be prioritized for improvement, namely: this relationship is harmonious, committed to working in the long term, activities with business partners; it is not easy to move to other business partners.

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