

# COMPETITIVE ADVANTAGE AND PRODUCT INNOVATION: KEY SUCCESS OF BATIK SMES MARKETING PERFORMANCE IN INDONESIA

Nuryakin, Universitas Muhammadiyah Yogyakarta

## ABSTRACT

*The aims of this research is to contribute to literature and the conceptual model of the influence of marketing capabilities on competitive advantage and marketing performance, the relationship between market orientation on product innovation and marketing performance and providing empirical evidences on the importance of competitive advantage and product innovation to enhancing on superior marketing performance. The sample of this research was Batik SMEs in Central Java province. The analysis of the unit study was managers or owners of Batik SMEs. The number of samples examined was 200 samples.*

*The purposive sampling technique was used to the data collection methods. The results of this study showed that marketing capability had insignificant effect on marketing performance. Marketing capability significantly effect on competitive advantage; market orientation had significant effect on marketing performance. Market orientation also gave significant effect on product innovation. Product innovation significantly effect on competitive advantage. Competitive advantage had significant effect on marketing performance and product innovation has significantly effect on marketing performance.*

**Keywords:** Marketing Capability, Product Innovation, Market Orientation, Competitive Advantage, SMEs Marketing Performance.

## INTRODUCTION

The modern era has consequences for entrepreneurs in creating market opportunities. Business-oriented organizations must be able to sustain their market amid the increasingly fierce competition and that even need to seize the market from competitors. One of the efforts required by a company to gain market share is with marketing capabilities (Guenzi & Troilo, 2006). Even, marketing capabilities are the key for organization in achieving competitive advantage through the creation of low-cost advantage and differentiation advantage, so that their products are better known than the competitors' products (Tan & Sousa, 2015).

Studies on marketing capabilities have also been extensively researched in different scopes of organizations, as on the sales managers (Guenzi & Troilo, 2006), hotel industry (Mohammed & Rashid, 2012), across different industries (Morgan, Slotegraaf & Vorhies, 2009a) and even on firms with export-oriented market (Tan & Sousa, 2015). The importance of marketing capabilities for business performance with adequate strategic resources will be easier to sustain their survival, to expand and to take profits and business performance (Nuryakin, Aryanto & Setiawan, 2018).

Globalization also enables companies to allocate their internal resources as the source of competitive advantage (Barney, 1991). Internal capabilities as the source of competitive strategy advantage can create uniqueness for the company than the competitors and can directly assure

the superior corporate performance. This is the importance of internal capabilities for the company, where the existing opportunities and chances will be utilized by the company so as to win the competition.

Sin, Tse, Yau, Chow & Lee (2005) examined the impact of customer orientation, competitor orientation and inter functional coordination on business performance. The result found that market orientation gave positive and significant effect on business performance. Another research by Kohli & Jaworski (1990); Narver & Slater (1990); Slater & Narver (1994) have become a reference for studies on the impact of market orientation on business performance.

Innovation can also be considered as pivotal for a company in creating competitive advantage (Darroch & McNaughton, 2002). Efforts in achieving success, the main task of the company is to determine market perceptions, needs and demands to be able to create products with superior value. This superior value is highly subjective and lies only in the customers; minds. Organization need to study the entrepreneurship on the business performance (Wulandari, Djastuti & Nuryakin, 2017).

Based on the theory of competitive advantage, competitive advantage consists of two main dimensions, namely low-cost advantage and differentiation advantage as the key in achieving superior performance (Porter, 1980). In the theory of competitive advantage even explains about a company's internal capabilities to attain organization strategic advantage (Day, 1994). Meanwhile, one of the company's internal capabilities that need to be considered to achieve competitive advantage is marketing capability.

One type of companies that seeks to achieve competitive advantage and marketing performance is the Batik SMEs in Indonesia. Competition among batik industries has demanded the marketing managers to improve their marketing capabilities. A study developed by Olson & Hult (2005) emphasizes three important points in achieving competitive advantage: 1) implementation of competitive advantage will be successful for the superior corporate performance, 2) marketing plays a pivotal role in implementing strategy and 3) the role of marketing in the implementation of corporate strategy is the unity of a more specific corporate strategy.

The scope of this research is Batik SMEs in Indonesia. This is interesting to conduct amidst competition with imported products from other Asian countries. The trend of development of marketing activities also shows a tendency of change so that SMEs still require development towards an increasingly global market through the creation of competitive advantage and technological adoption (Nuryakin & Retnawati, 2016). Role of marketing managers in the SMEs scale is still urgently needed in encouraging and creating marketing capabilities of the industry. Therefore the problems of Batik SMEs in Indonesia were to enhancing marketing capability and new product innovation. Moreover, Batik SMEs in Indonesia needs speed access to competitor response and consumer response with marketing capabilities and product innovation.

This research aims to contribute to literature on the conceptual model of the influence of marketing capabilities to competitive advantage and marketing performance, the relationship of market orientation on product innovation and marketing performance. Moreover, this research attempts at providing empirical evidences to the importance of competitive advantage and product innovation in achieving superior marketing performance.

## THEORETICAL BACKGROUND

The study developing based on theory the theory about theory resources based view. Resources based view was at developed in the study Barney (1991). Resource based views explains that companies based internal resources to be able to develop and competitive advantage and business performance. The literature review of the theory in the study about these concepts is conducted to achieving of marketing performance. On behalf, to test the concept of this research developed in the model empirical research in seven hypothesis that actually appear to be in figure under to testing the effect of between the variable of this research.

### Competitive Advantage and Marketing Performance

Teece, Pisano & Shuen (1997) have developed a theory on organizational dynamic capabilities. Dynamic capability is a company's ability to integrate, build and reconfigure internal and external competencies to address rapid environmental changes. Beyond that, dynamic capability reflects the organization's ability to gain a form of competitive advantage and innovation. Dynamic capability also emphasizes the key role of strategic management in performing conformity, integration and reconfiguration correctly to skills, resources and organizational functional competences to adapt with the environmental changes. The term dynamic refers to the capacity to renew competencies so as to achieve conformity with the business environmental changes and be able to achieve competitive advantage.

David Chew, Shigang Yan & Charles Cheah defines capability as the main key for an organization to attain competitive advantage. Further stated, a positive relationship between core capabilities and strategic advantage exists. The study also concluded the importance of core capabilities and strategic advantage as the main driving factors to achieve superior performance.

Performance, according to Yıldız & Karakaş (2012), is crucial for a company with the correct approaches and criteria in achieving sustainable competitive advantage. Currently, the concept of business performance has become one often used instrument by both academicians and professional managers in all areas of business environment, particularly in the strategic management study. Yıldız & Karakaş (2012) measure the dimension of business performance with eleven indicators that comprise profit and profit growth, sales and sales growth, market share and market share growth, successful launch of new products, entire business performance, return on sales, return on investment, customer satisfaction, good quality of goods/services procurement, reputation and image and competitive advantage. Nuryakin & Retnawati (2016) measure marketing performance indicate with sales growth, profitability and market coverage.

Mappigau & Hastan (2012) explain that the core competence of a company may create competitive advantage. Their finding also shows that core competence development will focus on the development of design, color and exclusiveness of motives for new materials and material interior and souvenirs. Lertputtarak (2011) studies the characteristic of Human Resources managers and organizations and also examines their levels and knowledge competencies in the market within organizational performance. The results showed that managers with different characteristics on personal and organizational data have significant differences on Human Resources. The Human Resources and competencies in a market knowledge influences organizational performance.

A research from Gomes, Yasin & Lisboa (2009) concluded that there are several factors that contribute to corporate competitive advantage and marketing performance. The factors are closely related to market leadership. Market leadership covers a set of methods that signifies the

importance of a company in responding to market. The second factor is production and product. This factor reveals an organization for specific products and company's production process. The third factor is organizational innovation. The variables included in this factor express special attention to sustainable corporate innovation. The fourth factor is through efficiency and service.

Another study done by Singh & Garg (2008) found that SMEs have not received attention yet to develop their effective strategies. In export sector, SMEs encounter many constraints due to lack of resources and poor of innovative capabilities. To maintain their competitiveness, they must have a benchmark of their assets, process and performance related to superiority of the best product in their industry. A similar research also concludes the value supply chain may determine corporate competitive advantage and marketing performance (Gurau, 2004).

## **Product Innovation**

Companies must realize the need for changes to product design. New product designs used to restrict to certain corporate and industry only, but in the current era of market competition have changed (Abecassis-Moedas, 2006). In the past, market environment tended to be stable (Garud, Jain & Tuertscher, 2008) so that the product designs and new product development techniques did not change rapidly. At present, product life cycle is perceived to be faster than ever before.

Innovative product becomes a crucial point in the industry where through innovative product, customers gain benefits from the sides of either the new feature, design or function (Khin, Ahmad & Ramayah, 2010). Competitive companies no longer keep offering similar products or only competing based on traditional reasons such as price and quality. Particularly for technical companies, the inevitable trend is to differentiate product offering to innovation in gaining competitive advantage over competitors.

Khin et al. (2010) state that innovation is related to strategy and resource. On strategy approach, innovation is a differentiator to the competitors (Porter, 1985). Lynn & Akgun (1998) divide innovation strategy into 3; namely strategy encouraged by customers, strategy encouraged by process and strategy encouraged by pioneer. In another paper, Lynn, Mazzuca, Morone & Paulson (1998) suggests that innovation strategy can be divided into strategy based on process, speed, market, learning and qualitative. Akman & Yilmaz (2008) argue that innovation strategy comprises of 6 strategies including aggressiveness, analysis, defensive, futuristic, proactive and responsive.

A company is said to be able to innovate once it is successful to implement creative idea into its product/service (Amabile, Conti, Coon, Lazenby & Herron, 1996). Khin et al. (2010) proposes that a product is said to be innovative when the customers gain various benefits from the new design, function and feature. Janssen, Stoopendaal & Putters (2015) classify innovation into two words, novelty and newness. Innovation means there is something new that is applicable on the process, product and idea (West, 1990).

## **Marketing Capabilities**

Capability for an organization is admitted as the source of competitive advantage and is described as a core competence (Prahalad & Hamel, 1994), exclusive knowledge (Day, 1994), superior resources (Hunt & Morgan, 1995) and strategic asset (Barney, 1991). Further, the researchers view the importance of competence role in the marketing sector by formulating strategy and implementation and propose that companies must gain information about the

competitors and utilize it in a coordinated department to apply the strategy, comprehension, creation, selection, conduction and modification of the strategy that will be run.

Day (1994) said that competence is seen as collective skill and learning of business organization applied in the process of corporate activities. A study of Pitt & Clarke (1999) views competence as a coordinated organizational capability, collective skill and capacity of an organization. In an increasingly competitive external environment, organization strives to learn on a new market trend and ideas to become the vanguard (Hoe, 2008). Further, Hoe (2008) explains that as the consequence, the new form of organizational learning capability rises where the organization is able to implement market knowledge generated from the customers and competitors that modify the corporate behavior in responding competition. The implementation of the knowledge is the company's policy to shape customer profitable market and develop new product in order to expand customer network.

Marketing capabilities have been defined as "the integrative processes designed to apply collective knowledge, skills and resources of the firm to market-related needs of the organization, enabling the business to add value to its goods and services, adapt to market conditions, take advantage of market opportunities and meet competitive advantage (Vorhies, 1998).

The success of corporate performance according to Morgan, Slotegraaf & Vorhies (2009b) is determined by the marketing capabilities and marketing resources. Marketing capability is closely related to dynamic capability, cross function coordination, architectural capability and specialization availability generated by the company. Meanwhile, performance in reflected in the form of sales, customer satisfaction, customer retention and market share served by the company. According to Tan & Sousa (2015), marketing capability is divided into four factors, i.e. product capability, pricing capability, distribution capability and communication capability. It is further explained that a company that is capable of developing the marketing capability will be able to achieve competitive advantage that is difficult to imitate by the competitors.

## **Market Orientation**

A company which performs orientation to the market needs to possess good comprehension on the strengths and weaknesses of the competitors, needs to utilize the knowledge and needs to develop and implement strategies in order to create better customer value and satisfaction. A study done by Narver & Slater (1990) elaborates dimensions of market orientation into: customer orientation and competitor orientation; and the implementation of the two orientations are better to be combined with the third orientation namely cross function coordination within a company that will enhance company's endurance against competitors as well as improving customer satisfaction.

Meanwhile, Kohli & Jaworski (1990) explain antecedent model and consequence of market orientation. The role of senior manager policy, dynamic in cross department cooperation and also organizational system as the antecedent of market orientation that then is followed by the role of employee response, customer response and company's performance as the consequences of market orientation. It is further explained that a successful market orientation, according to Kohli & Jaworski (1990), has 3 (three) primary requirements, i.e.: (1) focus to customer, (2) coordinated marketing, (3) cross department coordination in a company.

Kohli & Jaworski (1990) defined market orientation as generation of market intelligence, dissemination of the intelligence across departments and organization-wide responsiveness.

Further, Kohli & Jaworski (1990) analyze market orientation at the organizational activity level. Narver & Slater (1990) consider market orientation as a cultural aspect of an organization. They measure market orientation at an individual level and define orientation with customer dimension, competitor orientation and inter-functional coordination. The two different approaches are combined in a framework and have been defined into market knowledge competence, knowledge regarding to the focus of information process, customer and competitor. Meanwhile, Smirnova, Naudé, Henneberg, Mouzas & Kouchtch (2011) in their study explain dimensions of market orientation comprise of customer orientation that has positive influence on relational capability. Market orientation with orientation dimension on competitor effects on marketing performance. Market orientation with cross function dimension influences relational capability and marketing performance.

Efforts to integrate market orientation and establish international marketing are crucial for a company (Lengler, Sousa & Marques, 2013). Lengler et al. (2013) also tests the influence of customer and competitor orientation on export performance with results that customer orientation has a relationship with export sales, competitor orientation relates to corporate profit. Further in Lengler et al. (2013) also shows that customer orientation associates to export sales.

## **Research Hypotheses**

### **The Relationship between Marketing Capability on Competitive Advantages and SMEs Marketing Performance**

Lin & Peng (2008) state that performance is a result of organizational operational activities including corporate goals achievement of both the internal and external. Moreover, the study defines business performance as organizational goals achievement on sales growth, profit and market share. Many companies attempt to adopt specific strategies to lead and attain the predefined goals (Panigyrakis & Theodoridis, 2009). One effort to achieve the goals and control the process is through performance measurement. Yıldız & Karakaş (2012) state that the criteria in determining marketing performance can be measured with two approaches, objectively and subjectively. The performance measurement in the study is by determining the criteria qualitatively (such as overall customer satisfaction of business performance) or quantitatively (such as profit, sales).

The success of corporate marketing performance according to Morgan (2011) is determined by marketing capabilities and resources. Marketing capability is closely related to dynamic capability, cross function coordination, architectural capability and the availability of specialization generated by the company. Meanwhile, marketing performance is reflected in the form of sales, customer satisfaction and customer retention and market share served by the company. Lin & Peng (2008) propose that performance is yielded from organizational operational activities including corporate goals achievement of both internal and external. In the study, business performance is further defined as organizational goals achievement on sales growth, profit and market share. Many organizations seek to adopt specific strategies to lead and achieve the predetermined goals (Panigyrakis & Theodoridis, 2009). One of the efforts to attain the goals and process control is through performance measurement.

Huang, Chen & Stewart (2010) elaborate three concept dimensions that are able to measure business performance. The three dimensions are business competition, manufacture performance and process efficiency. The business competition covers profitability, sales growth, total quality cost and company's capability to establish a new business. Manufacture

performance is focused on the average usage of production machines, production time cycle, operational cost and both internal and external customer satisfaction. Efficiency process is related to whether the company has performed efficiency and effectiveness in the corporate operational process (Huang et al., 2010).

Based on the elaborations of the previous researches, hypotheses are developed as follows:

*H<sub>1a</sub>: Marketing capability has positive effects on marketing performance of SMEs.*

*H<sub>1b</sub>: Marketing capability has positive effects on competitive advantages of SMEs.*

### **The Relationship between Market Orientation on Product Innovation and SMEs Marketing Performance**

Eris & Ozmen (2012), in their study, assess the effect of market orientation, organization learning and innovation on corporate performance which shows results of positive effect of market orientation, organizational learning and innovation on the corporate performance. Another research conducted by Singh & Garg (2008) found that SMEs have not received quite attention yet to develop their effective strategies. In export sector, SMEs encounter many constraints due to lack of resources and innovative capabilities. To retain their competitiveness, they must possess benchmark of their assets, process and performance regarding to the best product superiority in their pertinent industry. A similar research also concludes that value supply chain can determine corporate competitive advantage and marketing performance (Gurau, 2004).

A study developed by Kohli & Jaworski (1990); Slater & Narver (1994) found that rapid and precise corporate response to the customer needs is crucial factors when the company is encountering aggressive competitors ready to penetrate the market. Meanwhile, Carbonell & Escudero (2009) suggest providing a strong influence to the organizational capabilities in achieving their innovation speed to enable to enhance performance of new product launch.

Bodlaj (2003) states that market orientation (either proactive or responsive) plays an important role for innovative performance as marked by the success of new product sales that provides additional value to the customers and enhance corporate performance. Market orientation itself, according to Jensen & Harmsen (2001), is seen as an important factor of corporate innovation performance marked by the level of new product development success. Slater & Narver (1994) found in their research a positive association of market orientation and innovation consequence, innovative performance on new product.

The elaborations of the previous studies have led to the following hypotheses development:

*H<sub>2a</sub>: Market orientation has positive effects on product innovation.*

*H<sub>2b</sub>: Market orientation has positive effects on SMEs' marketing performance.*

### **The Relationship between Product Innovation and Competitive Advantages**

Innovation is broadly seen as an important component of competitive advantage planted in the structure of organization, production process activities, product launched and also marketing strategies of a company (Alpkan, Bulut, Gunday, Ulusoy & Kilic, 2010). It is further

explained that the basic manual to determine innovation activities at corporate level is divided into four types of different innovation, namely: product innovation, process innovation, marketing innovation and organizational innovation. The types of innovation overall possess positive impacts on corporate performance.

Nandakumar, Ghobadian & O'Regan (2010) found that environmental dynamic and competition as the moderator effects of relationship between business strategy and competitive performance level. At low environmental competition, high leadership strategy, cost and competitive environment, differentiation strategy leads to better performance compared to the competitors. At highly dynamic environment, leadership strategy, cost and dynamic and low environment, differentiation strategy will help more in improving marketing performance. Similarly, David Chew, Shigang Yan & Charles Cheah also concludes that core capability and competitive strategy found to influence SMEs give effect on performance. Besides, there is also a positive association between core capability and competitive strategy. It indicates the needs of company's effort to balance the core capability and competitive strategy as an attempt to enhance the superior marketing performance.

A research done by Eshlaghy & Maatofi (2011) shows the importance of innovation role that could positively contribute to corporate performance. The company's role in responding the bumpy environment requires innovation which by itself possesses a central role in the movement towards the highest comparative advantage and performance. Although many past researchers have investigated the effect of innovation on organizational performance, it seems that the innovation role is highly required to support corporate performance.

Meanwhile, another research found the importance for a company to be critical against their innovation is a crucial part of the company and a chance for future company success (Holtzman, 2008). Another finding also revealed that many companies performed innovation in either technology or marketing innovation (Lin & Chen, 2007; Meroño-Cerdán, Soto-Acosta & López-Nicolás, 2008).

Based on the elaborations of the previous studies, the following is hypothesis developed.

*H<sub>3</sub>: Product innovation has positive effect on competitive advantages of SMEs.*

### **The Relationship between Competitive Advantages and SMEs Marketing Performance**

Resource-Based Theory is firstly delivered by Wernerfelt (1984) in his pioneer article entitled "A Resource-based view of the firm" which combines the idea of 'distinctive competencies' and definition of the firm as a system of productive resources. Moreover, proposes that a company possesses resources that enable the company to possess competitive advantage and lead the company to have a better long term performance. Valuable and rare resources can be directed toward competitive advantage creation that the resources owned will long last and difficult to imitate, to be transferred or replaced.

A study that measures marketing performance is developed by Meutia & Ismail (2012) which employed three dimensions: profit growth, sales growth and customer growth. Further, Meutia & Ismail (2012) uttered that business performance can be enhanced through competitive advantage of product. The higher product competitive advantage generated, the higher the business performance.

The concept of competitive advantage in a business company is a function of industry analysis, organizational management and company's effect in the forms of resources benefit and

strategy (Mahoney & Pandian, 1992). A company may form strategies in encountering competitive environmental demands and develop capabilities based on the competitive environment. Amid the pressure of competition, it is clearly important for the company to formulate strategies and enhance performance. Various available researches reflect the reality that organizational capability, competition, unpredictable environment, strategy and performance have close relationship (Parnell, Lester, Long & Ko'seoglu, 2012). In other words, mutual interaction at various level of analysis between market environment and corporate capability has a close relationship with business strategy and performance.

The previous studies elaborations have led to the following hypothesis:

*H<sub>4</sub>: Competitive advantages have positive effect on marketing performance of SMEs.*

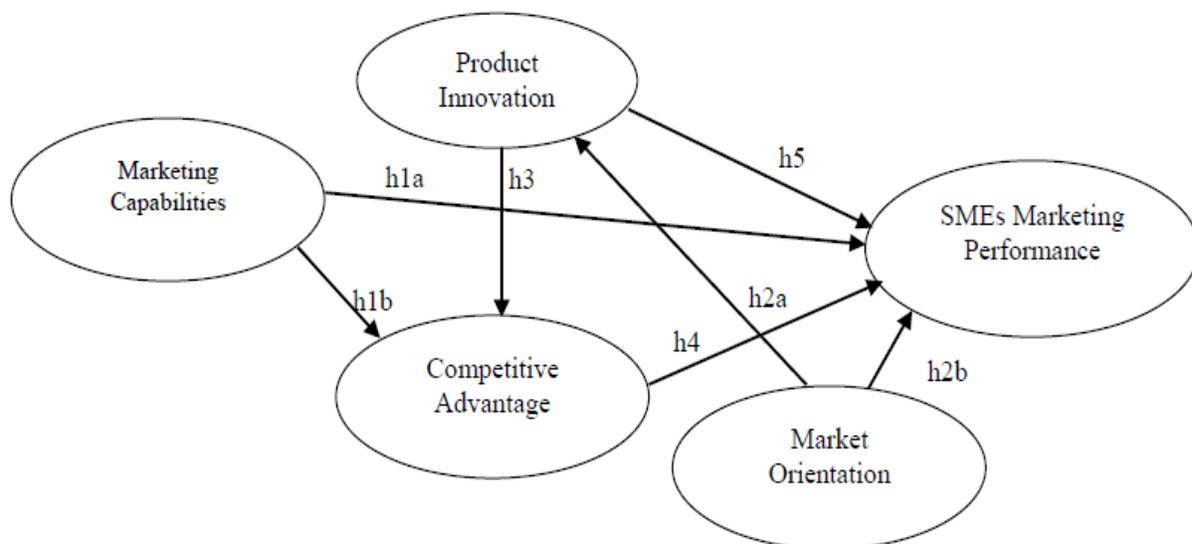
### **The Relationship between Product Innovation and SMEs Marketing Performance**

Innovation is an important function in management for innovation is related to corporate performance as has been proven by Eshlaghy & Maatofi (2011). A similar research was also done by Lin & Peng (2008) which shows that entrepreneurial orientation variable gives effect on innovation and business performance. The research is also in line with Najib & Kiminami (2011) which provides evidences that cooperation brings significant relationship of SMEs innovation in the cluster of food manufacturing industry. In addition, business performance is a function of innovation in which the results of the research also indicate that innovation has significant influence on SMEs business performance.

The explanations have led to the following developed hypothesis:

*H<sub>5</sub>: Product innovation positively affects marketing performance of SMEs.*

Based on previous study and literature review, we develop empirical research model (Figure 1):



**FIGURE 1  
EMPIRICAL RESEARCH MODEL**

## RESEARCH METHODS

### Research Design and Sample

This research used a quantitative approach. The total sample in question as many as 200 respondents with the technique sample using purposive sampling. This research was conducted with respondents of owner or manager on Batik SMEs entrepreneurs in Central Java province. The area that included: Surakarta, Sragen, Klaten & Sukoharjo where they filled out questionnaires and interviews. The number of questionnaires and number of response rate in the area are presented in the following Table 1.

| Area      | Sample Size | Sample Response | Response rate |
|-----------|-------------|-----------------|---------------|
| Surakarta | 80          | 68              | 34            |
| Sragen    | 40          | 32              | 16            |
| Sukoharjo | 40          | 31              | 15.5          |
| Klaten    | 40          | 32              | 16            |
| Total     | 200         | 163             | 81.5%         |

The Table 1 indicates that response rate of the samples researched is above 81.5%. The response rate at above 80% shows good result so there is no potential of response bias. The purposive sampling technique was used to the data collection methods considering the experiences owned by the Batik SMEs entrepreneurs (both whose status were manager and owner) in developing their business.

### Scale and Measurement

Market orientation is an effective and efficient business culture to generate values required in order to the superior values is created for the buyers (Kohli & Jaworski, 1990). Questionnaire items used in measuring marketing orientation used three dimensions: competitor orientation, customer orientation and inter-functional coordination.

Marketing capabilities, according to Tan & Sousa (2015), are divided into four factors, namely product capability, pricing capability, distribution capability and communication capability.

The define of product innovation is an effort to create value and develop products through a new idea, a new technology, an adoption of technological application within new design of business (Low, Chapman & Sloan, 2007). The instrument of product innovation used four indicators: exclusive product creation, characteristic of cultural valued-products, attractive designs and unique colors.

Competitive advantage, according to Gomes et al. (2009), is closely related to market leadership, production, innovation and efficiency or service. Indicators of competitive advantage in this research were price advantage, goods quality advantage, product differentiation and conformity of product to customer taste.

Marketing performance is an output achieved by a company from marketing activities, including corporate goal achievement (Lin & Peng, 2008). The indicators of marketing

performance were the growth of sales volume, profit growth, asset growth and number of customer's growth.

Instrument of the five constructs was measured using Likert scale with scores ranged score 1 strongly disagree response, score 7 strongly agree response.

### Validity and Reliability Testing

Validity and reliability testing of research instrument use Confirmatory Factor Analysis (CFA test) to test the construct and the indicators (validity test). Therefore, reliability testing employed Cronbach's alpha (Cronbach's  $\alpha$ ). The following Table 2 shows the testing results of confirmatory factor analysis and Cronbach's alpha (Cronbach's  $\alpha$ ).

| <b>Table 2</b>                                     |                                    |
|--|------------------------------------|
| <b>SCALE ITEM FOR MEASURES</b>                     |                                    |
| <b>Construct and indicator</b>                     | <b>Standardized factor loading</b> |
| Marketing Capability (Cronbach's $\alpha=0.845$ )  |                                    |
| Capability to create product quality               | 0.778                              |
| Capability to promote product                      | 0.772                              |
| Capability to create competitive able price        | 0.774                              |
| Capability to distribute product                   | 0.718                              |
| Market Orientation (Cronbach's $\alpha=0.835$ )    |                                    |
| Orientation with the competitor                    | 0.747                              |
| Orientation with Customer                          | 0.894                              |
| Inter-functional coordination                      | 0.742                              |
| Product innovation (Cronbach's $\alpha=0.838$ )    |                                    |
| Exclusive motive creation                          | 0.793                              |
| Cultural characteristic-based product              | 0.701                              |
| Attractive product design creation                 | 0.787                              |
| Unique choice of colors                            | 0.717                              |
| Competitive advantage (Cronbach's $\alpha=0.830$ ) |                                    |
| Attractive price offering                          | 0.709                              |
| Material quality advantage                         | 0.774                              |
| Product differentiation                            | 0.712                              |
| Market taste based product                         | 0.757                              |
| Marketing Performance (Cronbach's $\alpha=0.883$ ) |                                    |
| Sales growth                                       | 0.844                              |
| Profit growth                                      | 0.852                              |
| Number of customers growth                         | 0.859                              |

Based on statistical testing for the five constructs, i.e. marketing capability, market orientation, product innovation, competitive advantage and marketing performance resulted loading factor score  $>0.05$  and the score of construct reliability  $>0.6$ . Thus, it can be concluded that the instrument is valid to measure the variables.

## RESULTS

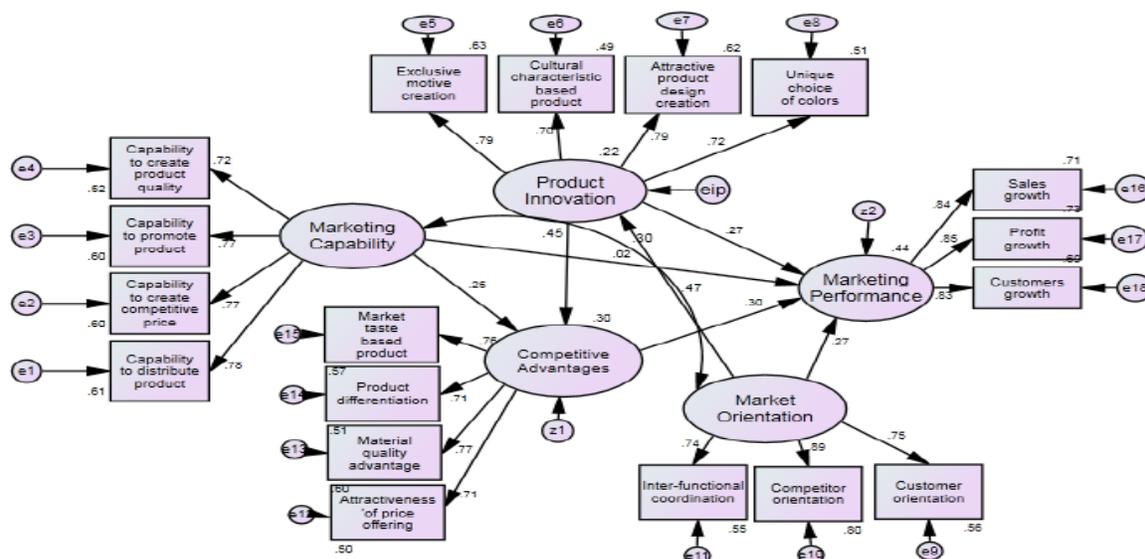
This research employed statistical testing with Structural Equation Modeling (SEM) approach to examine the initial assumption testing which results have shown with Chi-Square at

175.675, probability 0.003, TLI 0.960, GFI at 0.903, AGFI at 0.870, score of RMSEA 0.047 which explained that the value.

The results of testing for mean value, standard deviation value and correlation between marketing capabilities, market orientation, product innovation, competitive advantage and marketing performance constructs can be seen in Table 3.

|                        | Mean  | Standard Deviation | 1     | 2     | 3     | 4     | 5     |
|------------------------|-------|--------------------|-------|-------|-------|-------|-------|
| Market Orientation     | 5.525 | 0.776              | 1.000 |       |       |       |       |
| Marketing Capability   | 5.560 | 0.678              | 0.300 | 1.000 |       |       |       |
| Product Innovation     | 5.623 | 0.774              | 0.503 | 0.151 | 1.000 |       |       |
| Competitive Advantages | 5.308 | 0.665              | 0.322 | 0.318 | 0.533 | 1.000 |       |
| Marketing Performance  | 5.196 | 0.859              | 0.507 | 0.278 | 0.556 | 0.534 | 1.000 |

The correlation score market orientation on marketing performance showed significant value of (0.507\*\*). The relationship of market orientation and product innovation constructs indicated a less strong correlation score (0.503\*\*). The association of marketing capability and marketing performance constructs showed a strong correlation (0.278\*). The relationship between marketing capability and product innovation constructs significant value of (0.151\*) (Figure 2). The relationship of product innovation on marketing performance indicated a strong correlation (0.556\*\*). The association between competitive advantage and marketing performance constructs also showed a strong correlation (0.534\*\*).



Chi-square=175.675;Probability=.003;DF=127;CMIN/DF=1.383;GFI=.903;AGFI=.870;CFI=.966;TLI=.960;RMSEA=.047

**FIGURE 2  
FULL MODEL THE RELATIONSHIP OF MARKETING CAPABILITY, MARKET ORIENTATION, PRODUCT INNOVATION, COMPETITIVE ADVANTAGE AND MARKETING PERFORMANCE**

Marketing capability insignificantly influenced marketing performance. The results of regression between marketing capability on marketing performance as shown the t-value 0.254 with significance value ( $0.800 > 0.05$ ). Therefore, the hypothesis 1a shown a positive effect of marketing capability on marketing performance was not supported. The hypothesis 1a is rejected.

Marketing capability significantly effects on competitive advantage. The results of regression between marketing capability and competitive advantage as shown the t-value 2.728 with significance value ( $0.000 < 0.05$ ). Therefore, the hypothesis 1b shown a positive effect of marketing capability on competitive advantage was supported. The hypothesis 1a is accepted.

Market orientation has a significance effect on marketing performance. The results of regression between market orientation and marketing performance as shows t-value 2.944 with significance value ( $0.006 < 0.05$ ). It means that the hypothesis 2a is a positive influence of market orientation on marketing performance. Furthermore, hypothesis 2a is accepted.

Market orientation has a significance effect on product innovation. The results of regression between market orientation on product innovation that the t-value 5.078 with significance value ( $0.000 < 0.05$ ). Therefore, the hypothesis 2b showed a positive influence of market orientation on product innovation. The hypothesis 2b is accepted.

Product innovation significantly affects competitive advantage. The results of regression between product innovation and competitive advantage which shows t-value 4.585 with significance value ( $0.000 < 0.05$ ). Therefore, the hypothesis 3 states a positive influence product innovation on competitive advantage was supported. Hypothesis 3 is accepted.

Competitive advantage has significant effect on marketing performance. The results of regression between competitive advantage and marketing performance which shows t-value 3.033 with significance value ( $0.002 < 0.05$ ). Therefore, the hypothesis 4 states the positive effect of competitive advantage with marketing performance was supported. Hypothesis 4 is accepted.

Product innovation has a significant effect on marketing performance. The results of regression between product innovation and marketing performance which was shown with t-value 2.788 with significance value ( $0.005 < 0.05$ ). The hypothesis 5 state a positive effect of product innovation on marketing performance was supported. Therefore, hypothesis 5 is supported.

## CONCLUSION

This study attempts to respond the research purposes, first, to provide development of conceptual model on marketing capability effect to competitive advantage and marketing performance. Second, to test the effect of market orientation on product innovation and marketing performance. Third, to provide empirical evidences on the importance of competitive advantage and product innovation in the context of Batik SMEs in Indonesia to attain superior marketing performance.

Marketing capability gives insignificant effect on marketing performance. This result is different to the previous researches which conclude that the success of corporate marketing performance according to Morgan (2011) is determined by the marketing capabilities and marketing resources. This result is also different to the previous researches which state that a company which seeks to adopt specific strategies to lead and achieve predefined goals (Panigyrakis & Theodoridis, 2009). Another result of this research also suggests that marketing capability gives significant effect on competitive advantage. This finding is in line with the previous researches done by Cohen & Kaimenakis (2007) which found that the use of intangibles resources where the value for the company in many cases is far greater than the tangible assets

value. Intangible resources which are a crucial concept within a business organization need to be managed well in offering competitive advantage resources for the organization.

The results of this research have proved that market orientation gives significant influence on marketing performance and product innovation. This finding supports the previous study done by Smirnova et al., 2011. Similar result was also found by Wang dan Feng where customer orientation has a positive effect on corporate performance. Market orientation significantly affects innovation.

Innovation has a positive effect on marketing performance. This study supports the previous research by Eshlaghy & Maatofi (2011) which revealed the importance of innovation role that could provide positive contribution on corporate performance.

This research offers an empirical research of the effect and relationship between market orientation and marketing performance where have been empirically proven in the previous studies. This research also gives theoretical contribution in proving the previous studies conducted by Narver & Slater (1990) on market orientation dimension, customer orientation dimension and competitor orientation that could enhance the marketing performance.

### LIMITATION AND RECOMMENDATION

The findings of this research explain the importance for a company to create product innovation and competitive advantage in improving the marketing performance. For Batik SMEs entrepreneurs in Indonesia, they need to continuously develop product innovation activities through designs, qualified materials and exclusive product with culture characteristic and attractive choices of colors in order to improve the product competitiveness. However, the findings also suggest that marketing capabilities indirectly do not improve the marketing performance. This research shows that marketing capabilities should be aimed at improving product competitiveness advantage in the form of attractive price creation for customers. The creation products with differentiation and confirmatory to the customers taste.

Recommendations for future researches, it is necessary to develop a more comprehensive model development on internal characteristics of SMEs entrepreneurs; for instances entrepreneurial orientation, learning capabilities and relational flexibility in order to improve the marketing performance continuously. Another recommendation is related to the research sample. The sample used should be more selective in choosing the respondents considering the highly heterogeneous characteristics of the respondents that may lead to the biased responses.

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