

# ETHNOCENTRIC PRODUCT ADVANTAGE: A PERSPECTIVE OF COMPETITIVE ADVANTAGE IN SMALL AND MEDIUM ENTERPRISES (SMEs)

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## ABSTRACT

*Ethnicity is the best strategy for mobilizing ethnic groups to achieve organizational goals. Ethnicity consists of ethnic identity as a personal reference, a source of motivation, behavior and social construction to interpret and read people in certain regions. This study aims to build an ethnocentric product advantage model to fill the research gap between innovation capability and marketing performance. Ethnocentric product advantage is the superiority of company product in placing product in the mind of consumer with the aim of being the center of attention of certain ethnic/community group by using distinctive ethnic, unique product and different product. This research model involves a number of other important supporting variables such as product reputation and market orientation to increase SMEs marketing performance. From a population of 140 small and medium sized Batik Salem companies, a total of 114 respondents were selected for the sample to be processed using the AMOS 22.0 analysis tool. Our research show that the level of goodness of fit for the model meets all the condition needed, and all proposed hypotheses are accepted.*

**Keywords:** Innovation Capability, Product Reputation, Market orientation, Ethnocentric Product Advantage, Marketing Performance.

## INTRODUCTION

Increasing competition in the business world is something that cannot be avoided by companies, so companies are required to be able to understand and understand the dynamics or changes that occur in the market, especially those related to the steps that must be taken in order to answer market dynamics and needs and the desires of consumers, as well as in efforts to improve the competitiveness of companies. Innovation carried out by the company, through the creation of new and different products from existing products or making improvements of existing products, because innovation as a mechanism for companies to adapt in a dynamic environment so as to create service performance that satisfies customers because innovation is as one of the important variables in determining performance (Baker & Sinkula, 1999). Facing intense competition conditions, companies must also create competitive advantage which is a profitable strategy for companies, one of the strategies that can be used by companies is to always make product innovations. The main goal of product innovation is to meet market demand so that it can be used as a competitive advantage for the company and will be one of the sustainable competitive advantages of marketing performance (Han et al., 1998).

According to Hurley & Hult (1998), innovation is a mechanism for companies to adapt to a dynamic environment; therefore companies are required to be able to create new thoughts, new

ideas by offering innovative products and improving services that can satisfy customers. The company must also try to use the resources it has to be able to innovate. Product innovation is one of the most important competition factors for achieving success where the business environment has been changing rapidly lately (Han et al., 1998). Lou (1999) & Amabile (1996) state that innovation is a successful application of creative ideas within the company. Innovation is a company mechanism to adapt in a dynamic environment, so companies are required to be able to create new assessments, new ideas, offer innovative products and improve service performance that satisfy customers.

The problem in this study is the sales volume of Batik Salem which is of Sundanese ethnicity, smaller than the sales volume of Batik Cirebon which has a mixture of Sundanese ethnic and Javanese ethnic (Fahreza & Ihsan, 2017) and Batik Pekalongan which are Javanese ethnic (Kridarso, 2018), and research gaps the effect of product innovation on marketing performance. Although different ethnicities, but as fellow batik crafters on the north coast of Java Island, Batik Salem also has the smallest number of SMEs and the sales volume is compared to Batik Cirebon and Batik Pekalongan. Ethnicity is the best strategy for mobilizing ethnic groups to achieve organizational goals. That happens because ethnicity consists of ethnic identity as a personal reference, a source of motivation, behavior and social construction to interpret and read people in certain regions (Damanik, 2016). Based on data from the Central Bureau of Statistics of Brebes Regency, Cirebon Regency and Pekalongan City (2017); in 2016 the total number of sales of Batik Salem was 260,000, with a total of 140 Small and Medium Enterprises (SMEs). This is smaller when compared to batik from two other regions of different ethnic, such as Batik Cirebon and Batik Pekalongan. Batik Cirebon sales volume can reach 4,453,000 batik pieces from as many as 521 SMEs (Brebes Regency Central Bureau of Statistics, Cirebon Regency, Pekalongan City, 2017). While for the sales volume of Batik Pekalongan it reached 9,984,120 pieces from as many as 1,081 SMEs (Table 1).

<b>Type of Batik</b>	<b>Sales Volume</b>	<b>Number of SMEs</b>
Batik Salem	260,000	140
Batik Cirebon	4,453,000	521
Batik Pekalongan	9,984,120	1.081

Agarwal et al. (2003) found that innovation has an influence on marketing performance both as measured by objective approaches (occupancy and market share) and with subjective approaches (service quality and customer satisfaction). Im & Workman (2004) who carried out research in relation to the influence of innovation on marketing performance, in a study conducted on 106 companies engaged in high technology in the United States found that creativity in product development and new marketing programs had a positive influence on marketing performance. However, several other studies actually provide different results, Mavondo et al. (2005) stated that product innovation does not have a significant effect on marketing effectiveness. Likewise with Darroch (2005), in his research on industry in New Zeland who found that innovation has no effect on performance both as measured by financial performance and non-financial performance (market share and sales growth). Yuan et al. (2016) who empirically examined the effects of two critical organizational capabilities, namely innovation capability and marketing capability on company performance in two Asian countries

(China and Korea), found that in general the two capabilities positively influenced company performance (Table 2).

<b>Researcher</b>	<b>Analysis</b>	<b>Finding</b>
Agarwal et al. (2003)	Regression	Innovation has an influence on marketing performance.
Im & Workman (2004)	SEM	Creativity in product development and new marketing programs has a positive influence on marketing performance.
Yuan, et al. (2016)	SEM	Innovation capability and marketing capability affect on company performance.
Mavondo et al. (2005)	SEM	Product innovation does not have a significant effect on marketing effectiveness.
Darroch (2005)	SEM	Innovation has no effect on marketing performance.

To bridge the research gap, mediation variables were proposed is ethnocentric product advantage. Ethnocentric product advantage is expected to improve the company's marketing performance.

## **LITERATURE REVIEWS**

### **Sustainable Competitive Advantage**

Day & Wensley (1988) define the concept of competitive advantage as a different competition in the superiority of expertise and company resources. Broadly shows what is researched in the market namely positional advantage based on the existence of superior customer value or achieving lower relative costs and generating market share and profitable performance. Competitive advantage exists when there is harmony between the competencies that distinguish a company from other company, with critical factors to achieve success in the industry which causes the company to have far better achievement than its competitor. There are two searches for achieving competitive advantage, was cost advantage and differentiation advantage. In principle, these two ways to achieve this advantage are to provide more benefit to customer (Keegan, 1995). Meanwhile, Aaker (1989) says there are three strategies that company can take to gain competitive advantage: low cost advantage, differentiation and focus. Sustainable competitive advantage is more adept at building unique resources and capabilities, which can then be used to create new markets opportunities with competitive entry barriers (Srivastava et al., 2013).

### **Marketing Mix**

Marketing mix is a combination of variables or activities which are the core of the marketing system, which variables can be controlled by the company to influence consumer responses in the target market. These variables or activities need to be combined and coordinated by the company as effectively as possible, in carrying out marketing activities. Thus the company not only has the best combination of activities, but can coordinate the various marketing mix variables. There are four "P" that make up the marketing mix, namely product, place, promotion and price (Perreault & McCarthy, 2002). The marketing mix is a conceptual

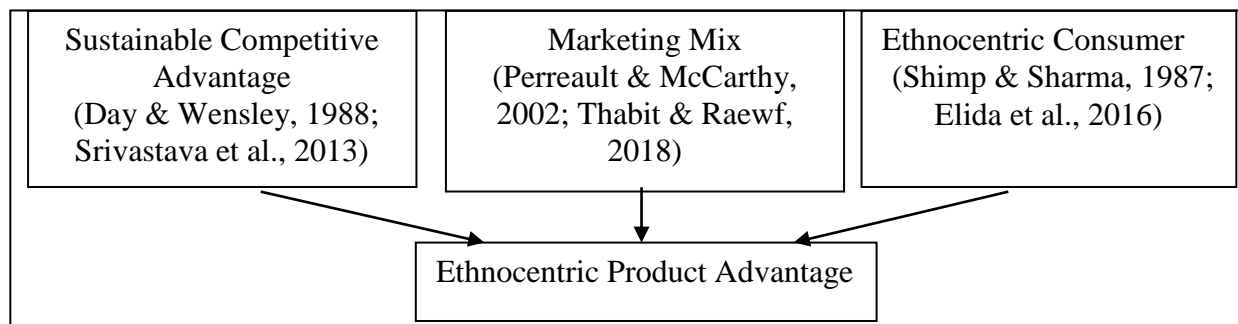
framework that clarifies the main decision making efforts of managers to configure supplyings with appropriate consumer needs (Thabit & Raewf, 2018).

### **Ethnocentric Consumer**

The concept of ethnocentrism was first introduced by Sumner (1906), who defined ethnocentrism as a view that was the center of attention of a particular group of people. From a marketing perspective, Shimp & Sharma (1987) state that ethnocentric consumers prefer domestic products rather than foreign products. Ethnocentric consumer trust domestic company and domestic product more than foreign company and imported product. Ethnocentric consumer trust domestic company and domestic product more than foreign company and imported product.

### **Ethnocentric Product Advantage**

From the approach to the concept of competitive advantage, the concept of marketing mix and the concept of ethnocentric consumers can be composed of state of the art from the ethnocentric product advantage (Figure 1). Ethnocentric product is product that is made to be the center of attention of a particular group of people (Sumner, 1906). Ethnocentric product advantage is defined as the superiority of company product in placing product in the mind of consumer with the aim of being the center of attention of certain ethnic/community group by using distinctive ethnic, unique product and different product (Hanfan & Setiawan, 2018).



**FIGURE 1**  
**STATE OF THE ART THE CONCEPT OF ETHNOCENTRIC PRODUCT**  
**ADVANTAGE**

### **DEVELOPMENT OF HYPOTHESES AND EMPIRICAL RESEARCH MODEL**

To specify the novelty variable proposed, the study of further research is carried out so that the following hypotheses are produced.

### **Innovation Capability and Ethnocentric Product Advantage**

Ar (2012) states that innovation capability is the capability of companies to accept or adopt new concepts of innovation. Innovation capability is a process to develop new concept and

product and bring new concept and product to the market. Innovation capability also promote, develop and enhance or create new product, process, technique and management system, has a direct and significant influence on competitive advantage (Chamsuk, 2015). According to Chamsuk (2015), innovation capability is divided into several indicators, namely product innovation, process innovation, service innovation and organizational innovation. Lin & Chen (2017) who examined the relationship between green knowledge sharing, green dynamic capability, green service innovation, and green competitive advantage, found that green service innovation has a positive relationship to green competitive advantage.

Ribeiro et al. (2018) in his research on high performance standard and sustainable competitive advantage, provides an understanding that there is a mutually supportive relationship between competency and innovation towards the company's competitive advantage. Eidizadeh et al. (2017) who studied the role of business intelligence, sharing knowledge and innovation organization to gain competitive advantage found that organizational innovation had a positive and significant impact on competitive advantage. Then the results of the study of Lin & Chen (2017) who examined the relationship between sharing green knowledge, green dynamic capability, green service innovation, and green competitive advantage; found that green dynamic capacity and green service innovation mediate the relationship between green knowledge sharing and green competitive advantage. Therefore, the hypothesis proposed is:

*Hypothesis 1: The higher the innovation capability, the higher the ethnocentric product advantage.*

### **Product Reputation and Ethnocentric Product Advantage**

Reputation is the public's perception of the consistency of the organization, the quality of trust and reliability that is formed over a long period (Engizek & Yasin, 2017). Weigelt & Camerer (1988) identified three types of reputation namely corporate reputation, product reputation and reputation of corporate culture. The company's reputation refers to information on the type of company, such as factory capacity, location, managerial capability, strategy, financial health and social responsibility; product reputation is associated with public perceptions about product quality; the reputation of the company's culture is related to the work environment, value and belief. Product reputation as one element of strategic assets that leads to competitive advantage (Barney, 1991; Raphael & Schoemaker, 1993).

Many companies implement proactive environmental strategies with the aim of gaining competitive advantage through increasing reputation, reducing production costs, as the first movers in their product markets (Albertini, 2018). Gutierrez & Hernandez (2017) who examines social capital accumulation formed from two main resources namely buyer relations with sellers and reputation, find that reputation has become the main source for building social capital and also provide a place for market transactions. Grunwald & Hempelmann (2010) show that reputation indicators are good corporate behavior, high production standards, positive claim records, published product damage reports, no company negligence to produce or sell reliable or harmless products and sell products with a warranty that exceeds market standards. Therefore, the hypothesis proposed is:

*Hypothesis 2: The higher the product reputation, the higher the ethnocentric product advantage.*

### **Market Orientation and Ethnocentric Product Advantage**

Research on market orientation in companies in developing countries is still limited. Whereas there are strong reasons why market-oriented research is carried out in developing countries; first, consumers in developing countries are experienced and aware of their rights, so companies cannot ignore the needs of consumers, if they want to remain competitive; second, the intensity of competition among companies in developing countries is very tight, and the supply of most products exceeds their demand. This condition encourages the degree of consumer orientation and competitor orientation (Kuada & Buatsi, 2005). Likewise, research on market orientation in small businesses is still little (McLarty, 1998). Though small businesses play a very large role in driving the pace of the Indonesian economy. This study seeks to examine the market orientation of companies in developing countries and SMEs.

Market orientation consists of three elements of behavior, namely customer orientation, competitor orientation and coordination between functions (Narver & Slater, 1990). In this perspective market orientation is defined as a highly efficient and effective organizational culture to create superior value for buyers, so that it will produce superior business performance on an ongoing basis (Slater & Narver, advantage and competitive 1995). Talaja et al. (2017) stated that market orientation influences competitive advantage mediates the relationship between market orientation and business performance. Kumar et al. (2011) found that companies will gain more competitive advantage when companies develop market orientation faster. Therefore, the hypothesis proposed is:

*Hypothesis 3: The higher the market orientation, the higher the ethnocentric product advantage.*

### **Ethnocentric Product Advantage and Marketing Performance**

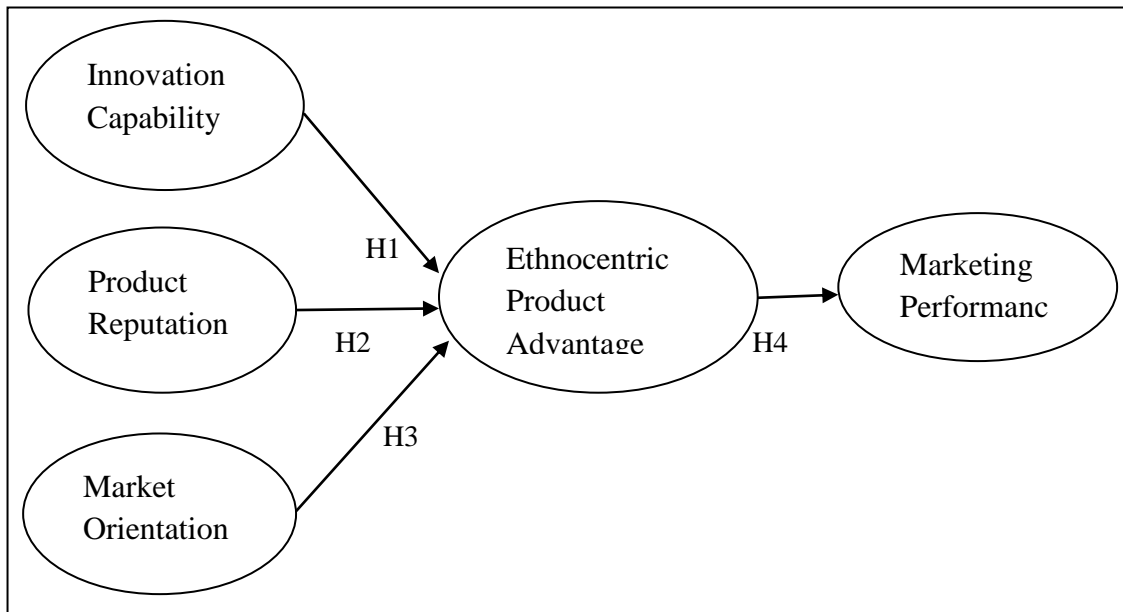
In order to have a sustainable competitive advantage, companies must have four resources, namely those that are valuable, rarely owned by competing companies, either now or potential competitors, cannot be imitated perfectly and are strategically irreplaceable (Barney, 1991). Aaker (1989) states that competitive advantage derived from differentiation strategies will be a good factor in generating marketing performance. Marketing performance is a concept to measure the consequences of a strategy carried out by the company as a reflection of existing marketing activities. Marketing performance is used as a tool to measure the success rate of the overall performance carried out including the success of the strategy being implemented, sales growth, and company profits (Menon et al., 1996). Competitive advantage has a positive effect on marketing performance as measured by sales volume, profit level, market share and return on investment (Li, 2000).

The greater the customer orientation of a company, the greater the company can develop competitive advantages based on innovation and market differentiation. Innovation and market differentiation excellence lead to greater market performance (Zhou et al., 2009). Almost all companies state that there is a good relationship between the company's competitive advantage and its performance. Competitive advantage directs the company towards achieving high profits (Majeed, 2011). Marketing resources are important drivers in the process by which companies develop their competitive advantage and achieve higher levels of performance. This study identifies and describes three different research streams related to marketing resources and performance, namely the relationship with the company/brand environment, marketing as an organizational function and the distribution of marketing resources (Davicik & Sharma, 2016). Nuryakin (2018) in his research on Batik SMEs in Central Java Province, Indonesia, found that

competitive advantage and product innovation had a significant effect on marketing performance. Therefore, the hypothesis proposed is

*Hypothesis 4: The higher the ethnocentric product advantage, the higher the marketing performance.*

Based on the literature review above, the study of follow-up research is carried out by producing the following empirical research model Figure 2.



**FIGURE 2**  
**EMPIRICAL RESEARCH MODEL**

## METHODOLOGY

### Population and Sample

The study population was 200 Salem Batik SMEs craftsman in Brebes Regency, Central Java Province, Indonesia. The number of samples used was 114 respondents, this number fulfills the minimum standard sample criteria suggested by (Hair et al., 2010) which states that the number of samples is 5 times the number of indicators. This research has 15 indicators, so the number of samples used in this study is  $5 \times 15 = 75$  samples. Then the number of samples is recommended between 100 and 200 SMEs. By using a sample of 114 respondents, the requirements for sample size can be fulfilled.

### Data Collection Technique

The sampling technique is based on sample random sampling because sampling is done randomly from members of the population regardless of the strata in the population. This method is done because members of the population are considered homogeneous.

## Operational Measurement and Indicator

The definition of each variable needs to be explained in a more operational measure (Hair, 2010). A variable has generally described what is to be studied, but the measurement of these variables needs to be concretized through operational measurement which then becomes a reflective indicator of a variable (Table 3).

<b>Variable</b>	<b>Core Definition</b>	<b>Operational Measurement</b>
Innovation Capability	The process of developing new concept and product and bringing new concept and product to the market.	X1: Capability to innovate in making Batik Salem. X2: Capability to innovate in providing service. X3: Capability to innovate in the company.
Product Reputation	Public perception of the consistency of the organization, the quality of trust and reliability that has been formed over a long period.	X4: The behavior of Batik Salem craftsman is good. X5: Batik Salem production standard are high. X6: Trusted Batik Salem.
Market Orientation	A very efficient and effective organizational culture to create superior value for buyer, so that it will produce superior business performance on an ongoing basis.	X7: Customer orientation. X8: Competitor orientation. X9: Coordination inters function.
Ethnocentric Product Advantage	The superiority of the company's product in placing product in the mind of consumer with the aim of being the center of attention of certain ethnic/community group by using distinctiveness of ethnic, unique product and different product.	X10: Batik with typical Sundanese. X11: Unique Batik Salem. X12: Batik Salem is different from competitor.
Marketing Performance	The concept to measure the consequence of the strategy carried out by the company as a reflection of existing marketing activity.	X13: Sales growth. X14: Sales volume. X15: Sales profit.

## DATA ANALYSIS

### Construct Measurement

Each variable is explained by several indicators which form the basis of the questionnaire questions. Each indicator is derived from theoretical explanations and empirical studies of previous research. With SPSS 16.0 and AMOS 22.0 software, each indicator is tested to what extent its capability to explain the variables referred to as construct measurements which consist of tests of construct reliability and variance extract and value of loading factors. The overall construct test results can be seen in Table 4 below.

<b>Variabel and Indikator</b>	<b>Loading Factor</b>	<b>Construct Reliability</b>	<b>Variance Extract</b>
Innovation capability:		0.83	0.63

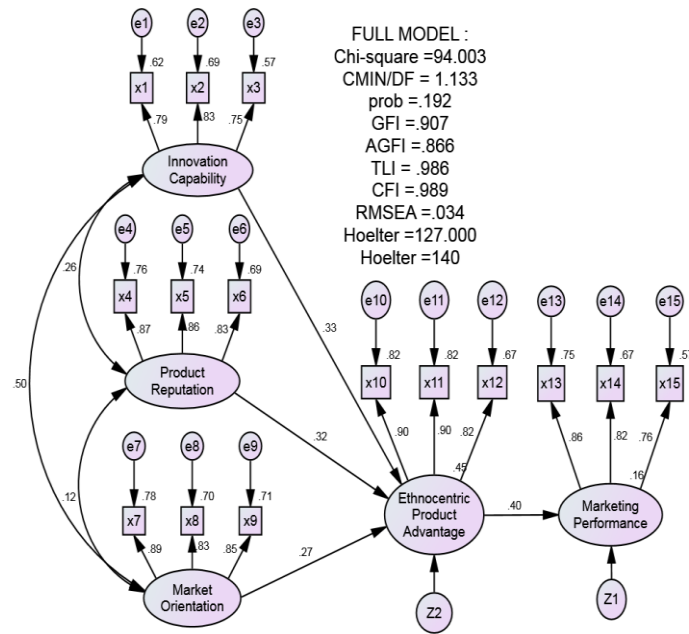


X1: Capability to innovate in making Batik Salem.	0.79		
X2: Capability to innovate in providing service.	0.83		
X3: Capability to innovate in the company.	0.75		
Product reputation:		0.88	0.72
X4: The behavior of Batik Salem craftsman is good.	0.87		
X5: Batik Salem production standard are high.	0.86		
X6: Trusted Batik Salem.	0.83		
Market orientation:		0.89	0.73
X7: Customer orientation.	0.89		
X8: Competitor orientation.	0.83		
X9: Coordination inters function.	0.85		
Ethnocentric product advantage:		0.91	0.77
X10: Batik with typical Sundanese.	0.90		
X11: Unique Batik Salem.	0.90		
X12: Batik Salem is different from competitor.	0.82		
Marketing performance:		0.85	0.66
X13: Sales growth.	0.86		
X14: Sales volume.	0.82		
X15: Sales profit.	0.76		

From the results of the test of construct validity and extract variance, the data obtained shows that the values of construct reliability and variance extract for each variable are above 0.5; the value of each indicator of the variable above 0.7. With a value of loading factors above 0.7; then each indicator has the power to explain the variables/constructs ideally. Likewise the values of construct reliability and variance extract of each variable are above 0.5; so the indicators used have good reliability and reliability to explain the construct (Hair, 2010).

### Full Model Test

From the proposed hypothesis, tested with a full model using the AMOS 22.0 analysis tool, as shown in Figure 3 below.



**FIGURE 3**  
**FULL MODEL TEST**

After testing using the full model, the goodness of fit results are obtained as follows (Table 5).

Tabel 5 GOODNESS OF FIT FULL MODEL			
Goodness of Fit Index	Cut-Off Value	Analysis Result	Model Evaluation
Chi-Square	Expected to be small	94.003	Good
CMIN/DF	≤ 2.00	1.133	Good
Probability	≥ 0.05	0.192	Good
RMSEA	≤ 0.08	0.034	Good
GFI	≥ 0.90	0.907	Good
AGFI	≥ 0.90	0.866	Marginal
TLI	≥ 0.95	0.986	Good
CFI	≥ 0.95	0.989	Good
Hoelter's 0.05	≤ 127	114	Good
Hoelter's 0.01	≤ 140	114	Good

From the results of the full model data processing, the results of the goodness of fit are as follows; chi-square value=94.003, probability=0.192 shows that the model is in accordance with empirical data. This is also supported by other fit criteria such as GFI=0.907, TLI=0.986, CFI=0.989; RMSEA=0.034 which all meet the fit criteria as recommended. Furthermore, the last goodness of fit statistic is critical N developed by (Hoelter, 1983). Critical N analysis is intended to estimate the size of the sample size that is sufficient to produce a fit model. The model is said to be able to produce goodness of fit if it has a sample below the Hoelter value which is tested both with a probability of 0.05 and 0.01. The following are the results of critical analysis of N Hoelter's 0.05 and Hoelter's 0.01, namely Hoelter's 0.05=127; Hoelter's 0.01=140 which all meet fit criteria because the number of samples is below the Hoelter's value as recommended.

Therefore, the results of the table above show that the suitability test of this model results in a good level of acceptance (Hair, 2010).

## DISCUSSION

The results of Agarwal et al. (2003); Im & Workman (2004); & Yuan et al. (2016) find innovation has an influence on marketing performance. The results of this study show that the capability of innovation influences marketing performance through the ethnocentric product advantage. The ethnocentric product advantage is expected to increase marketing performance.

## CONCLUSION

From the hypothesis proposed, tested with a full model the results of the hypothesis are as follows (Table 6).

Variable Relationship			Estimate	S.E.	C.R	p	Hypothesis Result
Ethnocentric Product Advantage	<--	Market Orientation	0.284	0.105	2.708	0.007	<i>H1</i> Accepted
Ethnocentric Product Advantage	<--	Innovation Capability	0.449	0.147	3.063	0.002	<i>H2</i> Accepted
Ethnocentric Product Advantage	<--	Product Reputation	0.363	0.101	3.606	0.000	<i>H3</i> Accepted
Marketing Performance	<--	Ethnocentric Product Advantage	0.357	0.090	3.965	0.000	<i>H4</i> Accepted

From testing hypotheses, it can be concluded that hypothesis 1 shows significant results with  $CR=2.708 > 1.96$  with a probability=0.007, the probability of testing fulfilling the conditions below 0.05. Thus *H1* in this study is acceptable. Testing hypothesis 2 shows significant results with a CR value of  $3.063 > 1.96$  with a probability=0.002; the probability of testing meets the conditions below 0.05. Thus *H2* is accepted in this study. Hypothesis 3 testing shows significant results with CR value= $3.606 > 1.96$  with a probability=0.000, the probability of testing meets the requirements below 0.05. Thus *H3* in this study is acceptable. Hypothesis 4 shows significant results with  $CR=3.965 > 1.96$  with a probability=0.000 the probability of testing meets the requirements below 0.05. So *H4* in this study is acceptable.

## MANAGERIAL AND THEORETICAL IMPLICATIONS

The managerial implications generated in this study are during this time the most popular Salem batik motifs are three: the motif of broken coffee, manger, and sawat chain. With the ability to innovate, the batik crafters of Salem create a new motif, the motif in the form of a hand that will shake hands. This is because the origin of the word Salem from Salam or Congratulations. Standard of Batik Salem production is very high because the Batik Salem is made by hand. The handiwork of batik is more artistic, more value is what makes batik hand hunted by batik collectors. More than 20 Batik Salem motifs, three of which are the best and most sought after by buyers. These three types of motives cannot be produced industrially, but

can only be made by hand to meet customer satisfaction. Batik with typical Salem as a Sundanese ethnic, which is a leaf background which is characteristic of Batik Salem which tend to use flora and fauna motif, these motifs are pointed up which means that Salem citizens are very religious who uphold God Almighty. Salem people are Sundanese ethnic who have an inherent nature with God, humans and nature.

The results of full model analysis, the theoretical implications are obtained, namely when a company has a goal to improve marketing performance, the company needs to consider how to improve the ethnocentric product advantage. Ethnocentric product advantage is supported by innovation capability, product reputation and market orientation.

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