MARKETING STRATEGY IN IMPROVING SMEs PERFORMANCE IN INDONESIA

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Abstract

This study aims to build a new theoretical model to overcome the gaps of the finding of previous studies on the effect of marketing innovation on business performance. The marketing strategy then becomes a potential mediation used to overcome this gap. The collaboration of theoretical and empirical studies is used to enrich the Strategic Marketing Management literature. An empirical study used survey data on a minimum of 280 selected SMEs from 10 regencies/ cities in Central Java, Indonesia by examining the regression relationship between marketing capability, marketing strategy, and business performance of SMEs. Confirmatory Factor Analysis is used to measure the validity and reliability of the construct used. Data analysis techniques used Structural Equation Modeling (SEM) with AMOS Version 22.0. By examining the diverse literature on Marketing Innovativeness, Marketing Strategy and Business Performance, this study offers a unique analysis of the culture of market innovation and its effect on Marketing Strategy and Business Performance of SMEs in Indonesia.

***Keywords**: Marketing Innovativeness, Marketing Strategy, Business Performance*

INTRODUCTION

In the last three decades, there has been a lot of research focusing on the relationship between market orientation and business performance. Such studies have generally shown that market orientation is the key to success in creating a superior business performance (Lee *et. al.*, 2015; Qu and Zhang, 2015; Takata, 2016). While many studies have surprisingly reported significant direct positive effects of market orientation on performance (Kirca *et. al.*, 2005; Morgan *et. al.*, 2009c; Qu and Zhang, 2015; Beneke *et. al.*, 2016), some others revealed insignificant relationships (Langerak *et. al.*, 2004; Huhtala *et. al.*, 2014; Kajalo and Lindblom, 2015).

This difference might suggest an unaddressed moderator, a defective or incorrect measurement tool, or a variety of data collection or analysis techniques. In addition to the research gap above, currently, there are still not many researchers who determine how market orientation contributes to superior business performance.

Recently, research on the impact of marketing capabilities has not been found. Sometimes marketing capabilities are treated as independent variables that affect company performance (Morgan *et. al.*, 2009c). Opportunities exist to advance understanding of the relationship between marketing capability, marketing strategy, and business performance.

THEORETICAL BACKGROUND

Marketing Capability

Marketing Capabilities concerns

specific functional-based processes used in organizations to combine and change resources (Vorhies and Morgan, 2005). Specific marketing skills are usually seen as a process that includes tactical marketing programs that are usually needed to implement marketing strategies (Vorhies and Morgan, 2003). This capability is related to the classic marketing mix of activities related to products, prices, communication, and distribution, and the ability to sell and market research (Hunt and Morgan, 1995; Morgan, 2012).

Product Management Capability

This involves the process of adapting, maintaining, and providing product and service offerings to meet customer needs. To be effective, product management efforts must focus on understanding customer needs in targeted segments (Morgan, 2012). Companies with good product management capabilities will be seen from their aggressive activities in developing new products/services, exploiting R&D investments, testing new product/service marketing, successfully launching new products/services, and ensuring efforts to develop products/services that are responsive to customer needs (Trez *et. al.*, 2012).

Price Management Capabilities

Price is a key component of value sent to customers through market offers. Price impacts the cost and perceived quality according to customer value, thus the ability to manage prices effectively is an important marketing capability (Morgan, 2012). Companies with strong pricing capabilities will utilize knowledge of price perceptions on customer value to develop appropriate pricing strategies, quickly and effectively implement and communicate changes in pricing if necessary (Marn and Rosiello, 1992). Companies with price management capabilities can be seen from their aggressive activities in utilizing pricing and system skills to respond to market changes quickly, utilize knowledge of competitors' pricing tactics, do effective work in determining product/service prices, and monitor competitor prices and change price (Trez *et. al.*, 2012).

Channel Management Capabilities

Channel members carry out significant value-added activities in relation to end-user customers in many markets. The ability to manage relationships with channel members efficiently and effectively has long been recognized as an important marketing capability (Weitz and Jap, 1995). This is related to activities that support the efforts of channel members in developing and maintaining mutually beneficial relationships. Various potential capabilities associated with channel management such as customer companies can develop channel capabilities related to order processing, shipping, reverse processing, and customer service. On the other hand, companies that have channel intermediaries between companies and end-users need broader channel capabilities such as attracting new channel members and adding value to the channel member's business (Morgan, 2012). Characteristics of companies with good sales management include having the strength of relationships with distributors, always attracting and maintaining the best distributors, having closeness in working with distributors and retailers, adding value to the distributor's business, and providing high-level service support to distributors (Trez *et. al.*, 2012).

Marketing Communication Management Capabilities

Communicating effectively with customers and prospects is an important marketing capability associated with delivering customer value (Lane Keller, 2001). The marketing literature shows that communication skills are built on fundamental marketing activities such as advertising, personal selling, sales promotion, social media participation, sponsorship, public relations, and corporate image management. Communicating the benefits of the company's new products and services to potential customers, reminding current users about the benefits and availability of products, and strengthening purchasing decisions to reduce cognitive dissonance are important skills that companies must possess to have strong marketing communication capabilities (Lane Keller, 2001). Characteristics of companies that have good marketing communication capabilities include being able to develop and run advertising programs, able in advertising management and creative skills, skilled in developing public relations, skilled in the process of developing brand image and trying hard to maintain the company's image and reputation (Trez *et. al.*, 2012).

Selling Capabilities

The ability to sell consists of two related elements. *First*, it concerns the competence of personnel involved in sales activities (Chakrabarty *et. al.*, 2014). This is related to the nature of the sales task regarding analyzing customer needs, providing information, and working with current and potential customers to ensure the satisfaction of needs and the development and management of customer relationships. *Second*, it concerns the systems and structures needed to ensure efficient and effective sales force management (Lambe *et. al.*, 2009; Schmitz, 2012).

The main activities of selling capabilities include orientation and ongoing training from the sales force and sales manager; developing control systems such as salesforce call management systems, performance tracking systems, and order tracking systems; and develop effective coordination with product/brand and market managers (Morgan, 2012). Companies with good sales capabilities have the following characteristics, (a) provide sales personnel with the training they need to be effective, (b) have a sales management plan and control system, (c) have sales skills, (d) have sales management skills, and (e) provide effective sales support to salespeople (Trez *et. al.*, 2012).

Market Research Capabilities

Market research capabilities are related to the company's ability to answer the questions related to market set by its managers. Therefore, a company's market research capability usually involves the ability to interpret questions proposed by managers into a summary of research that has been set, design an appropriate research plan, collect the necessary data, analyze the data collected, and communicate the answers needed (Moorman, 1995). Market research capabilities have also been conceptually and empirically connected with company performance (Wei and Wang, 2011). Characteristics of companies with good market research include: (a) continuing to collect information about customers and competitors, (b) using market research skills to develop effective marketing programs, (c) continuously tracking customer desires and needs, (d) make full use of marketing research information, and (e) try hard to analyze market information (Trez *et. al.*, 2012).

Business Performance

There are many benefits to measuring business performance. Business owners use business performance to track the completion of company goals and objectives; investors use business performance to measure certain financial and productivity indicators; management uses business performance to analyze past performance and make necessary adjustments in the future; and employees use business performance to track productivity to meet bonus payment criteria (Lee *et. al.*, 2015).

Performance is a multidimensional measure and researchers have their way of measuring business performance. According to Murphy *et. al.* (1996), there are eight dimensions commonly used by researchers to measure business performance, namely Growth, Profit, Size, Liquidity, Success/Failure, Market Share, efficiency and Leverage. Some researchers use the growth dimension as a proxy for business performance (Cho and Pucik, 2005; Zhou *et. al.*, 2007; Morgan *et. al.*, 2009a; Debicki, 2017). This dimension may be more accurate and accessible to SMEs (Wiklund and Shepherd, 2005). The growth performance is explained in the growth of financial and operational performance. The financial performance consists of profit growth and profitability ratios such as profit margin and returns on investment (ROI). Whereas operational performance consists of sales growth and employee growth (Wiklund and Shepherd, 2005). Based on a meta-analysis study, Stam *et. al.* (2014) stated that small business performance can be explained through three dimensions, namely growth performance, profitability, and non-financial performance. The measure of growth consists of sales growth, profits, employment, and market share. Profitability measures relate to accounting-based indicators such as return on assets (ROA), return on equity (ROE), and return on sales (ROS) as well as self-reported profitability assessments. Non-financial performance includes various indicators of operational effectiveness such as technical advantage, competitive ability, productivity, and export performance. Related to the role of ICT in improving the performance of SMEs, Tarutė and Gatautis (2014) describe two important dimensions in performance measurement, namely financial performance, and strategic performance. Financial performance concerns profitability, growth, and market share. While the strategic dimensions relate to customer satisfaction, employee satisfaction, environmental performance, and social performance.

CONCEPTUAL FRAMEWORK AND RESEARCH HYPOTHESIS

Marketing Capabilities and Marketing Strategy

(Lee *et. al.*, 2015) explores the role of market orientation on business performance in the context of franchising, it seems that market orientation facilitates the company's business strategy that positively influences business performance. These findings broaden the existing literature by studying the relationship of market orientation with a business performance by emphasizing business strategy with differentiation and cost advantage. This research tries to enrich the exploration knowledge of the relationship between market orientation and business performance by placing marketing specialized capability as a mediating variable. Companies with a solid market orientation will be more dynamic in the search for opportunities and better able to identify and take advantage of opportunities that arise in external markets than companies that do not have this ability.

In this context, companies that have the right information about their markets tend to be more willing to vary their marketing mix, sales strategies, and market research, than other companies that lack that information and who make their decisions on the basis of instinct (Navarro-García *et. al.*, 2014). In other words, market-oriented behavior is very valuable because it facilitates marketing capability to achieve better business performance. Therefore, H1 is offered:

H1: There is a positive relationship between marketing capabilities and marketing strategy.

Marketing Strategy and Marketing Performance

Arguments supporting the positive relationship between marketing strategy and business performance are well documented in the marketing literature (Gruber-Muecke and Hofer, 2015; Lee *et. al.*, 2015; Qu and Zhang, 2015). The marketing strategy literature also shows that market sensing capabilities and customer relationships are leading to superior business performance (Day, 1994). In many empirical studies for this decade, the market strategy has become an important antecedent of business performance. Thus, H2 is offered:

H2: There is a positive relationship between marketing strategy and business performance.

Marketing Capabilities and Business Performance

Empirically, such marketing capabilities that contribute to business performance have not yet been discovered. Not much is known about the relative contribution of various high-level marketing capabilities to SMEs performance (Merrilees *et. al.*, 2011). Empirical studies that occur more focused on the general aspects and some individual elements of marketing capabilities on marketing performance. In general, the positive influence of marketing capabilities on business performance has been well documented (Morgan *et. al.*, 2009c; Wu, 2013; Ahmed *et. al.*, 2014; Kajalo and Lindblom, 2015). Meanwhile, several dimensions of marketing capabilities, such as market sensing capabilities (Day, 1994; Osakwe *et. al.*, 2016), brand management capabilities (Osakwe *et. al.*, 2016), and CRM capabilities (Wang and Feng, 2012) are important variables that affect business performance. Finally, the potential relationship between marketing specialized capabilities and business performance is very possible considering that superior business performance arguments are only possible when a company has specialist marketing capabilities such as the ability to manage marketing mix, sales and market research. Thus, H3 is offered:

H3: There is a positive relationship between marketing capabilities and business performance

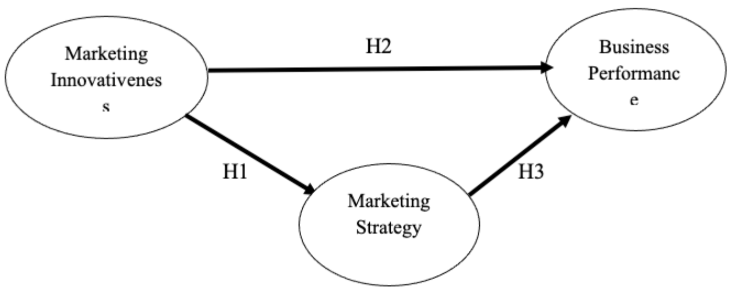
Hypotheses:

H1: There is a positive effect between marketing innovativeness on marketing strategy.

H2: There is a positive effect between marketing innovativeness on business performance.

H3: There is a positive effect between marketing strategies on business performance.

Model



RESEARCH METHOD

Research Design

This research is designed to find novelty in the development of marketing science. The collaboration of theoretical studies and empirical studies is used to enrich the Strategic Marketing Management literature. The theoretical understanding is presented based on the justification of previous studies on the study of competitive strategies and marketing capabilities by taking into account the knowledge gap about the unclear route of the role of market orientation on the business performance of SMEs.

Population and Sample

The population in this study is the owner, manager or owner who is also the manager of SMEs in Central Java, because it is one of the largest SMEs with a total of 898.162 businesses. SMEs here refers to Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises. According to the Law, Micro Business is a business entity that has a maximum net worth of IDR. 50,000,000, excluding land and buildings for business premises; or those who have annual sales results of at most IDR. 300,000,000. Small Business is a business entity that has a net worth of more than IDR. 50,000,000 up to a maximum of IDR. 500,000,000 excluding land and buildings where the business is located; or those who have annual sales results of more than IDR. 300,000,000 up to a maximum of IDR. 2,500,000,000. While Medium Business is a business entity that has a net worth of more than IDR. 500,000,000 up to a maximum of IDR. 10,000,000,000 excluding land and buildings for businesses; or those who have annual sales results of more than IDR. 2,500,000,000 up to a maximum of IDR. 50,000,000,000. Some Government agencies such as the Ministry of Industry and Trade of Central Java Province and BPS (Central Bureau of Statistics) have not provided valid data regarding the number of SMEs.

Because the number of SMEs in Central Java is not yet known exactly, the researchers tried to use as many samples as possible so that they could statistically represent the population. The degree of representative sample used is determined based on the guidelines 5 times the number of estimated parameters adopted according to views (Hair *et. al.*, 2010). In this study, the number of parameters to be estimated is 450 so that the minimum number of samples needed is 280. In this case, questionnaires will be distributed to 500 respondents in 10 districts/cities in Central Java including Semarang, Pekalongan, Kudus, Jepara, Grobogan, Kendal, Pati, Batang, Limpung, Subah. The questionnaire was distributed by Research Assistant who had been trained in advance to the owners of SMEs or to those who were entrusted with handling the small business.

Data analysis and Measurement models

The data analysis technique used in this study is Structural Equation Modeling (SEM) with the AMOS Version 22.0. This technique is usually used to test a series of relatively complex relationships/models such as those in marketing research and strategic management (Ferdinand 2013). The method will be used to test hypotheses 1 to 7 proposed, namely: (1) develop theoretical models, (2) determine research variables and measurements, (3) develop Path Diagrams, (4) Convert Path Diagrams into equations, (5)) Choosing the type of matrix input and the proposed model estimation, (6) Evaluation of the Goodness of Fit Index, and (7) Model Interpretation and Modification (Ghozali, 2011).

RESULT AND ANALYSIS

Several criteria must be met in the full structural model recommended by SEM. Test results on the Goodness-of-Fit index are good and fit the criteria recommended by SEM. X2 value = 136,915 and significant at α: 0.05, index of GFI: 0.954; AGFI: 0.940; CFI: 0.993; TLI: 0.991; NFI: 951, meaning that all values meet the recommended SEM, which is $\geq$ 0.90. RMSEA value: 0.022 less than 0.08 and CMIN / DF 1,170 less than 2.00. Hence, the results of testing the Goodness-of-Fit index are in accordance with the recommendations in SEM. Therefore, the model fits or is feasible to test the relationships among constructs.

In figure 1 and table 3, it shows that Marketing Strategy influences Marketing Innovativeness (Std β = .508, CR = 6.020, $p < 0.01$). Furthermore, marketing Innovativeness influences business performance (Std β = .273, CR = 2,967, p

Operational definitions, measurements and indicators:

Operational definition	Symbol	Indicator	Source
Marketing innovativeness is the ability of companies to exploit new ideas in their marketing activities to improve performance efficiently.	**MI1**	Always creating new products	**Morgan et al (2009)**
	MI2	Always making price adjustments	
	MI3	Always looking for new ways to deliver products to customers	
	MI4	Always looking for new ways to promote activities	
	MI5	Always looking for new ways to provide services to customers.	
Marketing Strategies refer to a comprehensive marketing plan and implementation based on environmental analysis and competitor information to reach the target market	MAC1	Skilled in market planning	**Morgan *et. al.* (2009)**
	MAC2	Accuracy in market planning process	
	MAC3	Developing creative marketing strategies	
	MAC4	Allocating marketing resources effectively.	
	MAC5	Interpreting marketing strategies into action.	
	MAC6	Running a marketing strategy quickly	
Business Performance is a combination of the results of business activities that are perceived by the owner or manager of the company about achieving sales growth, customer growth, sales area expansion, profit growth and business capital growth.	**MP1**	Sales growth	**(Morgan, 2012; Taleghani *et. al.*, 2013)**
	MP2	Customers growth	
	MP3	Sales area expansion	
	MP4	Increased profits	
	MP5	Business capital growth	

Table 3. Hypothesis Testing

			Estimate	S.E.	C.R.	P
Marketing_Strategy	<---	Marketing_innovativeness	,508	,084	6,020	***
Business_Performance	<---	Marketing_innovativeness	,273	,092	2,967	,003
Business_Performance	<---	Marketing_Strategy	,444	,070	6,306	***

Note: * p < 0.01

<0.01), then Marketing Strategy influences Business Performance (Std β = .444, CR = 2,306, p <0.01). Thus H1, H2, H3, are accepted.

The Sobel test approach was used to test the marketing strategy as a mediating variable. The test results of marketing strategy as a mediating variable between Marketing innovativeness on Business Performance (SE = 0.084), Marketing innovativeness on Business Performance (SE = 0.092) and the Marketing Strategy on Business Performance (SE = 0.070).

demand and implement the marketing that innovates. The results of this study are in line with the research by (Gruber-Muecke and Hofer, 2015; Lee *et. al.*, 2015; Qu and Zhang, 2015). The marketing strategy literature also shows that market sensing capabilities and customer relationships are leading to superior business performance (Day, 1994).

The implications for this research are obtained from the discussion of the proposed hypothesis as follows:

1. Marketing strategy has a significant impact on marketing innovative, where it provides benefits to SMEs in Central Java. With a good marketing strategy, innovation in marketing at SMEs will be even better, starting from marketing methods, SME products, so that potential consumers will be more interested in buying SME products.
2. Innovative Marketing has a significant impact on Business Perfomance, this proves that it turns out that innovative marketing will increase business performance which is getting better. Innovative marketing will get better, SME products will be increasingly recognized with new things adapted to wider

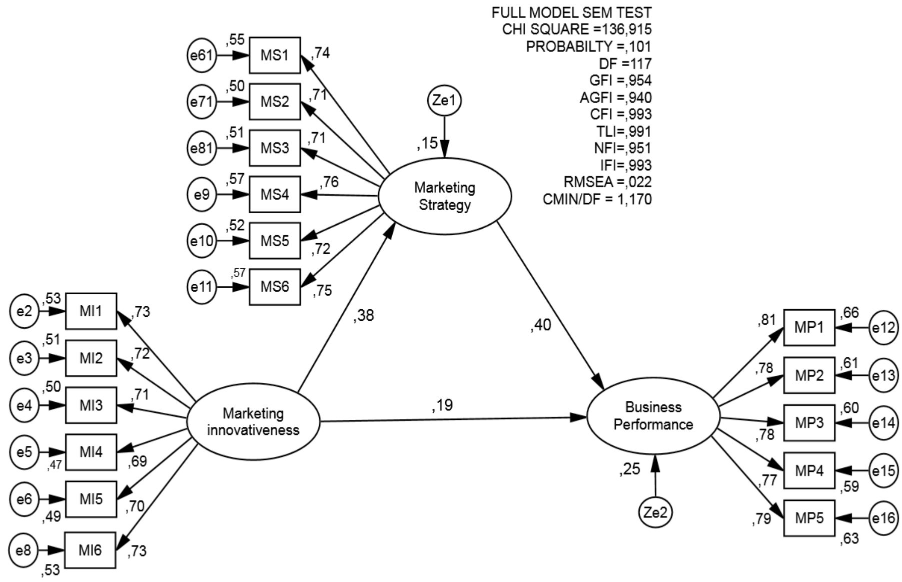


Figure 2. Full structural model

DISCUSSION

Marketing innovativeness influences business performance. Companies that can understand consumer needs will more proactively adapt to customer needs by updating innovative products. Innovations about products and services are always good and it is hoped that consumers will feel the impact, which is the company has added value for consumers. The ability to renewing in marketing will cover all the needs expected by consumers and facilitate the company for what is needed by consumers for product marketing sustainability, so SME actors must innovate so that existing business performance in SME is growing

3. Marketing strategy has a significant impact on business performance, it is true that the hypothesis produced in this study is that SMEs studied to have a good strategy and will automatically have an impact on good business performance for SMEs, with an increase in market share and team performance on the SMEs.

Marketing innovativeness influences marketing strategy so that it can improve business performance. Marketing strategy is expected to be able to understand the needs of consumers all the time and create added value to consumers so that companies can expand the market. With this strategy, it will cover the market and the acceptance of products for consumers. Understanding the needs by conducting a strategy that evaluates is expected to develop the right strategy to satisfy consumers. Consumer needs will encourage companies to innovate products that can provide added value and the best service, thereby increasing the number of purchases. Increasing the number of sales has the potential to increase business performance. The finding of Murphy *et. al.* (1996), there are eight dimensions commonly used by researchers to measure business performance, namely Growth, Profit, Size, Liquidity, Success / Failure, Market Share, efficiency and Leverage. Some researchers use the growth dimension as a proxy for business performance (Cho and Pucik, 2005; Zhou *et. al.*, 2007; Morgan *et. al.*, 2009a; Debicki, 2017). This dimension may be more accurate and accessible to SMEs (Wiklund and Shepherd, 2005).

Marketing Strategy influences business performance. Marketing Strategy is done to make a decision that includes business performance and the impact of the strategy, which is required to know the strengths and weaknesses of competitors so that the company can respond quickly to the actions of competitors. Marketing Strategy can also be used to determine the extent to which competitors will be innovative in developing products. The ability to understand the competitor's strategy will be a guideline in planning and implementing marketing programs. The results of this study are in line with the findings that found the positive relationship between marketing strategy and business performance, this is well documented in the marketing literature (Gruber-Muecke and Hofer, 2015; Lee *et. al.*, 2015; Qu and Zhang, 2015). The marketing strategy literature also shows that market sensing capabilities and customer relationships are leading to superior business performance (Day, 1994).

CONCLUSION AND IMPLICATIONS

The increase in the company will have an impact on business performance that cannot be separated from marketing innovativeness and marketing strategy. Innovations created in the company will have an impact on consumer needs and demands. This refers to the strategy undertaken by business performance to create innovation as a process that turns opportunities into new ideas and further practices them widely. This innovation has the potential to improve business performance. In launching new products, marketing management can form a high or low level for each product that will make changes so that consumers are interested, such as price, promotion, distribution, and product quality. Thus, this strategy can be accepted with the assumption of most potential markets. This strategy can develop over changes experienced by external factors and lead to business performance with a large amount of experience. Launching new products with the right strategy will bring good business performance and lead to the development of the company. Innovation will be bound and followed by competitors as the implementation of the commercialization of Marketing Innovativeness and Marketing Strategy becomes an invention of ideas that have brought these findings commercially.

LIMITATION AND FUTURE RESEARCH

For managerial implications, SMEs must pay attention to what strategies will be taken by looking at the changes needed by consumers, as well as developing strategies for improving business performance in the company.

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