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Marketing Capability: Antecedents and Implications for SME Marketing Performance in Surabaya, East Java, Indonesia

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Abstract: A marketing aspect in company's company becomes a main concern for company leaders and practitioners and academic environment. This research aims to investigate the role of marketing capability as intervening variable and its implication to marketing performance. Marketing performance is a measure of improve corporate achievement. Small and Medium Enterprises (SMEs) located in Surabaya City have 50 business units, and all of are spread all over Surabaya. Partial Least Square (PLS) method, and Structural Equation Modeling (SEM) were used to examine the research hypothesis.

The study found marketing capability acted as intervening variable linking the learning orientation and entrepreneurial orientation to marketing performance. Marketing capability have not mediated market orientation and marketing performance.

Keywords: Marketing Capability, Market Orientation, Learning Orientation, Entrepreneurial Orientation, Marketing Performance.

INTRODUCTION

Numerous efforts have been made to improve the performance of SMEs, starting from training activities, capital assistance to regulations governing SMEs. However, SME have not satisfactory performance. It is necessary to investigate which variables determine the performance of SMEs". SMEs low performance can be influenced by several factors such as resources (Brush, Greene and Hart 2001; Lichtenstein and Brush 2001; Managerial (OECD, 2002; Cooney and Malinen, 2004) and business orientation (Tan and Smyrnios, 2005a; Tan and Smyrnios, 2005b).

Small and medium enterprises performance relies on two approaches: integrated approach (Porter, 1980, 1985) as like as market based approach (Makhija, 2003) and resource approach based the firm (Barney *et al.*, 2001).

Kay (1993) identifies resources become competitive advantages when juxtaposed with industry or competitors. He further explains such resources become competitive advantage when confronted with industry or competitors. Williams (1992) states management is a very important resource because it transforms resources into valueable objects to customers by means of identification, development, protection and empowerment of other resources (Fahy, 2000; and Khalifa, 2004). Barney (2001) add firm's resources and capabilities are valued by the market context in which they are operating. Adopting Slater and Narver idea (1995), this study view market orientation as a learning culture that puts exceptional creation and superior customer value as top priorities taking into account the interests of other stakeholders. Some studies find market orientation has significantly influence to firm performance (Kumar *et al.*, 1998; Rodriguez *et al.*, 2004; McNaughton *et al.*, 2002; Voss and Voss, 2000) and Greenley, 1995) found similar findings that market orientation does not have significant influence to firm performance Langerak (2003) concludes the relationship between market orientation and performance is not direct related (Olavarrieta and Friedmann, 1999).

Market-oriented companies require global a stronger marketing capability about product service than that of their competitors (Celucha *et al.*, 2002). Slater and Narver (1994) argue market oriented cultures are necessary to build and maintain primary capabilities and continue creating superior customers values. Hooley *et al.*, (1999) and Slater and Narver (1993) found marketing capability was considered more important than operational capacity. On going activities leaders have been carrying out represent learning process. It is pervasive in every part of the company. Therefore, market orientation and learning orientation are two interrelated concepts that influence companies's marketing performance (Slater and Narver, 1995). Santos-Vijande *et al.* (2005) examines the issue of causality and they explain market orientation stimulates learning. Meanwhile learning orientation influences market-oriented behavior, however both are interdependent in organizational lerning process (Santos-Vijande *et al.* (2005a).

Baker and Sinkula (2002), Farrell and Oczkowski (2002) argue market orientation and learning orientation are the antecedents for corporate performance. Weerawardena *et al.* (2006) found market orientation approach and relational learning capability led to a high organizational innovation degree that in turn enabled companies to achieve a better performance.

Learning-oriented will enabe companies to plan products and control marketing activities. This approach also anables managers to decide if their companies are successful at achiving a higher learning orientation that of their competitors in terms of information systems and marketing capabilities (Celucha *et al.*, 2002). Companies also have clear rules to process information (Sinkula *et al.*, 1997). Day (1994) argues a superior company will examining expectations and needs of the market through which they are able to anticipate changes. In so doing they are cabale of achieving better positions. Business actors are challenged to innovate, be responsive to the needs of consumers and dare to take risks. As a result they will be able to improve the quality of marketing practices. The relationship between market orientation and entrepreneurial orientation with performance is mediated by innovation (Han *et al.*, 1998) and marketing capability variables (Tzokas *et al.*, 2001). Hult *et al.* (2005) notes overall performance is driven by market orientation, entrepreneurial orientation and innovation.

Tzokas *et al.* (2001) note these two orientations contribute synergistically to unique marketing techniques and company performance. Smart and Conant (1994) assert there is a strong relationship between entrepreneurial-oriented companies and marketing capability.

LITERATURE REVIEW

Marketing Capability

Marketing capability is a multi facet phenomenon. It involves a complex combination of human resources or assets, organizational assets and market assets in a firm (Moller and Antila, 1987). Day (1994) defines a marketing capability as an integrative process designed to apply on collective company knowledge, skills and resources concerning market related business needed, that enable fierms to add value to its goods and services also to meet competitive demands.

Day (1994) classifies marketing capability into three types: outside-in, clientele and establishing a company's reputation and relationships with key customers all the time Marketing capability has a hierarchial structure : marketing culture, marketing strategy and marketing operations (Hooley *et al.,* 1999). Conant *et al.* (1990) does not distinguish three types: Marketing capability is also referred to as marketing competence or marketing of related actions such as market knowledge, ability to differentiate offers, marketing communications effectiveness, control and evaluation, all of which are needed by companies to out perform their competitors. Guenzi and Troilo (2006), identify marketing capability development as one of the main roads to achieve competitive advantages. Marketing can be regarded as a key to new successful companies. A professional analysis of market targets can reduce the rate of business failure (Gruber, 2004). However, marketing can also become the most dominant problem faced by small business owners (Simpson and Taylor, 2002) due to resource constraints (Collinson and Shaw, 2001) and high levels of uncertainty (Fillis, 2003). New companies have been in general uknown by potential customers. This unfavorable condition has significant impacts on limited opportunities to build trust with their potential customers and stakeholders (Gruber, 2004). A good development of marketing capability is essential to carry out basic marketing activities such as gathering information about market needs and selecting target market segments; developing new services to meet the needs of targeted segments; determining price for services or products and informing services of communication benefits offered to the target market (Day, 1994). These activities can be done through advertising/ promotions or personal sales (Vorhies and Yarbrough, 1998). Vorhies *et al.* (1999) identify six processes similar to Conant *et al.* (1990) : value added of the company's products and services can reach its target customers. The six are based on marketing principles such as marketing research, product development, pricing, distribution channel setup, promotion and marketing management. Marketing research about consumers, customers and the public to businesses via information networks identifying and defining marketing opportunities and problems, generates and evaluates marketing actions, monitors marketing performance and enhances understanding of marketing processes (AMA, 2004). Companies that concern service products relevant with customers needs, internal company's goals are likely to outperform their service products from than their competitors who have capabilities in product development (Vorhies and Harker, 2000). It this content, pricing is a crusial issue worth considering. To do so, it is important to consider reliable pricing for their competitive service and company's product while monitoring market prices. Competent marketing management is an important capability. The ability requires leaders to focus on customers acquisition and marketing programs.

In addition, leaders are required to have capabilities to coordinate all activities necessary to execute the programs (Vorhies and Harker, 2000). Each marketing capability is conceptualized related to existing competitors and forms the basis of positional advantage.

Learning Orientation

Sinkula *et al.* (1997) conceptualize the learning orientation as an act to rise organizational values that influence the propensity of the firm to create and use knowledge. Sinkula *et al.* (1997), learning orientation affects the degree of proactive learning. Atuahene-Gima *et al.* (2005) define learning orientation as the extent to which top management attaches value to new skill development, learning enjoyment, curiosity for new ways to enhance performance, preference for challenging work, and critical reflection on firm assumptions. Learning orientation affects types of information collected, interpreted, evaluated and distributed (Calantone *et al.*, 2002). Hurley and Hult (1998) states learning orientation is a fact that exists at various levels within a company, including in label strategy, process, structure and culture. The benefits of learning orientation are to accelerate market information processing (Dickson, 1996), to develop tire products (Stalk Jr, 1988) and to achieve superior performance (Baker and Sinkula 1999: Slater and Narver 1995). The learning orientation is related to three values: (1) the commitment to learn has something to do with a degree of putting values and giving efforts to learn. This will enables people to create learning climate as to encourage organizational learning (Slater and Narver, 1995), (2) openness of perspective is related to the expectation to critically evaluate the performance of company routines and accept new opinions (Sinkula *et al.*, 1997). The expectation is relatively high in most industries, especially when companies are experiencing rapid technological changes, and (3) sharing vision is related to broad organizational learning based activities (Sinkula *et al.*, 1997). Without visions it is difficult for employees to know what to learn and when motivate them to learn (Sinkula *et al.*, 1997).

Entrepreneurial Orientation

Entrepreneurial refers to an ability to create something new and different (Hisrich *et al.*, 2005; Kasmir, 2006). Creating something new and different, equals to creating value for himself and his environment (Venkataraman, 2001). Zimmerer and Scarborugh (2008) define entrepreneurship as a process of applying creativity and innovation in solving problems and finding opportunities to improve business life. Entrepreneurial is often defined by someone who organizes, operates and takes into account the risks to a profit-making business (Mulyadi, 2009). Suryana (2006) states entrepreneurial is a creative and innovative ability used as a basis, tip and resource to seek opportunities for success.

Acar *et al.* (2013) states "entrepreneurs' orientation is an important response of the company to the needs of the potential markets ". Vitale *et al.* (2002) view measurement of entrepreneurial orientation is based on the assumption on three dimensions :innovation, proactive and risk-taking decisions contributing to firms. Baker and Sinkula (2009) suggest entrepreneurial orientation reflects an identifiable corporate growth trend and exploration of opportunities. Pangeran (2013), Frishammar and Horte (2007) assert entrepreneurial orientation reflects the extent to which firms tend to do: (1) innovation, (2) risk-taking, and (3) proactiveness. Gavin and Slevin (1989) in (Kreiser at al., 2002) reveal entrepreneurial orientation is related to psychometric aspects seen from innovation, proactive nature and courage to take risks. From these three dimensions one's entrepreneurial orientation (Lumpkin and Dess,1996) entrepreneurial ties refer to an enterprise-oriented strategy to gain style, practice and decision-making methods. Entrepreneurial orientation reflects how a company operates in comparison with their planns.

Market Orientation

A market orientation is a form of organizational culture in which every employee is committed to continuing to conduct marketing activities. This acts are likely to lead to better organizational performance while creating superior customer values (Jeiyeoba and Amanze, 2014; Calton *et al.*, 2010; Frishammar and Horte, 2007; O 'Cass and Ngo, 2007; Hult *et al.*, 2005). Narver and Slater (1990) define market orientation as an organizational culture consisting of three equally important behavioral components: customer orientation, competitor orientation and inter-functional coordination. Customer orientation comes about when companies succeed in creating superior values for their customers. This happens because companies understand buyers entire value chains (Slater and Narver; 1994a; Slater and Narver; 1994b).

Market Orientation also includes coordination of personnel and other resources of the company to create value for buyers (Slater and Narver, 2000). Kohli and Jaworski (1990) reveal a different interpretation of market orientation that states that market orientation involves the behavior of activities including childbirth, spreading and responding to information about customers and competitors. In other words Kohli and Jaworski (1990) view market orientation as an implementation of marketing concepts, Lafferty and Hult (2001) summarize market orientation into five different perspectives: decision making (Shapiro, 1988), market intelligence perspective (Jaworski and Kohli, 1993), Cultural-based behavior (Narver and Slater, 1990), focuses on strategic marketing (Morgan and Strong, 1998) and customer orientation (Deshpande and Farley, 1998).

Slater and Narver (1994b) view market-driven and market oriented terms synonymously. Therefore, market driven approach comes from the construction and principles of market orientation and can be considered identical (Harris and Cai, 2002). Researchers also tend to use the terms market orientation and marketing orientation in turn. Pelham *et al.* (1996), Spillan and Parnell (2006) treat the construct synonymously, although this dimension is not identical (Slater, 2001).

If embracing the values implied in it business processes are directed to create superior customer value for buyers and provide more flexibility to marketing departments to achieve goals (Slater, 2001). Liu (1995) states market orientation consists of marketing activities undertaken by the company. Never and Slater (1990) mention market orientation consists of orientation to consumers, orientation to competitors and coordination between functions. Vitae *et al.* (2002) use different terms such as: knowledge of markets, dissemination of market information and the contribution of marketing activities to consumers.

Marketing Performance

Ferdinand (2000) performance of the marketing becomes a factor used to measure the impacts of the company marketing strategies. Ambler and Robert (2008) states marketing is actions the company is engaged in to create shareholders values. In order to evaluate the marketing performance, it is necessary to adhere to three criteria: a comparison to internal benchmarks, external benchmarks and adjustments for any variation in brand equity (Ambler *et al.*, 2001; Mills, 2010). Performance measurement has become essential to senior management in companies since they are responsible for strategic and decisions of operational. This has brought about the use of benchmarks to compare with best performance in business (Jin *et al.*, 2013). Marketing plans are generally considered as an internal benchmark for performance (Mills, 2010).

Marketing performance, according to (Morgan *et al.*, 2002; Lamberti and Noci, 2010) is a marketing performance related to inter-functional processes such as savings in terms of costs and also turnover directly caused by activities: sales, pricing, promotion, and distribution.

Measurement of marketing performance other than that often used in research that is: market share and profitability, it is profit before tax and increase of sales growth Li and Calantone (1998). Ambler (2003: 264) states two types of the performance of marketing, non-financial aspects: market share, market growth, customer retention, customer satisfaction, and premium prices, while the second financial aspect: income growth, economic benefits, internal rate of return (IRR) on capital, and profiltability.

Other opinions of marketing performance are the results that companies have achieved in meeting consumers expectations (Vorhies *et al.*, 1999; Vorhies and Harker, 2000; and Vorhies and Yarbrough, 1998) use four indicators: customer satisfaction, value delivery, program effectiveness, and success of new product.

Research Methods

The population of this research is all small and medium enterprises (SMEs) in Surabaya. SMEs is one of the sectors is one of the crushers of the economy of Surabaya City Number of SMEs in Surabaya = 50 units of businesses in 2016. Due to population <100 unit businesses then the determination of the sample amount are 50 units of business or respondent.

Test of Validity and Reliability of Research Instruments

Validity Test

Validity tests are conducted to ascertain how well an instrument is used to measure concepts that should be measured. Sugiyono (2010) mentions constructs validity is done by correlating between the scores of individual question items with the total scores.

Reliability Test

Arikunto (2006: 154) states "reliability refers to trustworthiness of the research instruments to be used as a data gathering tool. Reliability is related to the level of consistency of the instruments can offer (Sukmadinata, 2009). The questionnaire is said to be reliable if it gives relatively the same results when remeasuring different objects regardless of times or places.

RESULT AND DISCUSSION

This research is to analyze data using path analysis to trace the relationship among variables in the model designed (Hair, 2006). The main purpose of this research is to develop a theory. According to (Schucmacker and Lumax, 2004; Solimun, 2010) path analysis is an analysis used to test and develop theoretical relationships.

Learning orientation has positif and significant influence with marketing capability. The findings of this study support the findings of Celucha *et al.* (2002) companies have higher learning orientation. Day (1994) and Pisano (1994) also argue excellent companies continue learning about their markets to achieve better positions by anticipating changes. However learning orientation to marketing performance has positive and insignificant effects. This finding is supported the study by Salavou (2005). He states when learning

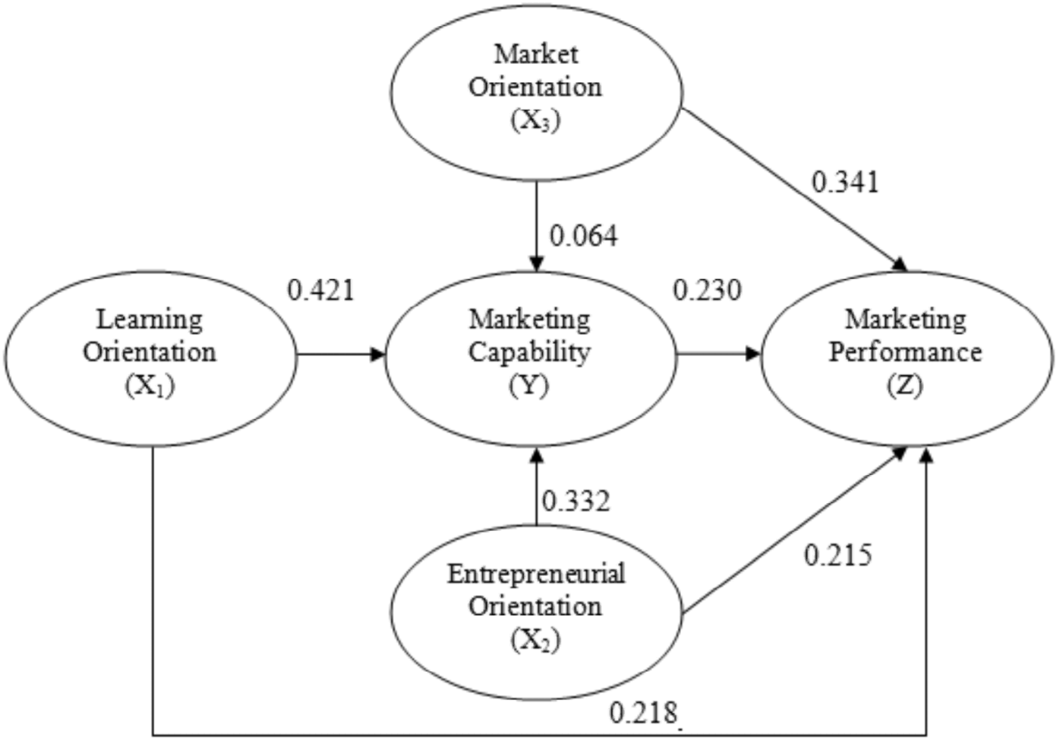

Figure 1: Model of Analysis by Reseachers Designed (2017)

Table 1
Direct Effect Testing

Variable of Independent	*Variable of Dependent*	*Path Coeffcients*	*Probability*	*Remarks*
Learning Orientation	Marketing Capability	0.421	0.000	Significant
Learning Orientation	Merketing Performance	0.218	0.121	Not significant
Marketing Capability	Merketing Performance	0.230	0.012	Significant
Entrepreneurial Orientation	Merketing Performance	0.215	0.018	Significant
Entrepreneurial Orientation	Marketing Capability	0.332	0.000	Significant
Market Orientation	Merketing Performance	0.341	0.062	Not significant
Market Orientation	Marketing Capability	0.064	0.089	Not significant

Source: Results Data Processing

orientation is enhanced by the customer and not by the firm's internal and technologically is more likely to lead to creation of new and unique products for market especially in the context of the food and beverage industry in Greece and the SME textile industries.

The results of the analysis of the effect of marketing capability on marketing performance show a positive and significant influence, therefore these findings support the Vorhies and Yarbrough (1998) statement, that marketing capability is important for carrying out basic marketing activities such as gathering information about market needs and selecting market target segmentation (Day, 1994; Tzokas *et al.*, 2001; Weerawardena, 2003; Fahy, 2000; Hooley *et al.*, 1999).

The result of the influence of entrepreneurial orientation toward marketing performance shows positive and significant influence. The findings support the results of Sciascia *et al.* (2006) statements, which are the goal of creating value for customers and product performance that impact marketing performance (Atuahene Gima and Ko, 2001). Furthermore, the analysis of the effect of entrepreneurship orientation on marketing capability shows a positive and significant influence. The findings of this study support the research of Lee and Hsieh (2010) and also support the statement of Tzokas *et al.* (2001) and Smart and Conant (1994).

The result of market orientation influence analysis on marketing performance shows positive and insignificant influence. These findings support the results of a study conducted by Johnson *et al.* (2009) in the food companies industry where the first hypothesis states that market orientation has direct and poistif but not significant effect on marketing performance, the result has shown that the three indicators of competitor orientation, customer orientation and inter-functional coordination do not encourage marketing performance. The results of other supporting research conducted by Maslucha and Sanaji (2013). They indicate market orinetation has a negative relationship with marketing performance. Meanwhile the results of other studies support the results of this study (Ottesen and Grounhaug, 2005; Van Duren *et al.*, 2003; Hassim *et al.*, 2011).

The analysis result of market orientation influence to marketing capability shows positive and insignificant influence. Empirical facts indicate the ability of various information about consumers, information about the needs of the target market in order to create customer value has not been able to help companies find newer consumers than competitors or marketing programs from better competitors. These findings support the results of Lin (2007) study that examines the indicators of market orientation indicators associated with the company's Marketing capabilities in companies in Australia. But the findings of this study do not support the research done by (Vorheis and Harker, 2000; Vohies *et al.*, 1999; Slater and Narver, 1993).

Table 2
The Role of Marketing Capability as Intervening Variable

Variable of Independent	*Variable of Intervening*	*Variable of Dependent*	*Influence*		*Remarks*
			Direct	*Indirect*	
Entrepreneurial Orientation	Marketing Capability	Merketing Performance	0.215	0.071*	Have a role
Market Orientation	Marketing Capability	Merketing Performance	0.341	0.022	Not have a role
Learning Orientation	Marketing Capability	Merketing Performance	0.218	0.092*	Have a role

Remarks: * significant with $\alpha \leq 0.05$

Based on Table 2 it can be seen that Marketing Capability variable is an intervening variable and has the role of mediating Entrepreneurial Orientation and Learning Orientation variables on marketing performance variables.

CONCLUSION

Based on the results of this study it can be concluded:

1. Learning orientation can improve company's marketing capabilities. This requires the willingness to learn competitive and positive advantages of companies which later affect observation or market evaluation. The findings support by Celucha *et al.* (2002); Calantone *et al.* (2002) and Sinkula *et al.* (1997). This study also confirms Day (1994) that states superior companies are constantly learning about their markets in anticipation of any changes.
2. The learning orientation of the company has not been able to improve the performance of marketing. This means that decreases and improvements for each part are able to learn about key competitive advantages, the basic values in each section include learning as the key to corporate survival and the organization's buaday that places Employee learning as a top priority not being able to influence the effectiveness of the marketing program.
3. The company's marketing capability can improve the performance of the company. This is a decrease or increase of market observations conducted by companies that will help to find new consumers and market observation skills by company marketing staff who will be able to increase more effective marketing, while market observation by the company's marketing staff to develop appropriate marketing programs is incapable streamline marketing programs.
4. The entrepreneurship orientation of the company is able to improve company's marketing performance. This means that the speed of responding to competitors and aggressiveness in competing with their competitors is necessary so that companies are able to promote the effectiveness of their marketing programs.
5. The entrepreneurial orientation of the company is to increase the marketing capability. This means that the speed of responding to competitors' actions and aggressiveness in competing that precedes competitors will influence in helping to pinpoint new customers, improve marketing staff skills for market observation so as to promote more effective marketing and improve the ability of marketers to develop more precise marketing programs.
6. The market orientation has not been able to improve company's marketing performance. This means that managers of the company have not provided superior values for consumers. They do not pay attention to the activities undertaken by competitors through business cooperation among their functions. As a result marketing performance tends to be getting worse.
7. Market orientation has not been able to improve company's marketing capability. This identifies that when corporate managers have a strong determination to provide superior value to consumers, keeping in mind the activities performed by competitors that are supported by coordination between functions have not been able to find a more recent consumer than the mast, not helping to develop more marketing programs effective has not been able to use the market research information more effectively than the competitors and research experts or market observers do not help to develop marketing programs better than competitors.

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