

Conference Paper

Creating Innovation Based on Superior Business Capabilities and Entrepreneurial Networks to Enhance Marketing Performance

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Abstract

This research empirically tests and analyzes creation of innovation through superior business capabilities and entrepreneurial networks to enhance the marketing performance of micro, small and medium-sized confection enterprises in Semarang City. This research takes 100 respondents as its samples using an incidental sampling technique. The respondents are owners/managements of confection businesses. The data are collected using questionnaire and analyzed by employing descriptive technique and Structural Equation Model (SEM) with AMOS version 18 software. The research results generally conclude that superior business capabilities influence innovation, entrepreneurial networks, and marketing performance. Entrepreneurial networks influence innovation and marketing performance, and innovation influences the marketing performance of micro, small and medium-sized confection enterprises in Semarang City.

Keywords: innovation, superior business capabilities, entrepreneurial networks, marketing performance.

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1. Introduction

The development of an economic system which lies on Micro, Small and Medium-Sized Enterprises (MSMEs) will drive entrepreneurial economic growth, which will later drive the growth of new businesses. MSME sector serves as a potential footing to enhance the national economic growth in the future era of knowledge and technology based economy.

Conceptually, they who do business in informal sector are basically more oriented to creating employment for themselves and others. According to Demartoto (2000:23) in Isnaeni (2009), informal sector means small-scale business in production and distribution of goods and services mainly intended to create employment and income for themselves, of which business is highly limited by capital and skill. Similarly, facing

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more intense and complicated competition in industry sector requires resources with entrepreneurial capabilities.

The research gap related to researches on the marketing performance and business phenomena of confection MSMEs in Semarang City encourages this research. Parida and Westerbeg *et al.* (2010) state that Entrepreneurial networks do not positively influence performance, while Moghli and Muala (2012) state that Entrepreneurial networks significantly influence business performance. Similarly, Laith Ali Yousif Al-Hakim Shahizan Hassan (2013) states that innovation significantly influences organizational performance, while Rofiaty, Try Noviyanti and Angga Dwi Mulyanto (2015) argue that innovation does not significantly influence organizational performance.

The problems of the research on Micro, Small and Medium-Sized Enterprises are: 1) How does superior business capability influence entrepreneurial network? 2) How does superior business capability influence innovation? 3) How does entrepreneurial network influence innovation? 4) How does innovation influence marketing performance? 5) How does entrepreneurial network influence marketing performance? 6) How does superior business capability influence marketing performance?

Based on the research gap and the gap phenomena above, a research is conducted, entitled: "Creating Innovation based on Superior Business Capabilities and Entrepreneurial Networks to Enhance Marketing Performance".

2. Literature Review and Model Development

2.1. Innovation

Innovation, according to Kotler (2009:355), means a strategy to develop company's resources in the form of equipment and expertise as well as activity process operated by the company aiming at generating more and better ideas than those of competitors. Innovation means a process to transform knowledge to value through application of new or better product, process and system (Ferraresi, 2012:690). Innovation is a method to continuously build and develop organization which may be achieved through introduction of new technology, new application in product or service, development of new market and introduction of new forms of organization (Widodo, 2013:208).

According to (Han *et al.*, 1998:196), there are three indicators to measure innovation, namely: 1) Cultural innovation, which is existing innovation culture in the company to continuously create new products, 2) Technical innovation, which is innovation of corporate process to generate new product, and 3) Product innovation, which is corporate

capability to generate new product pursuant to customers' desire. There are, according to Hurley (1998), three indicators of innovation: 1) Cultural Innovation, 2) Technical Innovation, and 3) Administrative Innovation with regard to organizational structure and administrative process of an organization.

2.2. Superior Business Capabilities

The concept of capability is related to company's capability to distribute its resources and presents coordinated tasks in its attempt to achieve its designated objectives (Amit and Shoemaker, 1993 in Davis and Sun, 2006). Capability consists of skill, form of knowledge and social relationship instilled in company: routine, managerial process, form of communication and culture (Pandza, Horsburgh, Gorton, & Polajnar, 2003).

Superior business capability means company's capability to present added value better than competitors in the form of product quality development, more varied products, better service, realization of customers' loyalty, and determining competitive product's selling price with spirit of cooperation with win-win solution and mutual benefit. Superior business capability may potentially increase marketing performance.

2.3. Entrepreneurial Network

Network is the main method, thus vital resources will be transferred for entrepreneurial activities (Hoang and Antonic, 2003). Network is defined as associations of individuals, groups or organizations that communicate with one another aiming at realizing win-win solution or mutual benefit (Aldrich and Zimmer, 1986; Burt, 1992; Hit *et al.*, 2001).

Entrepreneurial network may be correlated with all bonds in the whole existing personal networks maintained by managers of small and medium-sized businesses in effort to identify opportunities to exploit in the future (Sharpe, 1998).

2.4. Marketing Performance

Sugiarto (2008) defines performance as the result achieved of what has been conducted by owner or manager in business operation. Furthermore, Nurhayati (2009) defines performance as the standard of success or level of success in achieving company's objectives.

Ferdinand (2000) states that marketing performance or market performance is the concept to measure a product's marketing achievement. Marketing performance is a

construct (factor) generally used to measure the result of a corporate strategy. The result of corporate strategy is measured using *activity based measure*, which is a measure that may explain marketing activities generating such marketing performance. Furthermore, Ferdinand (2000) explains that a good marketing performance is stated in three dimensions, namely sales volume, sales growth, and market share, which eventually lead to corporate profit. Similarly, Voss and Voss (2000) state that marketing performance measurement includes sales assets, number of buyers, profit, and sales growth.

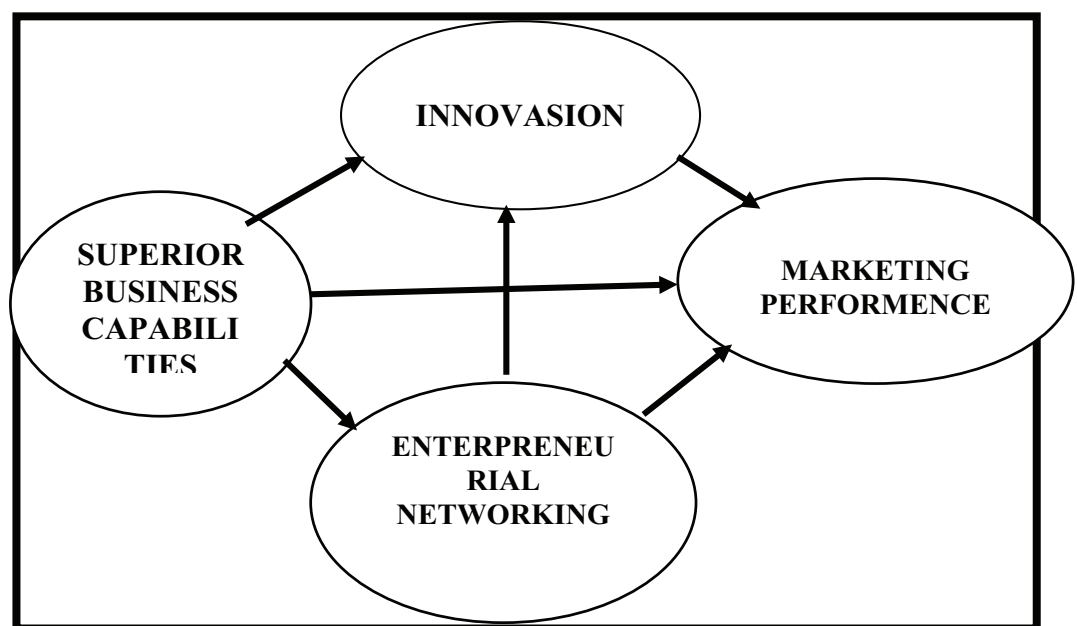


Figure 1: Grand Theoretical Model.

The hypotheses of this research are:

H1: Superior business capabilities positively, significantly influence entrepreneurial networks.

H2: Superior business capabilities positively, significantly influence innovation.

H3: Entrepreneurial networks positively, significantly influence innovation.

H4: Innovation positively, significantly influences marketing performance.

H5: Entrepreneurial networks positively, significantly influence marketing performance.

H6: Superior business capabilities positively, significantly influence marketing performance.

3. Methodology

This research's population is owners/entrepreneurs, managers or owners concurrently serving as managers of confection MSMEs in Semarang City. The number of samples is determined using the Incidental Sampling technique (Somantri, 2006:96), while the respondents are determined using the Purposive Sampling technique. The number of samples of this research is 100 respondents, who are owners or managers or owners concurrently serving as managers of confection MSMEs in Semarang City.

This research's variables are: First, superior business capability with indicators of developing better product quality than competitor, developing more varied products than competitor, developing better service than competitor, creating better customers' loyalty than competitor and determining more competitive product price than competitor. Second, entrepreneurial network with indicators of building kinship-based social relation, building kinship-based business relation, building kin relationship with employees, building kin relationship with customers, building kin relationship with suppliers, building kin relationship with business players, building kin relationship with financial institutions, building kin relationship with governmental environment, and building kin relationship with profession organization. Third, innovation with indicators of cultural innovation, technical innovation, product innovation, and administrative innovation. Fourth, marketing performance with indicators of sales growth, customers growth, profit growth, and working capital growth. The data are collected using questionnaire and documentation. The data are analyzed using Structural Equation Model (SEM) with AMOS version 18.

4. Empirical Results

The results of data analysis based on Structural Equation Model (SEM) are presented with numbers below:

5. Research Results and Discussion

5.1. Hypothesis Test 1

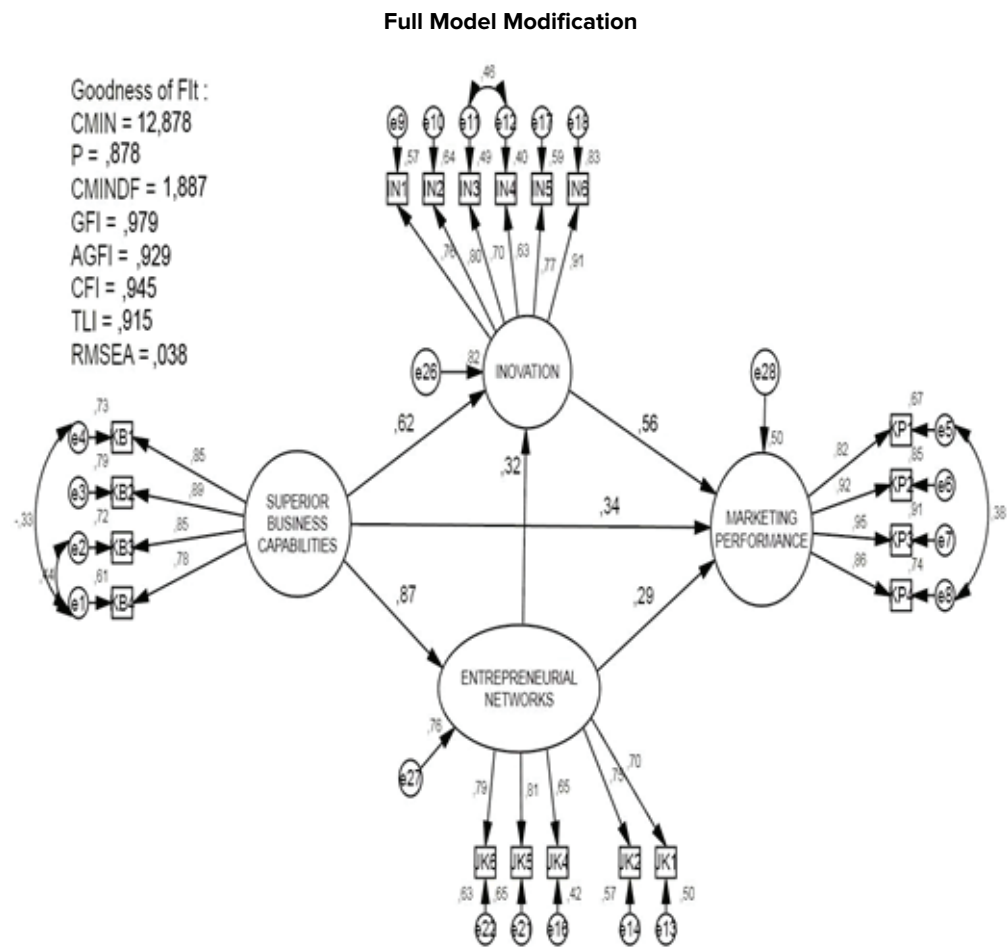


Figure 2: Results of Structural Equation Model (SEM) Test.

5.1.1. Superior business capabilities' influence on entrepreneurial networks

The first hypothesis of this research states that superior business capabilities positively, significantly influence entrepreneurial networks, which means that the higher the superior business capabilities, the higher the entrepreneurial networks are. Based on the result of data processing, it is found that the Critical Ratio (CR) value of superior business capabilities' influence on entrepreneurial networks in Table 4.1. is 6.537 with Probability (P) of 0.000. The CR value is higher than 1.960, thus the first hypothesis of this research is **acceptable**.

The result indicates that enhancing entrepreneurial networks needs superior business capabilities. Based on the description of respondents' answer with superior business capabilities variable indicated with five indicators with descriptive analysis, it shows averagely high category result. In overall, the superior business capabilities formulation

TABLE 1: Results of Hypothesis Test.

			Std Estimate	S.E.	C.R.	P	Criteria
ENTREPRENEURIAL_ NETWORKS	<—	SUPERIOR_ BUSINESS_ CAPABILITIES	0.87	0.101	6.537	***	Significant
INNOVATION	<—	SUPERIOR_ BUSINESS_ CAPABILITIES	0.615	0.179	3.437	***	Significant
INNOVATION	<—	ENTREPRENEURIAL_ NETWORKS	0.315	0.124	3.346	***	Significant
MARKETING_ PERFORMANCE	<—	INNOVATION	0.561	0.023	2.010	.004	Significant
MARKETING_ PERFORMANCE	<—	ENTREPRENEURIAL_ NETWORKS	0.293	0.16	2.850	***	Significant
MARKETING_ PERFORMANCE	<—	SUPERIOR_ BUSINESS_ CAPABILITIES	0.341	0.116	3.474	***	Significant

All P values are less than 0.05, thus all hypotheses are significant.

TABLE 2: Hypothesis Intervening Test.

Influence on Variable	Direct Influence	Indirect Influence	Total Value	Intervening Variable
Superior Business Capabilities – Innovation – marketing Performance	0.341	0.3472	0.6872	Innovation 0.6872>0.341
Entrepreneurial Networks – Innovation – Marketing Performance	0.293	0.1792	0.4692	Innovation 0.4692>0.293
Superior Business Capabilities – Entrepreneurial Networks – Marketing Performance	0.341	0.2523	0.5923	Entrepreneurial Networks 0.5923>0.341
Superior Business Capabilities – Entrepreneurial Networks – Innovation	0.615	0.2784	0.8984	Entrepreneurial Networks 0.8984>0.615

include developing better product quality than competitors, developing more varied products than competitors, developing better services than competitors, creating better customers' loyalty than competitors, and determining more competitive product price than competitors.

Furthermore, the entrepreneurial networks with nine indicators pursuant to the analysis on the description of respondents' answers show averagely high category result. However, the indicator of kin relationship with financial institution, government and profession organization is still of medium category. The enhancement of entrepreneurial networks may be achieved by enhancing superior business capabilities. Therefore,

TABLE 3: Goodness of Fit Test.

Goodness of Fit Index	Cut-off Value	Value	Criteria
χ^2 Chi- Square Statistics	df, $\alpha = 5\%$	12.878	Good
Probability	≥ 0.05	0.878	Good
CMIN/DF	≤ 2.00	1.887	Good
GFI	≥ 0.90	0.979	Good
AGFI	≥ 0.90	0.929	Good
TLI	≥ 0.90	0.945	Good
CFI	≥ 0.90	0.915	Good
RMSEA	≤ 0.08	0.038	Good

Standardized Regression Weights: (Group number 1 - Default model)

superior business capabilities evidently, positively influence entrepreneurial networks. In addition, superior business capabilities may also influence innovation and marketing performance based on entrepreneurial networks mediation.

The result of this research conforms to the concept of capability in relation to corporate capability to distribute its resources and present coordinated tasks in its business to achieve its designated objectives (Amit and Shoemaker, 1993 in Davis and Sun, 2006). Similarly, it also conforms to the concept of superior business capabilities (2012), which is corporate capability to provide higher added value than competitors in the form of product quality development, more varied products, better services, creating customers' loyalty, and determining competitive product's selling price with spirit of cooperation with win-win solution and mutual benefit. Superior business capabilities may potentially increase marketing performance.

5.2. Hypothesis Test 2

5.2.1. Superior business capabilities' influence on innovation

The second hypothesis of this research states that superior business capabilities positively, significantly influence innovation, which means that the higher the superior business capabilities, the higher the innovation is. Based on the result of data processing, it is found that the Critical Ratio (CR) value of superior business capabilities' influence on innovation in Table 4.1. is 3.437 with Probability (P) of 0.000. The CR value is higher than 1.960, thus the second hypothesis of this research is **acceptable**.

The result indicates that enhancing innovation needs superior business capabilities. Based on the description of respondents' answer with superior business capabilities

variable indicated with five indicators with descriptive analysis, it shows averagely high category result. In overall, the superior business capabilities formulation includes developing better product quality than competitors, developing more varied products than competitors, developing better services than competitors, creating better customers' loyalty than competitors, and determining more competitive product price than competitors.

Furthermore, innovation with four indicators pursuant to the analysis on the description of respondents' answers shows averagely high category result. However, the indicator of administrative innovation is still of medium category. The enhancement of innovation may be achieved by enhancing superior business capabilities. Therefore, superior business capabilities evidently, positively influence innovation. In addition, superior business capabilities may also influence innovation and marketing performance based on entrepreneurial networks mediation.

The result of this research conforms to the concept of capability in relation to corporate capability to distribute its resources and present coordinated tasks in its business to achieve its designated objectives (Amit and Shoemaker, 1993 in Davis and Sun, 2006). Similarly, it also conforms to the concept that capability consists of individual, skill, form of knowledge, social relationship instilled in company, routine, managerial process, form of communication and culture (Pandza, Horsburgh, Gorton, & Polajnar, 2003).

5.3. Hypothesis Test 3

5.3.1. Entrepreneurial networks' influence on innovation

The third hypothesis of this research states that entrepreneurial networks positively, significantly influence innovation, which means that the higher the entrepreneurial networks, the higher the innovation is. Based on the result of data processing, it is found that the Critical Ratio (CR) value of the influence of entrepreneurial networks on innovation in Table 4.1. is 3.346 with Probability (P) of 0.000. The CR value is higher than 1.960, thus the third hypothesis of this research is **acceptable**.

The result indicates that enhancing innovation needs entrepreneurial networks. Based on the description of respondents' answer with entrepreneurial networks variable indicated with nine indicators with descriptive analysis, it shows averagely high category result. In overall, the entrepreneurial networks formulation includes building kinship-based social relation, building kinship-based business relation, building kin relationship with employees, building kin relationship with customers, building kin relationship with

suppliers, building kin relationship with business players, building kin relationship with governmental environment and building kin relationship with profession organization.

Furthermore, innovation with four indicators pursuant to the analysis on the description of respondents' answers shows averagely high category result. However, the indicator of administrative innovation is still of medium category. The enhancement of innovation may be achieved by enhancing entrepreneurial networks. Entrepreneurial networks evidently, positively influence innovation. In addition, entrepreneurial networks may also influence innovation and marketing performance based on entrepreneurial networks mediation. Meanwhile, innovation may serve as mediator of the influence of entrepreneurial networks and superior business capabilities on marketing performance.

5.4. Hypothesis Test 4

5.4.1. Innovation's influence on marketing performance

The fourth hypothesis of this research states that the degree of innovation positively, significantly influences marketing performance, which means that the more enhanced the innovation, the more enhanced the marketing performance is. Based on the result of data processing, it is found that the Critical Ratio (CR) value of innovation's influence on marketing performance in Table 4.1. is 2.010 with Probability (P) of 0.004. The CR value is higher than 1.960, thus the fourth hypothesis of this research is **acceptable**.

The result indicates that enhancing marketing performance needs innovation. Based on the description of respondents' answer with variable innovation indicated with four indicators with descriptive analysis, it shows averagely high category result. In overall, the innovation formulation includes cultural innovation, technical innovation, product innovation, and administrative innovation.

Furthermore, marketing performance with four indicators pursuant to the analysis on the description of respondents' answers shows averagely high category result. However, the indicators of profit growth and working capital growth are of medium category. The enhancement of marketing performance may be achieved by enhancing innovation. Innovation evidently, positively influences marketing performance. In addition, innovation may serve as mediator of the influence of entrepreneurial networks and superior business capabilities on marketing performance.

The result of this research shows that Innovation has become company's routine and main activity, just like marketing and financial activities. This conforms to the research conducted by Prakoso (2005:189) that innovation is company's mechanism to adapt to

dynamic environment, thus company is required to create new ideas, new notions by offering innovative products and improved services which may satisfy customers. New product innovation plays an important role in enhancing company's profitability, while innovation process serves as a strategy to reduce costs (Tjiptono, 2012:280).

5.5. Hypothesis Test 5

5.5.1. Entrepreneurial networks' influence on marketing performance

The fifth hypothesis of this research states that the degree of entrepreneurial network positively, significantly influences the degree of marketing performance, which means that the higher the degree of entrepreneurial networks, the higher the degree of marketing performance is. Based on the result of data processing, it is found that the Critical Ratio (CR) value of the influence of Entrepreneurial networks on marketing performance in Table 4.2. is 2.850 with Probability (P) value of 0.000. The Critical Ratio (CR) value is higher than 1.960, thus we may state they the fifth hypothesis of this research is **acceptable**.

The result indicates that enhancing marketing performance needs entrepreneurial networks. Based on the description of respondents' answer with variable entrepreneurial networks indicated with nine indicators with descriptive analysis, it shows averagely high category result. In overall, the entrepreneurial networks formulation includes building kinship-based social relation, building kinship-based business relation, building kin relationship with employees, building kin relationship with customers, building kin relationship with suppliers, building kin relationship, building kin relationship with governmental environment, and building kin relationship with profession organization.

Furthermore, marketing performance with four indicators pursuant to the analysis on the description of respondents' answers shows averagely high category result. However, the indicators of profit growth and working capital growth are of medium category. The enhancement of marketing performance may be achieved by enhancing entrepreneurial networks. Entrepreneurial networks evidently, positively influence marketing performance. In addition, entrepreneurial networks may serve as mediator of the influence of superior business capabilities and innovation on marketing performance.

The result of this research supports previous research indicating the importance of external entrepreneurial networks to achieve an optimal marketing performance

based on the perspective of social capital and resources (Lee, lee and Pennings, 2001). Therefore, entrepreneurial networks may support marketing performance.

5.6. Hypothesis Test 6

5.6.1. Superior business capabilities' influence on marketing performance

The sixth hypothesis of this research states that the degree of superior business capabilities positively, significantly influence the marketing performance of MSMEs, which means that the higher the superior business capabilities, the higher the marketing performance of MSMEs is. Based on the result of data processing, it is found that the Critical Ratio (CR) value of the influence of superior business capabilities on the marketing performance of MSMEs in Table 4.1. is 3.474 with Probability (P) value of 0.000. The CR value is higher than 1.960, thus the sixth hypothesis of this research is **acceptable**.

The result indicates that enhancing marketing performance MSMEs needs superior business capabilities. Based on the description of respondents' answer with superior business capabilities variable indicated with four indicators with descriptive analysis, it shows averagely high category result. In overall, the superior business capabilities formulation includes developing better product quality than competitors, developing more varied products than competitors, developing better services than competitors, creating better customers' loyalty than competitors, and determining more competitive product price than competitors.

Furthermore, marketing performance with four indicators pursuant to the analysis on the description of respondents' answers shows averagely high category result. However, the indicators of profit growth and working capital growth are of medium category. The enhancement of marketing performance may be achieved by enhancing superior business capabilities. Superior business capabilities evidently, positively influence marketing performance.

The result of this research is in line with and supports previous researches conducted by Chan et al., (2004); and Sutrandskov, (2006), stating that competitive advantage or superior business capabilities positively influences corporate performance. Although the outcome is not optimal yet, but the enhancement of MSMEs' marketing performance may be achieved by enhancing superior business capabilities.

6. Conclusion

The conclusions of this research on creating innovation based on superior business capabilities and entrepreneurial networks to enhance the marketing performance of Micro, Small and Medium-Sized Enterprises (MSMEs) in Semarang City are: 1) Superior business capability positively, significantly influences entrepreneurial networks, 2) Superior business capability positively, significantly influences innovation, 3) Entrepreneurial network positively, significantly influences innovation 4) Innovation positively, significantly influences marketing performance 5) Entrepreneurial network positively, significantly influences marketing performance, 6) Superior business capability positively, significantly influences marketing performance.

7. Suggestion

The results of this research may be utilized as information for readers and researchers in the future by using other variables, samples or data analysis.

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