

The Role of Innovation Capability to Improve Marketing Performance in Food SMEs

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Abstract

This study aims to determine the effect of word of mouth (WOM) or known as word of mouth marketing on purchasing decisions with buying interest as an intervening variable. The target of this research is the consumers of Rumah Kaca Coffee & Eatery, Jambi City. The population and sample in this study were consumers of Rumah Kaca Coffee & Eatery, Jambi City. An exploratory research was conducted from July to December 2022 with a total sample of 100 respondents. Quantitative research has been performed and data was obtained through the method of distributing questionnaires. The research data analysis method was descriptive statistical analysis using the Structural Equation Modeling (SEM) technique, with Partial Least Square (PLS) as a processing tool using the SmartPLS4 program (V.4.0.8.8.). The results of this study proved that word of mouth has a positive and significant effect on purchase intentions.

Keywords: Customer Orientation, Entrepreneurial Orientation, Operational Capability, Innovation Capability, Marketing Performance

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1.0. INTRODUCTION

SMEs in Indonesia are currently considered an effective way to overcome poverty. It is proven that SMEs can create adequate jobs for domestic workers so that they can help reduce unemployment. Small and Medium Enterprises (SMEs) are also the economic sector that has the best resilience, has great potential in driving people's economic activities, and is also a source of income in improving welfare (Arbawa & Wardoyo, 2018).

The growth of food SMEs in Kendal, Indonesia, has seen a sharp decline. In 2021, the number of SMEs decreased by 16.5% from 2020 which was only 4.2% and it decreased by 24.3% in 2022.

To face today's competition, SME actors must be able to improve their marketing performance. Marketing performance is a measure of the success that a company can achieve in marketing its products in the market (Asashi & Sukaatmadja, 2017). Every SME actor must be able to manage his business with systematic efforts to benefit from good marketing performance (Sarif Hidayat, 2018). The results of the study show that many factors affect marketing performance, including market orientation and competitive advantage (Rahadhini &

Lamidi, 2020), customer orientation (D'Anselmi et al., 2017), market orientation (Asashi, 2017), entrepreneurial orientation (Kantur, 2016), entrepreneurial orientation and market orientation (Aristiyo & Murwatiningsih, 2017) and product innovation (Elwisam 2019).

Customer orientation as part of market orientation is believed to be able to improve marketing and sales performance. Customer orientation is interpreted as an effort made to be able to continuously create superior value for buyers and create a superior appearance for the company (D'Anselmi et al., 2017). The results of previous studies by Asashi (2017) and Rahadhini and Lamidi (2020) showed that market orientation affects marketing performance, but Arbawa and Wardoyo (2018) explain that market orientation does not affect marketing performance. For SMEs, customer orientation shows a tendency to fulfill customer needs and desires. Customer Orientation is one of the things that must be mastered by SME actors, where they will focus on how to make customers have good expectations of the product. According to (Cho, 2021), customer orientation must be preceded by customer satisfaction, because consumers will very easily receive services from the company. SME actors must focus on customers by providing the best

service to customers so that they are not abandoned by their customers. Thus, to improve the performance SMEs must be customer-oriented.

Another variable that affects marketing performance is entrepreneurial orientation. Entrepreneurial Orientation (EO) is one of the important points in the success of a product. However, there are still few discussions about EO even though it becomes a variable that greatly contributes to the development of a business (Khattak, 2021). Meanwhile, Arbawa & Wardoyo (2018) explained that entrepreneurial orientation refers to processes, practices, and decision-making that lead to new inputs. Kantur (2016) and Aristiyo and Murwatiningsih (2017) explain that entrepreneurial orientation affects marketing performance. The better the entrepreneurial orientation carried out by business actors, the better the marketing performance. This result is different from the research of Arbawa and Wardoyo (2018), that entrepreneurial orientation does not affect marketing performance. Furthermore, Arbawa & Wardoyo (2018) used women with an age factor that was quite old and only had an elementary education background, thus showing a lack of ability to innovate products, activity in selling began to decline and a lack of courage to be more aggressive in competing. Similar to the results of research by (Arbawa & Wardoyo, 2018) and (Nathan & Scobell, 2012), it found that entrepreneurial orientation does not affect business performance.

Operational Capability is a series of activities to improve the performance of an organization and it focuses on how it works. The performance process is also intended for consumers in choosing and deciding the choice of a product. Therefore, the ability to collaborate with colleagues or customers is a major operational capability (Arvidsson, 2019).

Efforts to improve marketing performance can also be done by innovating products. Elwisam (2019) states that the creative product innovations carried out by SMEs affect marketing performance. Based on the results of this study, this research proposes the innovation capability variable to overcome the inconsistency of studies related to the effect of customer orientation and entrepreneurial orientation on marketing performance.

Innovation Capability is considered a fundamental thing in the buying and selling activity of a product or service that must be carried out by the company or

employee. Innovative activities can be carried out in various forms. At a more basic level, companies pursuing change in innovation are ongoing. Companies need to develop the ability to be able to integrate innovation into their production processes (Coad, 2021). Innovation enables companies to overcome disruptions caused by external environmental factors and thus is one of the important determinants that can ensure the long-term success of the business, especially in dynamic markets. Companies have to face rapid changes and growing complexity to survive in a dynamic environment (Iranmanesh, 2021).

The study by Arbawa and Wardoyo (2018) concludes that SMEs are the economic sector that has the best resilience, have great potential in driving people's economic activities, and are also a source of income in improving welfare. SMEs in Kendal, Central Java, Indonesia are also able to absorb quite a lot of labor, to increase economic growth in that city. However, the food SMEs in Kendal, Central Java, Indonesia have been a decline in marketing performance. Thus, this study used the innovation capability variable to overcome the decline in marketing performance. It is hoped that by increasing innovation capability, the marketing performance of food SMEs can increase.

2.0. LITERATURE REVIEW

2.1. Innovation Capability

Huhtala et al., (2014) define innovation capability as the ability to continuously transform knowledge and ideas into new products, processes, and systems for the benefit of the company and its stakeholders. Then, (Matsuo, 2006) explains that companies with high innovation capabilities can develop innovative services and products to cope with environmental changes. Innovation capability is defined as the level of confidence that the public sector generates new or useful ideas for improving the provision of public services or new products (H. Lee & Choi, 2003). Julina & Kusuma (2017) defines innovation as a mechanism for companies to adapt to a dynamic environment. According to (Chirumalla, 2021), innovation capability requires understanding the company's production processes and raw materials used to produce products, the innovation process often involves organizational and technological changes, such as the use of ICT, the adoption of new management practices, and the introduction of new equipment.

Innovation can vary widely in scope and nature. Innovation capability is still not considered or discussed in research and is even more inclined to product innovation. When a company wants to make developments or expansions, it is very important to have the ability to innovate because of changing market conditions, dynamics of competition, and the emergence of new technologies, the need to adapt and modify innovation becomes important (Silva, 2021).

2.2. Customer Orientation and Innovation Capability

For companies committed to delivering superior customer value, innovation becomes an inherent aspect of doing business simply because a focus on customer satisfaction requires the company to respond to anticipated changes in customer needs, desires, and/or preferences for market offerings. Critics of customer focus, however, argue that customer input usually leads to innovation. The company's customer response capabilities ensure that innovation is executed in the areas of the company from which customer value will be enhanced. The creation of superior customer value can go beyond mere product innovation, as customer-oriented companies will apply creativity and innovation throughout their business systems. In addition, empirical findings reveal that customer orientation has a significant positive effect on innovation capability (Racela, 2020).

Customer orientation is the tendency or desire of employees to meet customer needs in the context of work responsibilities (Lee et al., 2021). According to Smirnova et al. (2018), customer orientation is called customer focus, customer mindset, and customer-centricity. Market orientation is a derivative of the marketing concept and is a business philosophy based on customer orientation, profit orientation, communication of market needs to all organizational departments, and providing the desired satisfaction more effectively and efficiently (Ayimey et al., 2021). Market orientation is a form of the company's response to customer needs and tastes and places the customer at the core of its strategy.

Customer orientation will create more value for customers through the ability to continuously innovate by turning ideas into quality products and creating more appearances for the company (D'Anselmi et al., 2017). SMEs that can respond to customer needs and tastes show that SMEs place customers at the core of their strategy and this will have an impact on the company's desire to

create continuous innovation. Thus, the proposed hypothesis is:

H1: The better the Customer Orientation, the greater the Innovation Capability

2.3. Entrepreneurial Orientation and Innovation Capability

According to (Kantur, 2016), entrepreneurship is a term applied to individuals, groups, or organizations. Company orientation refers to decision-making processes, practices, and activities. According to Poudel in Aristiyo (2017), entrepreneurial orientation is an organizational strategic resource with the potential to generate a competitive advantage. The potential of entrepreneurial orientation and its impact on business performance depends on the role of entrepreneurial orientation as a driver or pioneer for organizational capability and innovation. Porter in Purwantini (2017) defines entrepreneurial orientation as a company's benefits to be able to compete more effectively in the same marketplace.

According to Galindo and Méndez-Picazo (2013), there is a positive and significant relationship between entrepreneurial orientation and innovation capability. Hafeez et al. (2012) also researched entrepreneurs and found results that entrepreneurial orientation had a positive and significant effect on the company's innovation capability and was able to have a positive impact on the economic growth of a country, especially for developing countries. Companies can survive in a business environment because of the demand for their products and as a result of having certain resources to compete with others. In this context, many reasons can explain why EO should be useful to support innovation capabilities. Some experts prove that EO reflects company practices such as decision-making styles, work methods, and other managerial practices. Thus, EO can influence the commercialization of knowledge and important utilization of innovations by determining attitudes, threats, and opportunities to take full advantage of knowledge resources. Determining those threats and opportunities should lead to the creation of other new knowledge about current and potential products and market conditions. Companies must be proactive in generating these capabilities, enabling companies to generate unique new products/markets far ahead of their rivals and customer expectations.

Based on the arguments above, the researcher explains that there are results from previous studies regarding the insignificant relationship between EO and small company innovation. However, other researchers provide an accurate picture of the relationship linking EO to product innovation. They argue that the main reason implicit in this relationship lies in one of the dimensions of EO, namely a high level of innovation. Other researchers have highlighted the role of other dimensions of EO. For example, risk-taking can boost a company's ability to produce new products and processes (Aljanabi, 2018). In conclusion, the innovation capability of SMEs will be improved when the Entrepreneurial Orientation can be improved. Therefore, the hypothesis is proposed as follows:

H2: If Entrepreneurial Orientation increases, Innovation Capability will also increase.

2.4. Operational Capability and Innovation Capability

According to Albliwi et al. (2017), operational capability is a source of competitive advantage. Furthermore, (Wu et al., 2010) believed that operational capabilities are skills, processes, and routines developed in the operations management system that is regularly used in problem-solving through the configuration of the company's operational power. Operational capabilities are very complex and many variables affect it. Based on the above understanding, it can be concluded that operational capability is the skill of business actors to create a competitive advantage.

Flynn et al., (2010) explained that companies need capabilities from all parts of the operation, including collaboration and reconfiguration. Capabilities that can protect companies from uncertainty and gain competitive advantage through responsive network providers. Operational capabilities include all aspects of company activities that are directed to produce products or services, these capabilities allow each manufacturing system to be very responsive in terms of equipment, materials, and labor. Companies that enjoy a high level of innovation capacity are more likely to quickly and appropriately respond to unexpected and unwanted challenges and generate new products and take advantage of market opportunities compared to non-innovative companies.

A large number of empirical studies have emphasized the positive relationship between performance and innovation. However, there are still some studies that reveal no specific interaction between performance and innovation. Based on the complex results of the relationship between performance and innovation, future research is needed. In the current study, operational performance is evaluated based on four critical capabilities that companies need to act dynamically in a competitive market; production costs, delivery, product quality, and production feasibility. These four elements help provide a more precise perception of the key role of innovation in shaping a firm's performance. Despite conflicting evidence on the detrimental effects of innovation orientation, existing theory and most of the existing research emphasizes a positive relationship between innovative approaches and company performance (Iranmanesh, 2021). In conclusion, SMEs will be able to increase Innovation Capability if Operational Capability increases. Thus, the hypothesis is proposed as follows:

H3: The better the Operational Capability, the greater the Innovation Capability

2.5. Marketing Performance

Marketing performance is a concept used to measure the extent to which market achievements have been achieved by a product produced by the company (Jasmni, 2018). Marketing performance is a factor that is often used to measure the impact of the strategies implemented by the company (Amrulloh, 2017). Meanwhile, Hidayat (2018) states that marketing performance is a construct that is often used to measure the impact of strategies and orientations applied by companies in terms of marketing.

According to (Kotler and Keller 2016: 92), marketing strategy is a set of goals and objectives, policies and rules that provide direction to the company's marketing efforts from time to time, at each level and its references and allocations, especially as the company's response in facing changing environment and competitive conditions.

Marketing performance for companies is an important point in the development of a product or service, responsive performance increases the impact of a more proactive market orientation by trying to meet customer needs. To identify these needs, one needs a deep understanding of marketing and customer needs. Thus,

responsive marketing performance is expected to increase the impact better in all aspects (Primo, 2021).

2.6. Customer Orientation and Marketing Performance

Cho (2021) found that this customer orientation has a positive relationship with customer outcomes, such as satisfaction and loyalty. In addition, some researchers assert that customer orientation affects customer ratings of employee service behavior. In particular, customer orientation should be more important for the development of a company in terms of services and products. CO has been described as a paradigm that puts the interests of the customer first, without neglecting the interests of the organization's stakeholders, to build a profitable company in the long term.

Thus, the core of CO is the enduring corporate belief that understanding and responding to customer needs is a way to generate positive results for the company and its customers (Odoom, 2019). (D'Anselmi et al., 2017) found that customer orientation affects marketing performance, this explains that the higher the customer orientation, the higher the marketing performance. Then, Sari & Farida (2020) stated that customer orientation had a positive and significant effect on marketing performance. The good customer orientation of business actors will improve marketing performance. Widyarningsih et al. (2018) have a positive and significant effect on marketing performance. It means, the better business actors understand the market through market orientation, competitor orientation, and coordination approaches between functions, the better marketing performance.

Some previous researches offer convincing support for how CO affects business performance as well as its possible relationship to brand orientation. The main argument put forward for the previous relationship is that a company with a strong CO can meet customer needs, resulting in satisfaction, retention, and ongoing protection of the company's products/services. This will then sustain customer-oriented companies by increasing their competitive brand advantage over other non-customer-oriented companies. Meanwhile, customer orientation has a major impact on marketing performance because it describes the creation and maintenance of a reciprocal relationship between two parties (company and customer) for exchange, which is often expected to be empathic, reciprocal, and trustworthy, and is built on reciprocal bonds. Many companies pursue their relationship by

maintaining a long-term relationship by fulfilling their interests to improve their business performance. This retention is strong enough by creating engagement and loyalty through the services and products offered by the company to build long-term bonds between customers and organizations.

Some empirical researches also emphasize the positive relationship between customer orientation and marketing performance (Odoom, 2019). Therefore, if SMEs can improve Customer Orientation, Marketing Performance may also increase. The hypothesis is proposed as follows:

H4: If Customer Orientation increases, Marketing Performance will also increase.

2.7. Entrepreneurial Orientation and Marketing Performance

Yanuarti (2019) explains that entrepreneurial orientation affects performance. Furthermore, Aristiyo (2017) states that entrepreneurial orientation and market orientation have a significant effect on marketing performance. Entrepreneurial orientation refers to a set of dimensions, consisting of processes, decision-making practices, and activities oriented towards the creation or reinvention of a business venture, including the tendency to act independently, the tendency to innovate and take risks, and the tendency to compete. Entrepreneurial orientation is the path that entrepreneurs take to create new businesses, new products or technologies, or new markets. It can also be defined as a set of marketing strategies that includes results at the organizational level, related to management preferences, beliefs, and behaviors expressed through managers. Increasing Entrepreneurial Orientation for SMEs is believed to be able to improve Marketing Performance. SMEs that are business-oriented, with the tendency to act independently and the tendency to be willing to compete and take risks are believed to be able to improve Marketing Performance. Thus, the hypothesis is proposed as follows:

H5: If Entrepreneurial Orientation increases, Marketing Performance will also increase.

2.8. Operational Capability and Marketing Performance

Hamdani et al. (2018) explain that operating capability has a positive impact on improving performance within the company, or it can also be said

that improving company performance can be done by increasing operational capabilities. Al Hakim, (2017) believed that operational capabilities have an important role in influencing the company's ability to improve marketing performance. (Santos, 2018) found that companies with operational capabilities had better marketing performance than their competitors. In a company, it takes accuracy in operations so that the results obtained are maximized through marketing performance.

However, companies need to pay attention to the flow of both to increase opportunities for competition in the market. Therefore, the impact of the relationship between the two is used by companies to attract consumers to buy a product, strengthen effective logistics performance related to the problem, and strengthen positive effects on consumers (Sorkun, 2020). In conclusion, the Marketing Performance of SMEs can be improved while the Operational Capability of SMEs can be increased. Thus, the hypothesis is proposed as follows:

H5: If Entrepreneurial Orientation increases, Marketing Performance will also increase.

2.9. Innovation Capability and Marketing Performance

Huhtala et al. (2014) explained that the ability to innovate has a positive relationship to business performance, the better and more often to innovate by creating and developing new ideas, adding new products at every opportunity, it will improve marketing performance. Ryadi and Yasa (2016) also stated that the ability to innovate has a positive and significant effect on marketing performance, the higher the innovation capability of the entrepreneur, the higher the marketing performance achieved. The diversity of a company's ability to innovate can explain the company's uniqueness and ability to deploy its resources more efficiently than its competitors.

This shows that the company's ability to compete does not always depend on a particular product or service but on its core ability to innovate the products and services available in the market. The relationship between the two describes the overall ability to acquire, develop and transform into innovations, namely new products, which can be converted into marketing advantages (Aljanabi, 2022). Based on the description above, if SMEs can increase their innovation by creating and developing new ideas, and being able to add new products at every

opportunity, it will improve marketing performance. Thus, the hypothesis is proposed as follows:

H7: If Innovation capability increases, Marketing Performance will also increase.

2.10. Role of Mediating Variable

The research results of Kafetzopoulos and Psomas (2015) show that innovation capability can mediate the relationship between market orientation and performance during an economy is progressing, while partial mediation is during a decline in the economy. Innovation capability also mediates the relationship between customer orientation and business performance.

Innovation is the main driver in the company's success process. Thus, SME managers must emphasize innovation capability because it is the most important element in improving SMEs performance. The relationship between innovation capability and company performance can guide how companies should achieve better performance by using innovation (Fadhilah et al., 2015). Thus, the hypothesis is proposed as follows:

H8: Innovation capability significantly mediates the effect of Customer Orientation on Marketing Performance.

Sulaeman (2018) finds that the influence of entrepreneurial orientation on the company's marketing performance in the creative industry can be mediated by innovation. Meanwhile, Putra and Setiawan, (2019) found that the ability to innovate mediates the relationship between entrepreneurial orientation, company resources, and small and medium enterprises on the company's marketing performance.

Innovation is an organizational capability that can generate value for the company and make it more dynamic and realistic in the context of a dynamic business environment. Therefore, the role of innovation for SMEs is increasingly important so that SMEs can gain a sustainable competitive advantage. The innovation capability of SMEs is a company resource that will be able to strengthen the role of Entrepreneurial Orientation on company performance. Heng (2018) states that in creating customers, companies only need two basic functions, namely marketing, and innovation. Thus, the hypothesis is proposed as follows:

H9: Innovation capability significantly mediates the effect of Entrepreneurial Orientation on Marketing Performance

Operational capability is the ability to coordinate all parties to work together as a whole by exchanging information and formulating the necessary solutions together Al Hakim (2017). Operational capability continues to play an important role in influencing a company's ability to compete in the market and improve marketing performance. The results of research by Dangol and Kos (2014) show that operational capabilities can affect the company's ability to improve marketing performance through innovation. Therefore, SMEs will be able to improve Marketing Performance when the innovation capability of SMEs and operational capability increase.

The hypothesis is proposed as follows:

H10: Innovation capability significantly mediates the effect of Operational Capability on Marketing Performance.

3.0. METHODOLOGY

3.1. Sample and Procedure

Owners, managers, or owners as well as managers of Food SMEs in Kendal, Central Java, Indonesia are used as the population of this study. This study used a purposive sampling method where SMEs have more than 2 employees, have a turnover of more than 3 million per month, and have been operating for more than 5 months. To obtain the data, a questionnaire was used which was distributed directly to 215 food SMEs in Kendal, Central Java. The selected respondents consisted of 37% men and 63% women, aged over 40 years by 62%. The education level of the respondents was Junior High School level (38%), Senior High School (49%), and diploma/bachelor (13%). As many as 56% of respondents have a business duration of more than 3 years and 66% of respondents have 5 to 10 employees.

3.2. Instrument

Three exogenous variables were used in this study, namely Customer Orientation, Entrepreneurial Orientation, and Operational Capability. Customer

Orientation adapted from Jalilvand (2017), is an SME effort to provide the best service to customers, create the best products, focus on customers and develop products based on customer information. Entrepreneurial Orientation adapted from Yanuarti (2019) and (Arbawa & Wardoyo, 2018), is a strategy for SMEs to be able to compete in proactively running their business, have a leadership spirit, be confident, and dare to take risks. Operational Capability adapted from Albliwi et al. (2017), is the operational ability of SMEs to achieve maximum results, the ability to use resources efficiently, timeliness, and process accuracy.

One intervening variable, namely Innovation Capability, was adapted from Julina & Kusuma (2017). Innovation Capability is the ability of SMEs to change the taste, modify old products, the ability to create completely new products, and the ability to add product variants. Marketing Performance as a consequence variable is adapted from the view of Hendar et al., (2020) namely the achievements achieved by MSMEs in running their business, which are measured by increasing sales volume, expanding sales area, profit growth, and customer growth.

3.3. Analysis Techniques

Data analysis in this study used Partial Least Squares - Structural Equation Modeling (PLS-SEM) with the help of Smart PLS 3.0. PLS-SEM was used to examine the relationship between the five constructs used in this study.

4.0. RESULTS

The Convergent Validity of the reflexive indicator calculation model is based on item scores with a score construct. Individual indicators are considered reliable if they have a correlation value above 0.70. The value of outer loading > 0.7 is the most expected and a loading value of 0.5 - 0.6 at the research stage of the scale development stage is valid. The output results show that the average cross-loading value is greater than 0.5. This means that the criteria for convergent validity have met the requirements.

Table 1: Convergent Validity Test

| No. | Indicator | Cross Loading | P-Value | Results |
|-----|-----------|---------------|---------|---------|
| 1. | CO1 | 0,732 | <0,001 | VALID |
| 2. | CO2 | 0,863 | <0,001 | VALID |
| 3. | CO3 | 0,838 | <0,001 | VALID |
| 4. | CO4 | 0,724 | <0,001 | VALID |
| 5. | EO1 | 0,877 | <0,001 | VALID |
| 6. | EO2 | 0,896 | <0,001 | VALID |

| | | | | |
|-----|-----|-------|--------|-------|
| 7. | EO3 | 0,828 | <0,001 | VALID |
| 8. | EO4 | 0,902 | <0,001 | VALID |
| 9. | IC2 | 0,813 | <0,001 | VALID |
| 10. | IC3 | 0,798 | <0,001 | VALID |
| 11. | IC4 | 0,751 | <0,001 | VALID |
| 12. | MP1 | 0,834 | <0,001 | VALID |
| 13. | MP2 | 0,677 | <0,001 | VALID |
| 14. | MP4 | 0,679 | <0,001 | VALID |
| 15. | OC1 | 0,838 | <0,001 | VALID |
| 16. | OC2 | 0,805 | <0,001 | VALID |
| 17. | OC3 | 0,888 | <0,001 | VALID |
| 18. | OC4 | 0,874 | <0,001 | VALID |

Source: Data processed, 2023

Discriminant Validity of reflexive indicators can be seen in the cross-loading between indicators and constructs. In addition, to assess discriminant validity, it can be seen by other methods, namely by comparing the value of the square root of average variance extracted (AVE) for each construct with the correlation between constructs greater than the correlation value between constructs and other constructs. The output results show that all indicators meet the criteria for discriminant validity, namely having a value above the other latent variables.

Table 2: Cross loading between indicators and constructs

| Indicator | CO | EO | IC | MP | OC |
|-----------|-------|-------|-------|-------|-------|
| CO1 | 0.732 | 0.402 | 0.534 | 0.415 | 0.362 |
| CO2 | 0.863 | 0.719 | 0.443 | 0.300 | 0.612 |
| CO3 | 0.838 | 0.699 | 0.403 | 0.323 | 0.635 |
| CO4 | 0.724 | 0.716 | 0.254 | 0.358 | 0.648 |
| EO1 | 0.649 | 0.877 | 0.516 | 0.496 | 0.709 |
| EO2 | 0.748 | 0.896 | 0.379 | 0.412 | 0.720 |
| EO3 | 0.604 | 0.828 | 0.321 | 0.438 | 0.571 |
| EO4 | 0.733 | 0.902 | 0.369 | 0.460 | 0.766 |
| IC2 | 0.491 | 0.602 | 0.813 | 0.653 | 0.655 |
| IC3 | 0.322 | 0.129 | 0.798 | 0.614 | 0.244 |
| IC4 | 0.448 | 0.290 | 0.751 | 0.646 | 0.350 |
| MP1 | 0.475 | 0.569 | 0.395 | 0.834 | 0.687 |
| MP2 | 0.149 | 0.178 | 0.590 | 0.677 | 0.260 |
| MP4 | 0.236 | 0.232 | 0.589 | 0.679 | 0.301 |
| OC1 | 0.604 | 0.720 | 0.342 | 0.460 | 0.836 |
| OC2 | 0.626 | 0.612 | 0.557 | 0.506 | 0.805 |
| OC3 | 0.557 | 0.694 | 0.548 | 0.651 | 0.888 |
| OC4 | 0.582 | 0.685 | 0.397 | 0.554 | 0.874 |

Source: Data processed, 2023

Construct reliability test of customer orientation, entrepreneurial orientation, innovation capability, operational capability, marketing performance can be seen through the value of Average Variance Extracted (AVE), Composite Reliability, Cronbach Alpha.

Table 3: Reliability Value

| No | Construct | AVE | Composite Reliability | Cronbach's Alpha |
|----|-----------|-------|-----------------------|------------------|
| 1 | CO | 0,627 | 0,870 | 0,803 |
| 2 | EO | 0,767 | 0,930 | 0,899 |
| 3 | IC | 0.621 | 0,831 | 0,700 |
| 4 | MP | 0.538 | 0,776 | 0,632 |
| 5 | OP | 0.725 | 0.913 | 0.874 |

Source: Data processed, 2023

Table 3 shows that the AVE value of all constructs ranges from 0.538 to 0.767. All constructs meet the reliability requirements because they have an AVE value of more than 0.5. The value composite reliability of the 5 constructs that have been tested has a value between 0.776 to 0.930. All constructs have a composite reliability value of more than 0.70 so it can be said to be reliable. Cronbach's alpha values ranged from 0.632 to 0.899. Then all constructs are said to be reliable because they have a value of more than 0.60

Table 4. Hypothesis Testing Result

| Hypothesis | Regression | Original Sample (O) | P Val | Results |
|------------|--|---------------------|-------|----------------|
| H1 | Customer Orientation → Innovation Capability | 0,373 | 0,000 | H1 is accepted |
| H2 | Entrepreneurial Orientation → Innovation Capability | -0,173 | 0,278 | H2 is rejected |
| H3 | Operational Capability → Innovation Capability | 0,434 | 0,002 | H3 is accepted |
| H4 | Customer Orientation → Marketing Performance | -0,234 | 0,004 | H4 is rejected |
| H5 | Entrepreneurial Orientation → Marketing Performance | 0,127 | 0,161 | H5 is rejected |
| H6 | Operational Capability → Marketing Performance | 0,037 | 0,000 | H6 is accepted |
| H7 | Innovation Capability → Marketing Performance | 0,601 | 0,000 | H7 is accepted |
| H8 | Customer Orientation → Innovation Capability → Marketing Performance | 0.224 | 0.002 | H8 is accepted |
| H9 | Entrepreneurial Orientation → | 0.104 | 0.295 | H9 is rejected |

| | | | | |
|-----|--|-------|-------|--------------------|
| | Innovation Capability → Marketing Performance | | | |
| H10 | Operational Capability → Innovation Capability → Marketing Performance | 0.261 | 0.003 | H10 is accepted |

Table 4 and Figure 1 show a significant positive effect between Customer Orientation on Innovation Capability (Original Sample = 0.373, p-value < 0.01) and Operational Capability on Innovation Capability (Original Sample = 0.434, p-value < 0.01). While the influence of Entrepreneurial Orientation on Innovation Capability showed negative and insignificant results (Original Sample = -0.173, p-value > 0.01). This shows that Hypotheses H1 and H3 are accepted while H2 is rejected.

Table 4 also shows the results of the direct effect of a significant positive effect between Operational Capability on Marketing Performance (Original Sample = 0.037, p-value < 0.01) and Innovation Capability on Marketing Performance (Original Sample = 0.601, p-

value < 0.01). Meanwhile, the influence of Customer Orientation on Marketing Performance showed a negative result (Original Sample = -0.234), and Entrepreneurial Orientation on Marketing Performance showed an insignificant effect (Original Sample = 0.127, p-value > 0.01). Thus, H4 and H5 are rejected while H6 and H7 are accepted.

The mediating role of Innovation Capability in the relationship between Customer Orientation and Marketing Performance shows an original sample value of 0.224 and p-value of 0.002, in the relationship between Entrepreneurial Orientation and Marketing Performance shows an original sample value of 0.104 and p-value of 0.295 and in the relationship between Operational Capability and Marketing Performance shows the value original sample 0.261 and p-value 0.003. Thus, H8 and H10 are accepted while H9 is rejected. This means that Innovation Capability has a very important role as a mediation in the relationship between Customer Orientation and Marketing Performance and Operational Capability on Marketing Performance, but Innovation Capability cannot act as a mediator in the relationship between Entrepreneurial Orientation and Marketing Performance.

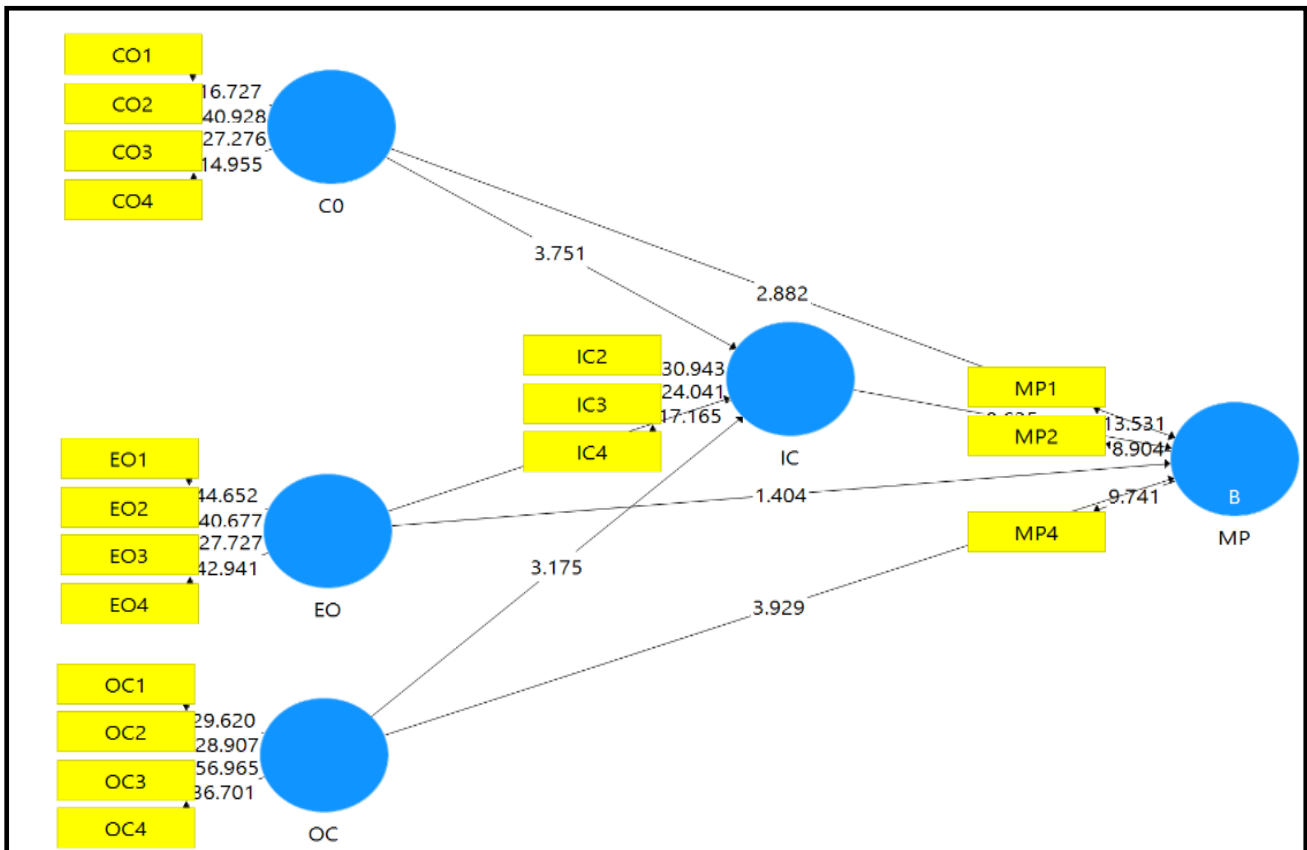


Figure 1. Full Model Hypothesis Testing

5.0. DISCUSSION AND CONCLUSION

Food SMEs in Kendal, Indonesia, produce and sell Kendal traditional food. In running their business, SMEs have tried to do customer orientation well by providing the best service to customers, creating the best products, focusing on customers, and developing products based on customer information. The increase in customer orientation has an impact on increasing the innovation capability of SMEs, which is marked by the ability of SMEs to change tastes, modify old products, the ability of SMEs to create completely new products, and the ability of SMEs to add product variants. Even though SMEs have carried out customer orientation well, this effort did not have a direct impact on increasing marketing performance. This is because some SME actors are still monotonous by producing the same product which causes consumers to feel bored with the product and results in not being able to improve marketing performance directly. Customer orientation has an impact on increasing innovation capabilities and innovation capability has an impact on increasing marketing performance. Thus, customer orientation will increase marketing performance through the innovation capability of SMEs.

Entrepreneurial orientation has no effect on innovation capability or marketing performance in food SMEs. Entrepreneurial orientation, which is a strategy for SMEs to be able to compete in running a business, is still weak. This happens because most SME actors are still low-educated so they do not understand much about the strategies needed to be able to compete in the business world.

Operational capability has a significant positive effect on innovation capability and marketing performance in food SMEs. Food SME actors have proven good operational capabilities, as indicated by the ability of SMEs to achieve maximum results, the ability to use resources efficiently, timeliness, and process accuracy which then improve innovation capability and marketing performance. This result is in line with the opinion of Santos (2018), that companies with good operational capabilities will have better marketing performance than their competitors.

The strategy of SMEs is always directed to produce marketing performance such as sales volume and good sales growth rate. Sales value shows a few rupiahs or how

many units of products have been sold by the company to consumers. The quality of such marketing performance is highly dependent on the company's ability to innovate. This study aims to find empirical evidence of the role of customer orientation, entrepreneurial capability, operational capability, and innovation capability in improving marketing performance in food SMEs. This research has provided a new reference on the relationship between customer orientation, entrepreneurial capability, operational capability, and innovation capability in improving marketing performance.

The results of this study complement previous findings about customer orientation having an effect on marketing performance (D'Anselmi et al., 2017), and innovation capability on marketing performance (Huhtala et al., 2014). However, this study shows different results those from (Hajar & Sukaatmadja, 2016), that entrepreneurial orientation has a positive and significant effect on marketing performance.

5.1. Limitation and Future Research

This study only focuses on food SME actors and concludes that the majority of respondents' education is still at a low level (junior and senior high school). It may produce different results if the respondents used are SME actors in different objects with higher levels of education. Therefore, future research needs to re-examine the role of innovation capability as a mediating variable in improving marketing performance in different sectors of SMEs. Also, it may include other variables such as competitive advantage and marketing capability to examine the relationship between customer orientation, entrepreneurial orientation, operational capability, and marketing performance.

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