

Development Model of Marketing Capabilities and Export Performance of SMEs: A Proposed Study

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Abstract

A marketing capability is a concept that needs to be developed in strengthening small and medium enterprises in Indonesia. The aim of this development is to enhance the export performance of this business group to contribute to the economy as a whole. With a large number of small and medium-sized enterprises (SMEs) of Indonesia and the ability to provide uniqueness of their own products, they must be some of the strengths in supporting the increase of Indonesian exports. Company's orientation is one of the strategic aspects that can drive this capability of having better business performance. In addition, it is necessary to examine how the role of small and medium enterprise for export involvement in creating such performance because some activities are still dependent on other organizations. How are all these aspects interrelated and from which side of a small to medium enterprises can be developed will be a contribution to this research. It is a necessity to build a theoretical model that can be examined further so that it can be used in making the decision of coaching policy.

Keywords: Export performance, Export Involvement, Export Marketing, SMEs

1. INTRODUCTION

Globalisation impacts cause Small and Medium Enterprises (SMEs) to change business models to be innovative and creative (Lee, Shin, & Park, 2012) to gain business growth through market expansion. For small businesses that can understand the market and can create the uniqueness of the products will have the opportunity to enter overseas markets so that export competitiveness becomes a critical thing to be considered (Love & Roper, 2015; E. Rekarti & Doktoralina, 2017). The growth of small and medium enterprises will undoubtedly give impacts not only to the perpetrators but also to the state revenues through taxes (Doktoralina, Nugroho, & Herman, 2010; Waluyo, Doktoralina, & Suryanto, 2018). The presence of added value growth and business productivity can contribute to a relatively high economic contribution (Daunfeldt, Elert, & Johansson, 2014; Endi Rekarti, Doktoralina, & Srianah, 2017).

The importance of strengthening the global value chain that emphasizes the importance of export competitiveness (Harris & Moffat, 2011) is a necessity for SMEs to be able to address these global challenges through product and service innovations (Lee et al., 2012), development of human resources (HR) (Unger, Rauch, Frese, & Rosenbusch, 2011) and technology (Consoli, 2012; Lee et al., 2012), as well as the expansion of the marketing areas (Löfgren, 2014). This needs to be done to increase the selling value of SMEs themselves, and compete with foreign products that are increasingly flooding the industrial and manufacturing centres in Indonesia. These SMEs were directed from the beginning to serve the needs of domestic and foreign markets. Therefore, marketing capability will be the starting point for all businesses small, medium or large one.

Market globalisation and global value strengthening emphasise the importance of expanding markets for SMEs, especially for Indonesia whose numbers are dominated by this business group. SMEs contribution to the Indonesian economy up to 2016 is 60% of GDP and is procured to 70% by Bank Indonesia. However, recent data indicate that SMEs' contribution through exports tends to decrease, requiring efforts to coach. Coaching should be done on a good strategic basis and referred to theoretical models appropriate to Indonesia's circumstances. One of the efforts to improve the export performance of SMEs can be made through the enhancement of marketing capability that is theoretically influenced by the orientation of SMEs themselves.

The various backgrounds on the presence of small and medium enterprises make their orientations to the market and their strategic actions in dealing with the business environment also different. The presence of small and medium enterprises is also highly coloured by their motives and passion for making their entrepreneurship orientation diverse which is followed by the development of their market orientation and strategic orientation. Their involvement in business progress is indispensable, including their efforts to improve the performance of exports. Some SMEs in Indonesia have not been directly involved in managing their exports, so it is feared to influence the progress of the business, so it is necessary to examine how this role of export involvement for their export marketing performance.

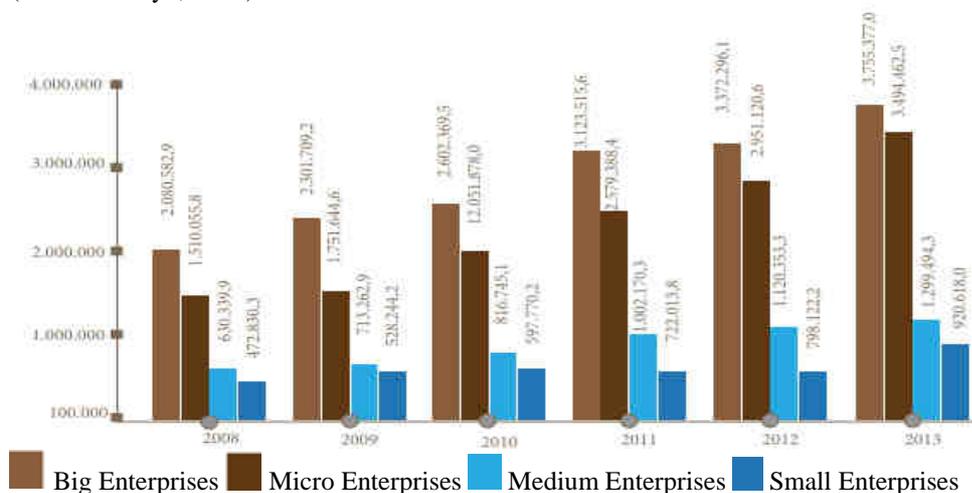
2. AIM AND CONTRIBUTION OF THE STUDY

How the relationship between company's orientation, marketing capability, export performance and small business involvement in exports will be the focus of this study and then will be developed into a model of the export performance of SMEs in Indonesia. The role of the export involvement will also be highlighted in this research so that it can be the basis of organisational development and export function in SMEs. This kind of

study is very rare especially in efforts to improve the performance of small and medium enterprise export in Indonesia. Moreover, in the context of improving the company's marketing capabilities that grow from an actual business orientation from the entrepreneurs, only a few researchers to focus on this. The study of small and medium enterprises in Indonesia emphasises more on the capital and technical support of business so that it does not touch the strategic aspect that becomes the primary element in the running of a business. This model is expected to contribute ideas to the development of small and medium enterprises in encouraging their roles in the economic development of Indonesia.

2.1 SMEs in Indonesia

The role of SMEs in the Indonesian economy is quite important as more than 98% of businesses in Indonesia are categorised into this business group (Ministry of Cooperatives and SMEs, 2015). Therefore SMEs can absorb more human resources (Sudaryanto, 2011) and also contribute to the Indonesian economy. This contribution is always increasing between 2008 and 2013, reaching IDR 4,328,355.2 billion or 50.62% (Ministry of Cooperatives Small and Medium Enterprises, 2015). In 2012-2013 the GDP of SMEs increased by IDR 844,978.7 billion or 17.35% (Figure 1). This means that SMEs can still be further developed for the benefit of Indonesia so that Bank Indonesia (BI) hopes in the future to increase its contribution to 70% to GDP (Martowardoyo, 2016).



Source: Ministry of Cooperatives and SMES (2012)

Figure 1: Contribution of National Business Actors to Indonesia's GDP.

Although the contribution of Indonesian SMEs to the country's GDP is significant, it still relies on the domestic market and not many have tried to enlarge the overseas markets. The contribution of SMEs to exports by 2015 was only 15.8%, much smaller than in Southeast Asian countries. Thailand's SMEs sector contributed to export 29.5% and the Philippines 20%. At the global level, Germany's SMEs sector contribution to exports reached 55.9 %, and Japan accounted for 53.8% (Ministry of Industry, 2015). This needs to be a concern and a joint effort for SMEs Indonesia to continue to grow and contribute through its export activities.

2.2 SMEs and Capabilities

The topics of organisational capabilities are very much discussed and researched today, especially to encourage company performance. However, some studies still focus on large companies and discuss extensive variables. The issue of organisational skills involves general aspects and has many dimensions. SMEs require the issue of organisational capability because it is a primary problem faced by them in encouraging business progress and growth. Studies that specialise in specific organisational skills and are operational will help provide information and knowledge that will be the basis for SMEs development efforts. These specific capabilities include the marketing abilities, capitals, human resources and others. The marketing capability is one of the problems faced by most SMEs if they are to survive and thrive in a dynamic and competitive market (Morgan, Vorhies, & Mason, 2009; Tambunan, 2009; Weerawardena, 2003).

Marketing is the key aspect that provides certainty for survival and growth of business organisations. This aspect is one of the important issues faced by SMEs Indonesia in addition to the issues of mastery of technology and capitals (Tambunan, 2009) as well as institutional (Intarakumnerd, 2015). Many experts argue that marketing is the ultimate specific capability that companies/ organisations should have to make their business perform better and able to evolve into a powerful business organisation. The importance of this field of marketing can be seen from the increasing study of marketing skills in recent times and bring up various academic literature (Morgan et al., 2009; Weerawardena, 2003). The Meaning of diverse academic such as

model development that connects success factors, the definition of success and work performance to the characteristics of the business environment, owner-manager characteristics (Simpson, Padmore, & Newman, 2012). The business characteristics by modifying the strategic, tactical behaviours of SMEs which continue to the resource-based view (RBV) of corporate theory, a sustainable competitive advantage (SCAS) derived from an ordinary organisational ability (Amit & Schoemaker, 1993; Grant, 1991).

3. DISCUSSION

Based on the above issues and initial ideas based on the concepts related to the development of SMEs export performance, the following aspects will be discussed related to the concepts of entrepreneurship orientation, market orientation and strategic orientation related to each other to foster marketing capabilities. Then the relevance of marketing capabilities in affecting SMEs export performance as well as how the role position of their involvement level in export activities will be discussed, too.

3.1 Marketing Capabilities

Marketing capabilities are part of the organisational capabilities that are closely related to the company's business activities. Marketing capabilities can be defined as processes designed to apply the integration of the company's collective knowledge, skills and resources to business-related market needs, enabling businesses to add value to competitive goods and services and to meet the demands (Day, 1994). To gain a deeper understanding of the contribution of marketing to business competitiveness, the researchers focused on the three main topics of investigation. The first one is identifying relevant organisational marketing capabilities and more accurate typologies to be classified (Day, 1994; Hooley, Greenley, Cadogan, & Fahy, 2005; Weerawardena, 2003; Barrales-Molina, Martínez-López, & Gázquez-Abad, 2014; Krush, Sohi, & Saini, 2014). The Second one is the empirical analysis of the relationship between marketing ability and various performance indicators (Fahy et al., 2000; Hyvonen & Tuominen, 2006; L. C. Leonidou, Leonidou, Fotiadis, & Zeriti, 2013; Trainor, Andzulis, Rapp, & Agnihotri, 2014; Vorhies, Harker, & Rao, 1999) and the third is the study of antecedents of marketing abilities or the variables that drive growth within the organization. For example, the previous research considers the market orientation is as a critical determinant in the development of marketing capabilities (Merrilees, Rundle-Thiele, & Lye, 2011; Tsai & Shih, 2004).

There are six areas of marketing needs that indicate the marketing capabilities (Vorhies & Harker, 2000) The first one is Marketing Research. It is defined as a set of necessary processes to find market information and develop information about specific customer needs, and design marketing programs to meet all market needs and conditions. The second one is a price. It is the process of creating competitive conditions in determining the prices of goods and services and monitoring those prices in the market. The third one is product development. It is the ability to design products that meet the needs of customers to achieve the company's internal goals and overcome obstacles to outperform competitors. The fourth one is the management of distribution channels. It is the ability to manage marketing channels effectively and establish relationships with distributors. The fifth one is the promotion. It is the ability to run advertising, sales promotion, and personal selling activities of the company to communicate with the market and sell the products. Marketing management capabilities are how the company's abilities to get customers, manage marketing programs, and coordinate actions among various elements in the company to implement the marketing programs.

3.2 The Influence of entrepreneurship orientation, market orientation, and strategic orientation toward Marketing Capabilities

Companies doing business with marketing approaches are influenced by how the company's management orientation is, such as entrepreneurship Orientation, Market orientation and Strategic Orientation. An enterprise having Market Orientation has the ability to generate, disseminate, and respond to information about market forces and market conditions better than its competitors (Kohli, Jaworski, & Kumar, 1993). Therefore, companies with market orientation may be better at building the sustainable competitive advantage. The higher the entrepreneurship orientation, the better the ability to market their products (Covin & Slevin, 1989; Kraus, Rigtering, Hughes, & Hosman, 2012; Wiklund, 2006). The entrepreneurial orientation allows people to have high and courageous efforts in making decisions toward organisational goals and creating opportunities that encourage them to be able to get their market thereby driving up their marketing capabilities. Besides, marketing capabilities are also driven by the organisation's strategic orientation (Cheng & Huizingh, 2014). Organizations with a high strategic orientation are usually sensitive to market changes as well as other environments that contribute to determining and seeking the best way to fit in. This will make the marketing efforts change and adjust to market conditions to encourage the ability of the organisation in resulting of an open marketing policy to be more effective (Kumar, Boesso, Favotto, & Menini, 2012).

3.3 Entrepreneurship Orientation with Market Orientation and Strategic Orientation

Entrepreneurship Orientation has a strong relationship to market orientation and strategic orientation (Baker & Sinkula, 2009; Laukkanen, Nagy, Hirvonen, Reijonen, & Pasanen, 2013). Even entrepreneurial orientation is suspected by Baker overlapping with Market Orientation because SMEs attitude is trying to see opportunities by adjusting to the market. Bhuian & Habib, (2005) shows that SMEs provide filters through multiple viewpoints of viewing organisations and the intelligence processes of direct markets. It means that entrepreneurship affects the marketing process. This view is consistent with the dynamic perspective of Teece, Pisano, & Shuen, (1997) in which learning, coordination and the reconfiguration of organisational competencies are keys leading to a competitive advantage. Like market orientation, strategic orientation also has a strong relationship with entrepreneurship orientation. Both have a concept of view that takes responsibility for the overall business process and results (Gupta & Pandit, 2012) so that entrepreneurship orientation will affect the company's orientation to its strategy.

3.4 Company Performance and Export Performance

The performance of corporate organisations is a multi-dimensional thing that emphasises the achievement of business growth and profitability. The growth reflects an increase in sales that is reflected in the performance in profits or profitability gained (Venkatraman, 1989). Sales growth and market share are very important for businesses, to ensure long-term survival and resource availability (Clark, Varadarajan, & Pride, 1994). Profitability is seen as (Hunt & Morgan, 1995) the main outcome of the organization and commonly used in the study of strategic management while export performance is a form of organizational and marketing performance that follows the increase of market globalisation and the strengthening of global value chain thus emphasizing the importance of export competitiveness (Harris & Moffat, 2011). Export Performance is viewed from the organisation's ability to increase sales, promote the company's competitive position, develop new products, improve product quality, reduce time to provide services or products to customers and expand market share in overseas markets. The company's export performance can consist of export sales and export profitability, and these two indices are widely used in marketing literature for measuring export marketing performance (Katsikeas, Leonidou, & Morgan, 2000). However, these variables do not fully explain the development of exports in particular due to relevant domestic demands on short-term exports and the presence of asymmetric relationships become stronger and more significant when domestic demand falls on an increase (Esteves & Rua, 2015)

The company's specific marketing capabilities can provide better market sensing by conducting customer relationships and strengthening inter-channel bonding in global markets (Blesa & Ripollés, 2008). This ability can bring the company to gain global market. Marketing capability allows companies to adopt new export marketing strategies to respond to global market changes by transforming and combining available resources in new and different ways. To export, companies need to understand the role of marketing capabilities in the context of global marketing. Many research studies provide suggestions for additional researchers to better understand the other impacts of different marketing capabilities on export performance (Esteves & Rua, 2015; Hooley et al., 2005). The result of marketing ability research positively influences the marketing performance especially the innovation done by Golovko & Valentini (2011) that shows the positive effect of innovation activities on the higher growth rate of firms involved in exports, and vice versa with *ceteris paribus*. Moreover, Krasnikov & Jayachandran (2008) states that marketing ability shows a significant influence on export performance. The same was done in the study of Tooksoon, Sukitniyakorn, & Thammajit (2012) shows that marketing ability significantly affects export performance.

3.5 The Influence of Marketing Capabilities to Export Performance

Market Orientation means the company is concerned and sensitive to changes in the market elements. Market Orientation means customer-oriented, competitors and the environment that influences it (Craven, 2012). Customer orientation pays special attention to customer change. At the same time, it will make adjustments so that it plays an important role in the company's performance in the market with increasing competition. On the other hand, in an atmosphere of competition, they seek to gain and maintain their market share by placing special emphasis and attention on customers' orientation. Thus companies need to make competitors as action orientation so that they will not to lose the competition. Morgan, Katsikeas, & Vorhies, (2012) states in his research that the effective implementation of the planned export marketing strategy contributes to export markets and financial performance and marketing ability has an important role in the implementation of effective marketing strategies in export operations.

Thus, the company's orientation to the market will guide the marketing action towards the market development. Non-compliance between the company's actions and the market will be the cause of the company losing out in competitiveness. How to get the performance in the market will start by paying attention to the market. As Sasser, Schlesinger, & Heskett, (1997) explain that market analysis is important concerning market

development and competition. The researchers show that there is a positive relationship between market orientation and company performance. For companies that serve overseas markets, orientation market will determine the level of export performance of the brand.

3.6 Moderation of Export Involvement

The process of internationalisation requires the transformation of human, financial (Zahari, Doktoralina, Nizam, & Putri, 2018), and other resources to enhance international activities abroad in the export market (Piercy, 2014). Without proper allocation of resources, the company will be in the early stages of export position for a long time and may not make significant progress in the international market. To what extent the company's dependence on export markets and to what extent company's commitments use resources for export activities can determine the extent of Exports involvement. Companies at a high level of Exports involvement will demonstrate a greater internal capability to develop a competitive marketing mix strategy and are committed to allocating and organising resources for export activities (Diamantopoulos & Inglis, 1988; C. N. Leonidou & Leonidou, 2011; Lim, Sharkey, & Kim, 1996). In utilising allocated resources, companies must selectively develop marketing capabilities to achieve high export performance. On the contrary, companies with low involvement tend to depend on the conditions outside the organisation such as SMEs which do indirect exports; of course, the results are highly dependent on the parties who become intermediaries connecting the company with their markets abroad. With deeper engagement and higher intensity, marketing ability can be the way to succeed in globalised international markets focusing on appropriate marketing capabilities with Exports involvement level as considerations.

4. PROPOSED RESEARCH MODEL

Based on the results of the discussion and the above theoretical review, it can be prepared a model of research design describing the overall of the variables included in the study of this study as shown in Figure 2.

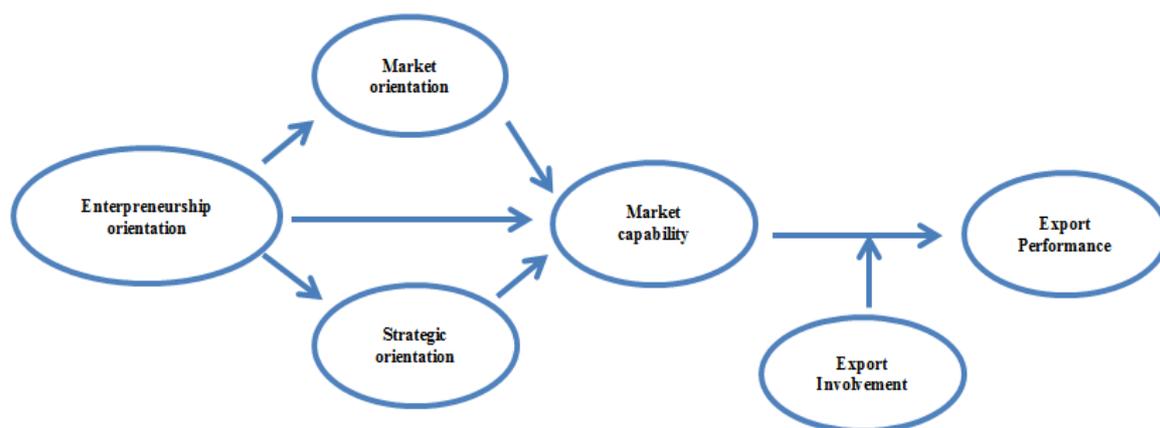


Figure 2: Proposed Study

5. SUMMARY AND CONCLUSION

Finally, the discussion should take action that will ultimately help to provide a view of the management of SMEs focusing on improving export performance and contributing to the Indonesian economy. In other words, the Government must participate in developing and prioritising SMEs that have integrity and comply with good governance under applicable regulations. The governance includes several designs, i.e., first, the orientation of SMEs influences market orientation, and secondly, the orientation of SMEs influences the strategic orientation. Third, the orientation of SMEs influences marketing capabilities. Fourth, market orientation affects marketing capabilities. Fifth, strategic orientation affects marketing capability. Sixth, marketing capabilities affect export performance. Seventh, market orientation affects export performance. Eighth, the influence of marketing ability on export performance is moderated by the involvement of the company's Exports.

This paper has contributed to a fundamental review of the role of engagement of export performance in Indonesia and provided a perspective for the development and improvement of export performance. Of course, the model that has been prepared needs to be reviewed further with input and feedback from all observers/experts as well as the parties associated with the decision making. The further empirical research will be done to support the model. It is expected that this model will provide an overview of how SMEs should be developed and helped grow by government coaching teams in conducting mentoring training so that SMEs entrepreneurs and managers take note of key factor results from empirical confirmation of data.

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