

EFFORTS TO INCREASE MARKETING PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN CENTRAL JAVA, INDONESIA

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Abstract—Business competition in the current era of globalization requires companies to have a strategy to win the market. Management strategy has an important role in the survival of the company. The existence of such competition is also felt by small businesses such as Small and Medium Enterprises (SMEs). The increasing number of SME units in Central Java was not followed by an increase in average sales of SMEs. This study aims to analyze the effect of the distribution channel, ERP implementation and entrepreneurial orientation on marketing performance with a competitive advantage as an intervening variable. The populations in this study were small and medium enterprises owners in Central Java. Six hypotheses were formulated for this study and 104 respondents were used to test those hypotheses. Structural Equation Model (SEM) was applied to this study using AMOS 24 as a tool. The result of this study shows that competitive advantage is the most variable in influencing the marketing performance, while this competitive advantage has an entrepreneurial orientation as the highest variable in influencing it. This study suggests that SMEs must increase its competitive advantage to increase their marketing performance. This competitive advantage can be built up by increasing the entrepreneurial orientation.

Keywords—Distribution Channels, ERP Implementation, Entrepreneurial Orientation, Competitive Advantage, Marketing Performance

I. INTRODUCTION

Small and Medium Enterprises (SMEs) have important roles in the national economy. According to Ministry of Cooperation and SMEs (2014), there are at least five roles of SMEs in Indonesian economy, namely: main actors in Indonesia economic activities in various sectors, largest employment providers, local economic activities and community empowerment and development, creators of new market and sources of

innovation, and balance of payments through export activities maintenance.

The growth of Small and Medium Enterprises is always positive. In Central Java, the number of Small and Medium Enterprises is always growing every year. However, the growth of the SMEs units was not followed by the growth of average turnover per SMEs. Table 1 shows the development of each SMEs sector in 2016 to 2017 expanded by 15.5%. Labor absorption increased by 16% whereas in 2016 SMEs could absorb 791,767 workers, and increased by 126,688 workers so that there were 918,455 people absorbed into SMEs workforce. The number of assets in 2017 increased by 14.6% from the previous year. Meanwhile, the turnover increased by 13% from 2016. In table 1, it can be seen the decline in the average per SMEs whereas in 2016 the average turnover per SMEs is 0.376 billion per year, decreased to 0.368 billion per year.

TABLE 1. SMALL AND MEDIUM ENTERPRISES (SMES) IN CENTRAL JAVA

No	Data Description	Unit	Development			
			2016	2017	Total	%
1	Total SMEs	Unit	115.751	133.679	17.928	15.5
	Production / Non-Agriculture	Unit	39.799	45.936	6.164	15.5
	Agriculture	Unit	19.335	22.329	2.994	15.5
	Trade	Unit	42.599	49.198	6.599	15.5
	Service	Unit	14.018	16.189	2.171	15.5
2	Labor Absorption	People	791.767	918.455	126.688	16.0
3	Asset	Rp. Billion	22.891	26.249	3.358	14.6
4	Turnover	Rp. Billion	43.570	49.247	5.677	13.0
5	Average turnover per SMEs	Rp. Billion	0.376411	0.368397	(0.007756)	(-2.0)

Source: Central Java Cooperative and SMEs Office, 2018

An annual increasing number of SMEs causes higher competition and tighter market. Since the

essence of success is competition, the enterprises must have a competitive strategy to win market competition. SMEs have to set strategies on improving competitive advantage and maintaining the market. Therefore, product sales from SMEs could be increased.

The level of competition from an enterprise could be observed through enterprise development and the number of similar enterprises engaged in the same field, as well as offering similar products and services. These conditions push the company management to continue their efforts on improvements as well as maintain and advance the business among competitors. Competitive advantage is obtained when an organization develops or acquires a set of attributes (or executes actions) that enable it to outperform its competitors (Wang, Lin, and Chu, 2011).

Competitive advantage refers to conditions in which products of enterprises or service are considered better than its competitors' products. The most common type of competitive advantage is because the product or service has a low price or is different from competitors (Dash, 2013).

II. LITERATURE REVIEW

A. Critical Success Factors

Lečić and Kupusinac (2013). stated that marketing performance could be obtained from the application of ERP (Enterprise Resource Planning) through competitive advantage. Apart from implementing ERP in the enterprise, marketing performance and competitive advantage could also be obtained from the existence of entrepreneurial orientation (Rezaei and Ortt, 2018). Another variable that can affect marketing performance and competitive advantage is the presence of an effective distribution channel (Kuswantoro, et al 2012).

B. The Effect of Distribution Channel on Competitive Advantage

According to Saremi, Masomeh and Zadeh (2014) distribution channels are groups of affiliated organizations and individuals who place products or services from producers to consumers. Meanwhile, the distribution channel is a link between producers and consumers to be able to connect to each other. The presence of distribution channel makes the process of products distributed to consumers become more optimal. Distribution channels are one of the sources of the enterprise competitive advantage in the field of marketing (Mwanza and Ingari, 2015).

Szopa and Pękała (2012) in their study explained that distribution channels are groups that depend on each other organizational unit, which takes part in the process of flowing products or services from producers to buyers. Distribution channels must be carried out effectively by the enterprise in order to achieve the results expected by the enterprise. If the distribution

channel is used optimally, the enterprise should have the ability to seize the market, have wider market coverage, and increase the number of potential customers.

H1: Distribution channels have a positive effect on competitive advantage.

C. The Effect of Distribution Channel on Marketing Performance

The presence of the distribution channel in marketing resulted in increasing the sales, market range and profit. The enterprise should be able to market the product more effectively and increase the ability of an enterprise to provide, expand and respond market changes faster (Amara, 2012).

Kuswantoro, et al (2012) in his study explained that a good distribution channel could improve the market range of products. The existence of a good distribution channel could also provide effectiveness and efficiency in the process of product distribution. These points resulted in better-increased marketing. The accuracy of the distribution channel selection process to integrate the interests of distributors and outlets in the distribution channel as well as maintain a form of cooperation; which is one of the marketing performance indicators, can increase market share (Nasution, 2014).

H2: Distribution channels have a positive effect on marketing performance.

D. The Effect of ERP Implementation on Competitive Advantages

An ERP system is integrated software that covers all aspects of the company such as aspects of production, sales, finance, accounting, human resources and includes managing all relevant business resources (Lečić and Kupusinac, 2013). Mudiantono, et al (2018) in their study explained that the competitive advantage variable could be increased if the successful implementation of ERP was increased. Research conducted by Contador and Ferreira (2012) stated that the use of information systems has an important role in achieving the competitive advantage of the company.

The implementation of ERP in the company reflects the competitive advantage strategy of manufacturing companies in Indonesia (Dantes and Hasibuan, 2011). The competitive advantage strategy itself is the main factor to improve the performance of the company (Hidayat and Akhmad, 2016).

H3: ERP Implementation has a positive effect on Competitive Advantage

E. The Effect of Entrepreneurial Orientation on Competitive Advantage

Competitive advantage is one essential point for an enterprise. To increase the competitive advantage, entrepreneurial orientation could be implemented.

According to Zeebare and Siron (2017), entrepreneurial orientation has a positive and significant impact on competitive advantage.

The internal environment factors include the entrepreneurial management which consists of a level of emphasis placed on strategic orientation, resources orientation, management structure, entrepreneurial culture development, reward philosophy, and the entrepreneurial orientation. They are all related to the personal characteristics of the entrepreneurs (Islam, Khan and Obaidullah, 2011). A study by Sirivanh, Sukkabot, and Sateeraroj (2014) also explained that entrepreneurial orientation has a positive and significant impact on competitive advantage.

H4: *Entrepreneurial orientation has a positive effect on competitive advantage.*

F. The Effect of Entrepreneurship Orientation on Marketing Performance

The research conducted by Santra (2018) revealed that the entrepreneurial orientation hypothesis has a positive effect on rejected marketing performance. That is way entrepreneurial orientation does not have a positive effect on marketing performance. However, this is inversely proportional to the research conducted by Rezaei and Ort (2018). The study revealed that entrepreneurial orientation had a positive and significant effect on marketing performance.

These results are also supported by research conducted by Bucktowar, Kocak, and Padachi (2015) which revealed that entrepreneurial orientation has a positive and significant effect on marketing performance.

H5: *Entrepreneurial orientation has a positive effect on Marketing Performance.*

G. The Effect of Competitive Advantages on Marketing Performance

The positive influence of competitive advantage on performance has been proven by various studies. The enterprise competitive advantage could be created by providing a means to outperform its competitors and also by paying attention to external factors (Pardi et al., 2014). Research conducted by Pardi et al. (2014) and Zaini, et al (2014) revealed that competitive advantage has a positive and significant effect on marketing performance.

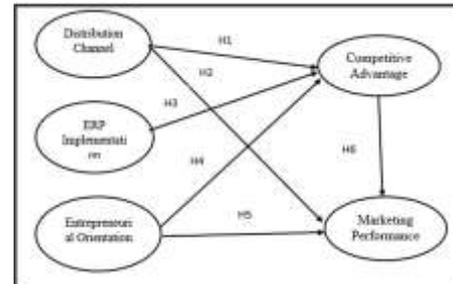
This statement is supported by research conducted by Raharjo, et al (2015) and May, et al (2013) which revealed that competitive advantage has a positive and significant effect on marketing performance. The concept of competing strategies is always directed at improving marketing performance such as increasing

sales, profits of customers and companies in the future (Mudiantono et al., 2018).

H6: *Competitive advantage has a positive effect on Marketing Performance.*

III. THEORETICAL FRAMEWORK

Based on the hypothesis formulation above, the model can be constructed.



Source : Santra (2018), Dantes dan Hasibuan (2011), Mudiantono et al (2018), Zeebaree and Siron (2017), Zaini et al.(2014).

Fig. 1. Theoretical Framework

IV. RESEARCH METHOD

The types of data used in this study are primary and secondary data. Primary data were obtained from respondents, namely the owners of SMEs in Central Java, while secondary data were obtained from journals, the internet and the Cooperative and SMEs Department in Central Java. This study focused on SMEs in Central Java with a total sample of 104 SMEs in Central Java that had implemented ERP with non-probability sampling and purposive sampling methods.

Data collection methods used in this study were interview and questionnaire methods. The analysis technique in this study used the Structural Equation Model (SEM) with AMOS software which was used in testing H1 to H6.

V. RESULT AND DISCUSSION

A. Data Analysis

Based on Table 2, the largest number of respondents are those who are engaged in food and beverages (culinary), as much as 50% of the total respondents, then convection 15%, and the least is in the field of batik which is only 2% of the total respondents.

TABLE 2. RESPONDENTS' TYPE OF ENTERPRISES

No	Enterprise Type	Amount	Percentage
1.	Culinary (foods and beverages)	50	50%
2.	Furniture	10	10%
3.	Convection	15	15%
4.	Weaving	10	10%
5.	Retail	5	5%
6.	Ceramics	7	8%
7.	Services	5	5%
8.	Batik	2	2%
	Total	104	100%

Source: Processed primary data 2018

Table 3 shows the Enterprise Resource Planning (ERP) module that is widely used by enterprises is a sales module that reaches 32% of the total modules used by respondents. Next is a purchase module of 22%, an accounting module of 16%, a warehouse module of 13%, an administrative module of 10%, an HR module of 7.5%, however, no one uses a cooperative and savings and loan management module. The result of data analysis can be seen in Figure 2.

Table 3. ERP Table Type Used by Respondents

No	Module	Amount	Percentage
1.	Management of Loan-Saving and Cooperation	0	-
2.	Sales Module	87	32%
3.	Purchasing Module	58	22%
4.	Warehouse Module	35	13%
5.	Account Module	43	16%
6.	Human Resources Module	20	7,5%
7.	Administration Module	26	10%
	Total	269	100%

Source: Processed primary data 2018

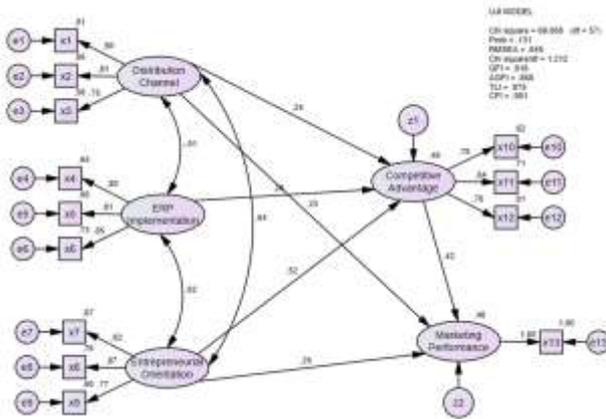


Fig. 2. Full Model SEM

The results of the full SEM model analysis meet all the criteria of the model fit according to the standards used. These results can be seen in Table 4 below:

TABLE 4 RESULTS OF THE FULL SEM MODEL ANALYSIS

The goodness of Fit Indexs	Cut-off Value	Result	Model Evaluation
Chi-Square Probability	Kecil (< 75,624) ≥ 0.05	69.088	Fit
RMSEA	≤ 0.08	0.131	Fit
Chi-square / df	≤ 2.00	0.045	Fit
GFI	≥ 0.90	1.212	Fit
AGFI	≥ 0.90	0.918	Marginal
TLI	≥ 0.90	0.868	Fit
CFI	≥ 0.90	0.975	Fit
		0.981	Fit

Source: Processed Primary Data 2018

Table 5 shows the model meets the value of the cut-of-value, therefore, it can be concluded that the model used is fit. Based on Figure 2, the regression weight structural equation value is as follows:

Table 5. Regression Weights Structural Equation

	Estimate	S.E.	C.R.	P
Competitive Advantage <--- Distribution Channel	0.291	0.122	2.387	0.017
Competitive Advantage <--- ERP Implementation	0.295	0.114	2.603	0.009
Competitive Advantage <--- Entrepreneurial Orientation	0.597	0.130	4.611	***
Marketing Performance <--- Competitive Advantage	0.508	0.136	3.736	***
Marketing Performance <--- Distribution Channel	0.338	0.130	2.607	0.009
Marketing Performance <--- Entrepreneurial Orientation	0.352	0.145	2.422	0.015

Source: Processed Primary Data 2018

VI. HYPOTHESIS TESTING

The proposed hypothesis can be tested by observing the value of the critical ratio and the level of significance contained in regression weight, where the value of C.R ≥ 1.96 and P ≤ 0.05 is required as a condition for receiving the hypothesis. Based on Table 5, the results of hypothesis testing using AMOS analysis are all hypotheses are accepted.

VII. CONCLUSION

The purpose of this study is to analyze the influence of distribution channels, ERP implementation and entrepreneurial orientation on marketing performance with a competitive advantage as an intervening variable in the study of SMEs in Central Java. Based on respondents' answers in this study, the most ERP module which is widely used is the sales module, and the respondents' business fields in this study are mostly in the culinary field. All hypotheses in this study show a positive and significant influence, and the variable that influences marketing that performs the most is the variable of competitive advantage.

The results of the study show that the variables that greatly influence marketing performance are the competitive advantages with the most influential indicators are the ability to capture the market. The results also show that the variables that greatly influence marketing performance are the competitive advantages with the most influential indicators are the ability to capture the market. Therefore, SMEs must increase competitive advantage. The most important indicator in influencing the high competitive advantage possessed by SMEs is the ability to capture the market. In this case, SMEs are expected to have the ability to seize the market by offering products at competitive prices from competitors and able to create products that are not easily copied by competitors and provide more value to customers on the products or services offered. With the existence of competitive advantages possessed by SMEs, it is expected that SMEs will have a broad market share and able to increase its sales and products that are widely known to consumers.

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