

# Adaptive Marketing Capabilities on Marketing Performance (Study on SMEs Creative Economy Sector)

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## ABSTRACT

The Small and Medium enterprise (SME) is one of the sectors that holds an important role in the regional economy. One of the small and medium industry sectors that is growing rapidly is the creative industry. Therefore, the purpose of this study is to investigate how such adaptive marketing capabilities affects business performance while moderated by industrial cluster. A self-administered survey was conducted targeting SMEs that engaged in the creative economy sector in Malang, East Java. A total of 150 samples were collected. The collected data were analyzed using PLS with multi-group analyses. The findings demonstrate that adaptive marketing capabilities can affect business performance whereas the industrial cluster did not have a big effect on business performance as the mediator variable.

**Keywords:** *adaptive marketing capabilities, industrial cluster, marketing performance*

## 1. INTRODUCTION

The Small and Medium enterprise (SME) is one of the sector that holds important role in the regional economy. At the regional level, economic growth can be measured through Gross Regional Domestic Product (GRDP). At present, Malang has a GRDP growth with a positive trend. In 2017 the GRDP at current prices in Malang reached Rp 62,190.87 billion, which shows an increase of 9.07% from the previous year. Based on the data from the Malang Cooperative and Micro Business Agency, SME contributes nearly 85% of the Malang GRDP [1].

One of the small and medium industry sectors that is growing rapidly is the creative industry.[2] published data that the contribution of the creative economy sector to Indonesia's GDP increased from Rp784 trillion in 2014 to Rp852 Trillion in 2015. In general, the creative economy sector contributed 7.38% to the Indonesian economy. At the regional level, a study conducted by the [3] of Malang found that the culinary, fashion and craft industries are superior potential possessed by Malang. These three types of businesses are part of the creative economy.

To always be able to contribute to the regional economy, SMEs must have good performance. With good performance, SMEs will be able to survive, grow and develop. Marketing performance is one of the keys to the success of SMEs in intense business competition. The high marketing performance of a business will provide a large advantage for SMEs. Therefore it is important for an SME to improve its marketing performance.

Based on Resource-Based Theory (RBT), to have a good marketing performance, a company must have good marketing resources and capabilities [4]. Empirically, previous studies have also found that the marketing capabilities of a company have a significant positive effect [5, 6]. These studies find that the better the marketing capabilities of a company will further improve marketing performance.

In the midst of rapidly changing business conditions, SMEs are required to be able to accommodate these changes. Therefore, the concept of marketing capability cannot be fully applied. It is necessary to develop a concept of adaptive marketing capabilities. "In adopting the" meet and satisfy customer needs "perspective, traditional marketing management has usually focused exclusively on reactively meeting explicit customer needs, while ignoring latent or implicit demand (Miles & Darroch, 2004)" [7]. The newness in this paper is the developing concept of adaptive marketing capabilities as stated by Guo H, et al that instead of being reactive to change, the new function of marketing capabilities (adaptive marketing capabilities) is to anticipate, identify, and explore customers' explicit and implicit needs and sometimes even create change in the external environment [7].

In general, this research aims to form a conceptual model of marketing performance improvement based on adaptive marketing capabilities. This study intend to:

Investigate the effect of adaptive marketing capabilities on marketing performance; and

Investigate the moderating effect of industrial cluster on adaptive marketing capabilities on business performance.

## 2. LITERATURE REVIEW

Resource-based theory (RBT) is a marketing theory that provides a framework for predicting and explaining the competitive advantage and also the performance of a business organization [4]. Based on this theory to have a sustainable competitive advantage and also high performance must have good resources. According to RBT, currently, intangible resources such as brands, copyrights, patents provide a greater competitive advantage compared to tangible resources [8].

RBT explained that to have a good performance, the resources owned by a company must be valuable, rare, imperfectly imitable and organization (VRIO) [4]. With these resources, an organization will be able to create a good marketing performance. The resources owned by the company in the marketing context will be used as a marketing capability of an organization.

### 2.1. Adaptive Marketing Capabilities

At present, several studies have proven that the ability of marketing as an effort of a company to carry out marketing activities using resources owned influences marketing performance. Research conducted by [9] shows that marketing capabilities have a positive influence on company performance. This research explains that the higher the marketing ability of a company, the better its performance. The study is in line with research conducted by [6] who also found the role of marketing capabilities in a Business to Business (B2B) activity to influence marketing performance.

Amid changes in very fast technology, then a business is required to always be able to make adjustments. In line with this concept, RBT explained that a business must have a dynamic capability. The dynamic ability of a business is an ability of a company to always be able to continuously create, develop, upgrade, make relevant the company's unique assets in a changing environment [4]. This thinking is in line with the concept of flexibility which is widely used in business worlds [10].

Adaptive marketing capabilities takes a proactive approach, which starts with marketplace information and delves deeply into the problems and questions customers are facing. More formally, adaptive marketing capabilities is the extensible ability to proactively sense and act on market signals, continuously learn from market experiments, and integrate and coordinate social network resources to adapt to market changes and predict industry trends [7].

“The “adaptive marketing capabilities” works of Day (2011), Day and Moorman (2010), and Moorman and Day (2016), maintains that firms can “adjust quickly to fast-changing markets” only by (1) “vigilant market learning that enhances deep market insights,” (2) “adaptive market

experimentation that continuously learns,” and (3) “open marketing that forges relationships with partners that are more closely attuned to market changes” [11, 12].

Based on the RBT concept and flexibility, this research develops the concept of adaptive marketing capabilities. Adaptive marketing ability is a marketing capability that adapts to environmental changes. Where the development of this concept will be following the dynamic and rapidly changing SME world.

H1: Adaptive Marketing capabilities have a significant effect on business performance.

### 2.2. Industrial Clustering and Business Performance

One solution to improve industrial competitiveness in the regions is through the development of industrial clusters. Industrial clusters are several companies and institutions that are concentrated in an area and are interconnected in specific fields and support competition [13].

Clusters are not only built from the presence of industry, but industries must be interconnected based on the value chain. Industrial cluster can be seen as a system. Each entity [13] has a role as an organ in the industrial cluster and is related to one another in the metabolism of the value chain driven by the flow of goods, services, money, information and knowledge from one economic organ to other organs as the energy for each organ to work, move and serve one another.

Clusters have several parties or elements that support the operation of an industrial cluster [15]. Each party or actor in an industrial cluster has certain duties, roles, and potential in the industrial cluster and is related to one another in the value chain. Value chains describe the various activities needed to carry a product or service through the intermediary phase of production to delivery to the final consumer [16]. The concept of value chains is adopted and widely used because it is considered the most inclusive of various activity chains and end products [16].

Business performance is fundamentally driven by the degree of competition in the marketplaces in which the firm chooses to operate, which in turn is a function of the structural characteristics of those marketplaces. Superior business performance is therefore achieved (1) by investing in markets low in competitive rivalry and (2) through gaining positional advantages within these markets that can be sustained through the creation and exploitation of market imperfections that limit competition [16, 17, 18].

H2: Adaptive Marketing capabilities that are moderated by industrial clusters have a significant effect on business performance.

### 3. RESEARCH METHODOLOGY

#### 3.1. Data Collection

The relationship of adaptive marketing capabilities, business performance and the moderating effect of industrial cluster was investigated. A self-administered survey was conducted targeting SMEs that engaged in the creative economy sector in Malang, East Java. Population in this study is SMEs engaged in the creative economy sector in Malang. Non-probability techniques with a purposive method were applied in this study because there were no official records related to the number of creative economic actors in Malang. The criteria used in this study are:

1. Businesses that are classified as small and medium-sized businesses
2. Businesses that have been running for at least two years continuously
3. Businesses that have legality as a business

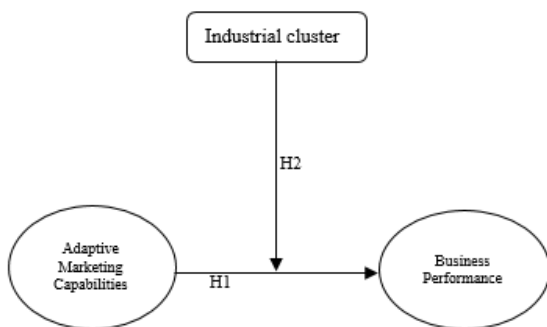


Figure 1. Research

A total of 150 respondents were involved in the quantitative inquiry and used for further analysis. Table I shows that there were more males than females. About 48% of the respondents were young adults, which is almost half of the total of the samples. Nearly, 50% of the respondents were high school graduates. 42 per cent of the respondents had 2-5 years of business and 46.7 per cent of the turnover obtained per month (10 million).

Table I. Demographic profiles of the respondents

	Frequency	%
<i>Gender</i>		
Male	98	65.3
Female	52	34.7
<i>Age</i>		
21-30	72	48
31-40	33	22
41-50	45	30
<i>Last Education</i>		
Elementary school	22	14.7
Junior high school	22	14.7
Senior high school	73	48.7
Associate degree	4	2.7
Bachelor degree	28	18.7
Graduate degree	1	0.7
<i>Years of Business</i>		
2-5	63	42
6-10	48	32
10	39	26
<i>Turnover/month (in million)</i>		
10	70	46.7
10-50	66	44.0
50	14	9.3

Source: Primary Data Processed, 2019

### 4. FINDINGS

Convergent value is the value found in each loading factor in the relationship of latent variables with indicators expected greater than 0,6.

Table II. Convergent Validity

Indicator	Convergent validity	Conclusion
AMC1	0.677	Valid
AMC2	0.664	Valid
AMC6	0.657	Valid
AMC7	0.755	Valid
AMC8	0.791	Valid
BP1	0.800	Valid
BP2	0.814	Valid
BP3	0.708	Valid
BP4	0.659	Valid
BP5	0.642	Valid
BP6	0.697	Valid

Source: Primary Data Processed, 2019

Based on table II, it is revealed that all the indicators have a good validity value, and thus, it is implied that these indicators can measure their variables.

Average Variance Extracted (AVE) on the variable Adaptive Marketing Capabilities (0.505 > 0.5) and Business Performance variables (0.523 > 0.5) so that it can be assumed that all constructs have criteria following the expected (table 2).

**Table III.** Average Variance Extracted (Ave)

	Average Variance Extracted (AVE)
Adaptive Marketing Capabilities	0.505
Business Performance	0.523

Source: Primary Data Processed, 2019

Table IV regarding composite reliability shows that each variable includes Adaptive marketing Capabilities (0.835 > 0.7) and Business Performance (0.867 > 0.7) are reliable. All variables that meet the criteria because they have a value of more than 0.7.

**Table IV.** Composite Reability

Variables	Composite Reability
Adaptive Marketing Capabilities	0.835
Business Performance	0.867

Source: Primary Data Processed, 2019

**Table V.** Cronbach's Alpha

Variables	Cronbach's Alpha
Adaptive Marketing Capabilities	0.754
Business Performance	0.819

Source: Primary Data Processed, 2019

Reliability tests can also be strengthened with Cronbach's Alpha. The table above shows that the Cronbach's Alpha value for all constructs is above 0.7. Adaptive marketing capabilities are 0.754 and business performance is about 0.819. The results show that all variables are reliable.

#### 4.1. *Determinant Validity*

Based on the results of the square roots of AVE of adaptive marketing capabilities (0.711) which is greater than the correlation between adaptive marketing capabilities and business performance (0.564). And square roots of AVE of

business performance (0.723) which is greater than 0.564 the correlation between adaptive marketing capabilities and business performance. Therefore, all adaptive marketing capabilities and business performance variables meet the requirements for good discriminant validity.

#### 4.2. *Coefficient of Determination*

The result of this study shows that adaptive marketing capabilities influence business performance with  $R^2 = 0.313$ . This means that adaptive marketing capabilities have a moderate effect on business performance.

#### 4.3. *Results of Hypotheses*

**Table VI.** Results of hypohtheses

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
AM C -> BP	0.564	0.579	0.047	12.064	0.000

Source: Primary Data Processed, 2019

Table VI above shows that the relationship between adaptive marketing capabilities and business performance is significant with a T statistic of 12.064 (> 1.96). The original sample estimate value is positive which is equal to 0.564 which indicates that the relationship between adaptive marketing capabilities and business performance is positive. The P value score is 0.000 which is less than 0.05. Thus H1 which states that adaptive marketing capabilities affects business performance is accepted.

#### 4.4. *Adaptive Marketing Capabilities on Business Performance*

The results for the testing effect of adaptive marketing capabilities on business performance shows that adaptive marketing capabilities has a significant relationship to business performance. It means the hypothesis 1 proposed in this study, namely adaptive marketing capabilities has a significant and positive effect on business performance is accepted. This means to increase business performance, then SME have to increase the adaptive marketing capabilities. The results in line with the research conducted by [11, 9] shows that marketing capabilities have a positive influence on company performance. This research explains that the higher the marketing ability of a company, the better its performance. The study is in line with research

conducted by [13, 6] who also found the role of marketing capabilities in a Business to Business (B2B) activity to influence marketing performance.

#### 4.5. *Moderating Effect on Adaptive Marketing Capabilities on Business Performance*

The relationship between adaptive marketing capabilities and business performance moderated by industrial clusters shows that adaptive marketing capabilities has a positive relationship with business performance but the presence of industrial clusters as moderators variable does not have such a significant impact. Then, the hypothesis 2 is not accepted.

### 5. CONCLUSION

Based on the findings, it can be concluded that the industrial cluster is a variable that moderates the effect of adaptive marketing capabilities on business performance, and this moderation did not give big effect on it. It can be explained that the higher or the lower industrial cluster did not give any effect on the adaptive marketing capabilities on the business performance.

The research findings indicate that adaptive capabilities have a role to increase the business performance. it means that the adaptive marketing capabilities have a significant and positive effect on the business performance level or the higher the level of adaptive marketing capabilities, the more business performance increases.

This research has shown an increased business performance can occur when there is an increase in adaptive marketing capabilities. As with any studies, there are some drawbacks in this research such as the sample chosen was limited to the SME in creative sector industries. Thus, future study is suggested to select more sectors and other variables that related to business performance.

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