Branding Capability, Innovation and Business Performance:

Evidence from Small and Medium Enterprises Coffee Cafes in Indonesia

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Abstract—**Purpose-The purpose of this paper is to examine the effect of branding capability on innovation-mediated business performance. This paper also examines the hypothesized influence on Small and Medium Enterprises engaged in food and beverages in the form of coffee cafes serving Indonesian coffee originating from Indonesia. Design / methodology / approach - This study was use 150 coffee café in the former of Besuki Residency, East Java Indonesia as a sample and Path analysis method for examining/analyzing the effect of each variable. Findings - The results of this study indicated that the direct effect of branding capability on the businesses performance of small and medium enterprises coffee café was significant, as well as the indirect effect of the effect of branding capability on the business performance of small and medium enterprises coffee cafes through innovation is was also significant. Originality / value – This paper has proven empirically, that innovation in small and medium enterprises is positively related with branding capabilities and business performance. These findings are important to complement and support the previous research, that innovation in small and medium enterprises has contributed to improving branding capabilities and business performance, especially in facing the new normal era today. If small and medium enterprises want to survive and be more advanced, they need a high ability to innovate to improve their branding capabilities and business performance. the next novelty is still rarely found research with the same object as this research.**

Keywords—*branding capability, innovation, business performance, small and medium enterprises*

I. INTRODUCTION

The literature has stated that one of the company's capability is through Capability Branding which is very important to improve organizational performance [1][2][3]. Regarding resource, capability and brand in business organizations, this study uses Barney's [4] Resource-Based View (RBV) theory, Teece's [5] Dynamic Capabilities theory and Aaker's [6] Brand theory. Furthermore, in the development of branding studies at this time, there is something relevant, the branding literature still shows the scarcity of research on branding in developing countries [3]. However, empirical research on branding capability in Small and Medium Enterprises (SMEs) is relatively rarely involved in innovative creativity on the relationship between branding capability and company performance.

Related to the influence of branding capability with innovation has been studied by Lei et al. [7] and the results show that branding capability significantly affects innovation, but the results show a significant negative. The study by Lei et al., [7] examines the big brands in the world engaged in electronics. Research by Lei et al. [7] examines the role of branding capability of innovative companies in stock market reactions to new products. Research by Lei et al. [7] describes how innovation bridges the gap between branding and innovation, where the role of branding capability is crucial. Based on the theory of RBV and Dynamic capabilities (DC), research by Lei et al. [7] explores the role of branding capability in companies that carry out innovation. The results of his research show that the stock market response to a new product announcement related to branding capability has a significant negative effect, the reason is that the more well-known the brand is, the higher the expectation of investors to hold a new product from this innovative company.

However, corporate branding literature is still about how innovation in companies can bridge the relationship between branding capability and company performance. The gap above is a significant limitation in the literature that small or local brands need to be investigated further, especially on innovation activity and how the company works. In addition to the local brands studied, another critical thing that needs to be further investigated is that companies that own these brands can focus on small companies or SMEs, especially SMEs in developing market, such as in Indonesia, requiring further research. Thus, the definition of SMEs used in this study follows the classification in developing countries, one of which is in Indonesia, using the classification stipulated in the law on SMEs in Indonesia. This study contributes from the perspective of the brand capability to the debate about the impact of innovation on companies [7].

The literature states that branding capability can have an effect on innovation, where the result is significantly negative. Therefore, it is necessary to research branding capability at different business scales and local brands that exist in specific sectors, such as in the food and beverage sector, which still requires further research. The proposed hypothesis is that branding capability will have a positive impact on innovation and business performance.

Specifically, the objectives of this study are to examine and explain the effect of branding capability on innovation; examine and explain the effect of branding capability on business performance; examine and explain the effect of innovation on business performance, and examine and explain branding capability to business performance through innovation.

The RBV argues that a company can gain a sustainable competitive advantage from its resources and capability that are valuable, scarce, inimitable and irreplaceable [4]. On the other hand, Grant [8] categorized resources and capability as views from a resource-based perspective and classifies resources into tangible, intangible and personnel resources.

The Dynamic capabilities was the ability of a company or organization to integrate, build, and configure the competence of a company or organization, both from internal sources and external sources, in order to adapt, to rapid environmental changes, so that making these internal and external competencies a source of sustainable competitive advantage [5]. Furthermore Aaker [6], a brand is a way to distinguish a name and/or symbols such as a logo, trademark, or packaging design that is intended to identify products or services from one producer or a group of producers and to differentiate these products or services from competitors.

According to O'Cass and Ngo [2], branding capability is the company's ability to gather a series of interconnected company routines to carry out activity and marketing programs in conveying consistent brand meaning to customers.

According to Robbins [9], innovation is a new idea that is applied to initiate or improve a product and service. Kotler et al. [10] also explains that innovation is not only limited to developing new products or services.

In business performance, there is a process of managing the performance of a business organization to achieve predetermined goals. In this study, the perception measure is used to measure the business performance of the company. According to Dess and Robinson [11], the use of perceptual measures of company performance has been applied consistent with objective measures. This way is in accordance with Prieto and Revilla [12], which stated that the perception measure of company performance can overcome the reluctance of manager or business manager to provide objective performance results.

The hypotheses compiled in this study are as follows:

H_1 : Branding capability has a significant effect on innovation.

H_2 : Branding capability has a significant effect on business performance.

H_3 : Innovation has a significant effect on business performance.

H_4 : Branding capability has a significant indirect effect on business performance through innovation.

II. METHODOLOGY

This research is a survey research with the quantitative approach. The data used are primary data obtained through the questionnaire, the type of scale used is the Likert Scale. The population is coffee cafes in the area of the former of Besuki Residency, East Java. The unit of analysis in this research is the coffee cafes which is represented by the coffee cafes manager as the respondent.

The population criteria are as follows: The size of SMEs in coffee cafes in this study is defined based on asset ownership following Law number 20 of 2008 concerning Micro, Small and Medium Enterprises (MSMEs) [13]; The coffee cafes has been operating for more than one year; the coffee cafes provides and serves speciality coffee products from the nationwide; the coffee cafes has a barista. The total population of coffee cafes from 4 districts in the former of Besuki Residency, East Java that are registered with related agencies and/or are members of the community/association is 183 coffee cafes. Based on specific criteria from the population, respondents can be identified after going to the field. This research uses purposive sampling technique. According to Sekaran [14], purposive sampling is the determination of the sample based on specific criteria encountered by the researcher in the field. Furthermore, from activity on the field, the number of populations that meet the criteria to be the sample in this study is 150 coffee cafes.

In this study, the analysis used to test the proposed hypothesis is path analysis. According to Sarwono [15], Path Analysis is an analytical technique used to analyze the inherent cause and effect relationship between variables arranged based on temporary order by using the path coefficient as a value measure in determining the magnitude of the influence of exogenous independent variables on endogenous dependent variables.

III. RESULTS

The former Besuki Residency, East Java, consists of 4 districts, namely Jember, Banyuwangi, Situbondo, and Bondowoso, which borders each other and is close to one another. Based on Presidential Regulation No. 22 Year 1963 [16] concerning the abolition of Residency and *Kawedanan* into Regional Autonomy or Regional Government, the Besuki Residency currently does not exist. However, until now it has been still known and understood by the surrounding community, and in some literature, it is still referred to as the former of Besuki Residency.

A. Descriptive Statistics Test Results

Based on the period of the business, most of them have been doing business for more than 1-2 years, 69 coffee cafes, then 3-4 years as many as 57 coffee cafes, 5-6 years as many as 14 coffee cafes, and more than 6 years as many as 10 coffee cafes. Based on total assets, it shows that most of the respondents are small businesses, namely 131 coffee cafes, while 19 coffee cafes are included in the medium business.

Based on the types of Indonesian coffee used in coffee cafes, there are 21 types of Indonesian coffee used in coffee cafes.

B. Inferential Statistical Test Results

TABLE I.   PATH ANALYSIS TESTING

Sub-Structure	Variable		H	Path Coefficient	Hypothesis testing		Result
	Exogenous	*Endogenous*			*t-value*	*p-value*	
1	Branding Capability (X)	Innovation (Y$_1$)	H$_1$	0,509	7,200	0,000	Significant
2	Branding Capability (X)	Business Performance (Y$_2$)	H$_2$	0,334	4,167	0,000	Significant
	Innovation (Y$_1$)		H$_3$	0,295	3,680	0,000	Significant

Based on Table 1, it is known that H$_1$, H$_2$ and H$_3$ are accepted because the p-value is smaller than the alpha value (0,000 <0,05), so it can be stated that H$_1$, H$_2$ and H$_3$ are accepted or declared significant.

TABLE II.   INDIRECT EFFECT BETWEEN VARIABLES

Indirect Influence	Calculation	Result	t-value	p-value	Information
Branding Capability (X) on Business Performance (Y$_2$) through Innovation (Y$_1$)	0,509 x 0,295	0,150	3,277	0,000	Significant

Based on Table 2, it is known that the indirect effect between variables on the influence of Branding Capability (X) on Business Performance (Y$_2$) through innovation (Y$_1$) is 0,150 and statistically significant with a p-value <α (0,000 <0,05). Due to the p-value is smaller than the alpha value (0,000 <0,05), the H$_4$ is accepted. It means that the effect of Branding Capability (X) on Business Performance (Y$_2$) through innovation (Y$_1$) is significant. The results can be seen in Figure 1.

Fig. 1. Path analysis diagram.

IV. DISCUSSION

The results of this study indicate that branding capability influences innovation and business performance of coffee cafes SMEs either directly or indirectly. The results of this study support the RBV theory proposed by Barney [4], which argued that a company, which has a valuable, rare, inimitable and non-substitutable resource, has the potential to achieve business performance. The results of this study also support the dynamic capabilities (DC) theory proposed by Teece et al. [5], that DC as the ability of companies to integrate, build, and configure internal and external competencies to deal with a rapidly changing environment. Teece et al. [5] also explained that the Dynamic capabilities framework refers to the sources and methods of innovation that are measured by the internal, organizational, and management technological processes within the company.

This study confirms the results of a previous study conducted by Lei et al. [7]. Previous research has shown that branding capability has a significant effect on innovation, even though the results are significantly negative. This is the same as the results of this study, which are both significant, but the difference is that this study shows that branding capability has a significant positive effect on innovation.
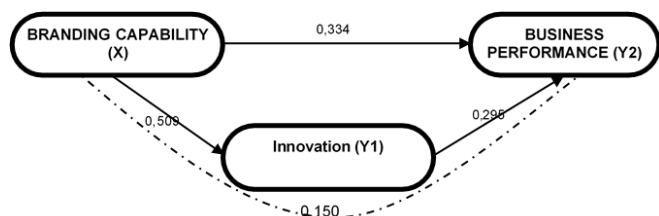
Related to the effect of branding capability on business performance, the results of this study support the results of the research of Odoom et al. [3]. This study shows that branding capability has a significant positive effect on business performance. Therefore, to improve business performance, the handling of branding capability must also be improved. Meanwhile, regarding the effect of innovation on business performance, this study supports the research conducted by Sok et al. [17] and Najib and Kiminami [18]. Thus, the results of this study are consistent with the results of previous studies. Meanwhile, the indirect effect of branding capability on business performance through innovation is a novelty in this study because it has not been found in previous studies. The indirect effect of branding capability on business performance

through innovation is significant, so it can be concluded that both directly and indirectly in this study branding capability has an effect on innovation and business performance of coffee cafes SMEs in the former of Besuki Residency, East Java, Indonesia.

The results showed that the direct impact was higher than the indirect impact of branding capability on business performance through innovation. This means that innovation is still supported by branding capability in improving business performance. This means that most coffee cafes should further increase their innovation

This study has several limitations, such as the number of samples and sectors studied. The results and recommendations of this study cannot be generalized. Regarding branding capability, which has a significant effect on innovation and business performance at coffee cafes SMEs in the former of Besuki area, it can be different when applied to SMEs from other sectors or in other regions. Therefore, it can be continued in the next research. This study is cross-sectional and may not be the most appropriate approach. Although this study has provided strong evidence to support the hypothesis, longitudinal studies may provide more appropriate insights.

Future research, especially in the face of the current new normal era, can develop and adopt these findings so that SMEs can grow, survive, and develop their research on other SME sectors, especially those with a growing brand.

V. CONCLUSION

The results of this study indicate the importance of the branding capability, innovation and business performance of SMEs. The results show a significant influence between branding capability, innovation and business performance of coffee cafes SMEs, either directly or indirectly. Therefore, it can be concluded that adopting branding capability tends to generate innovation and lead to better business performance for SMEs. In the context of SMEs, especially those with local and emerging brands, really need innovative resources and capability. Innovation activity can be well developed and created to improve the business performance of SMEs. Therefore, the findings of this study, that branding capability positively affects innovation and business performance, both directly and indirectly, should be continuously encouraged for the advancement and development of SMEs in the future.

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