

The Effects of Marketing Capabilities on Financial Performance through Innovation Capabilities in Fashion Small and Medium Enterprises in Medan

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Abstract: Every Small and Medium Enterprises should have their own characteristics that can be a strategic resource. The utilization of strategic resources as core competencies optimally by SMEs will improve their financial performance. The population of this study was Medan's 93 fashion SMEs. This study uses quantitative methods with inferential statistical analysis using path analysis to measure the effect of marketing capabilities on financial performance through innovation capabilities. The results showed that directly marketing capabilities had a positive and not significant effect on financial performance, marketing capabilities directly had a positive and significant effect on innovation capabilities, innovation capabilities directly had a positive and significant on financial performance, and marketing capabilities had a positive and significant effect towards financial performance through innovation capabilities of fashion SMEs in Medan.

1 INTRODUCTION

Small-Medium Sized Enterprises (SMEs) have been vital to the economy of Medan city. This sector absorbed 4.950.955 workers in 2015 (republika.co.id, accessed on 05 February 2017 at

19.30 Western Indonesian Time), which was an increase from the 2014's 4.676.143 workers. SMEs in Medan have contributed significantly to the city's economy, which is obvious from the growth of SMEs within 3 years (2013-2015), from 82.888 in 2013, 86.063 in 2014, and 99.002 in 2015 based on BPS (the Statistical Bureau) of North Sumatra 2015 (Dongoran, 2016).

Fashion business is a potentially promising and profitable business sector due to its nature as a secondary need for people. In major holidays, there are always significantly increased demands for fashion products. The ever-dynamic trends for fashion modes make fashion business worth a try. Many entrepreneurs started their fashion business by becoming resellers or dropshippers of famous products due to their lack of skills in fashion manufacturing.

There has been a significant increased number of fashion businesses in Medan, which create tight

competitions for the owners and encourage them to innovate to attract customers and to improve their business performance as well. To upgrade its performance, a firm must manage its resources and capabilities (Barney, 1991).

Despite their growth, SMEs are often faced with obstacles such as the lack of marketing capabilities skills in terms of wider market access. Another ignored issue is the tendency of product imitation rather than innovations as generally desired by customers.

1.1 Research Questions

1. Are marketing capabilities critical in innovation capabilities of fashion SMEs in Medan?
2. Are marketing capabilities critical to financial performance of fashion SMEs in Medan?
3. Are innovation capabilities critical to financial performance of fashion SMEs in Medan?
4. Are marketing capabilities critical to financial performance of fashion SMEs in Medan through innovation capabilities?

1.2 The Usefulness of Research

1. As an input for SMEs to upgrade their financial performance through an improved marketing and innovation capabilities,
2. As an input for academics to develop science, especially in marketing, strategic management, and SMEs.

2 LITERATURE REVIEW

2.1 Marketing Capabilities

Marketing Capabilities belong to the category of resources and skills in marketing sector which arise from accumulated knowledge and integration of values and norms developed within an organization. Marketing capabilities are an integrated process designed to create an accumulated knowledge, skills, and resources from a firm to a business related to a market (Lovell dan Lauren, 2007). Marketing capabilities of a firm in performing various marketing objectives will provide with sustained competitive advantages. Marketing capabilities are an evaluation concept on process performance in marketing.

Marketing capability classified into two categories, specialized and architectural capabilities which guide firms gain performance and competitive advantages. The specialized reflects marketing employees' knowledge that is utilized in such activities like selling, communication abilities and pricing and etc. Moreover, communication with existing and future consumers depends on this capability (Boulding, et al., 1994; Day, 1994).

The literature on the effects of marketing capabilities on business competitiveness is recent, and the performance indicators used differ among researchers. A number of available researches reflected analysis of the link between business capabilities and financial performance, (profits, returns, etc.) indicators. Such an approach is evident in the studies of Fahy et al. (2000), Tsai and Shih (2004), and Vorhies and Morgan (2003), who confirmed a positive link between marketing capabilities and financial performance.

Marketing capability criteria must be satisfied to generate superior performance of the resources possessed (Andersen, 2011). Having strong marketing capabilities is an important parameter in succeeding product development (Drechsler et al., 2013) and effects different types of innovation (Mariadoss et al., 2011; Weerawardena, 2003).

Marketing capability is critical at the product development stage where consumer needs and competition must be assessed and information shared for comprehensive new product ideas to be advanced into the development stage (Weerawardena, 2003). Based on this discussion, we argue that marketing capability is related at all types of innovations pursued by the firm. Marketing capability can be a key source of competitive advantage, and can influence firm's innovation. Accordingly, the relationship between marketing capability and organizational innovation is hypothesized (Potočan, 2013).

Marketing capabilities could improve financial and market performance (Tsai and Shih, 2004) and is an important source of competitive advantage for firms (Fahy, 2000).

H1: marketing capabilities are positively and significantly critical to innovation capabilities of fashion SMEs in Medan

H2: marketing capabilities are positively and significantly critical to financial performance of fashion SMEs in Medan

2.2 Innovation Capabilities

A critical character to be owned by an entrepreneur is the capability to innovate. One projecting to be an entrepreneur must be innovative (Larsen, 2007),

Innovation capabilities are an ability to develop new products or markets through strategic innovation orientation adjustment with innovative attitude and process (Wang & Ahmed, 2004). Capabilities owned by a firm in devising new ideas to produce innovations is a concept of innovation capabilities (Lawson dan Ben, 2001). Furthermore, Terziowski (2010), stated that innovation capabilities provide with potentially effective innovation.

Hastuti's research (2018) revealed direct and positive effects of innovation capabilities towards financial performance of SMEs. The capability configuration approach requires a firm to remain original and creative, rather than an imitator, in creating a sustainable competitive advantage (Taghian, 2010: 829).

H3: innovation capabilities are positively and significantly critical to financial performance of SMEs in Medan.

2.3 Financial Performance

Financial performance is the accomplished result by the firm's management in running its function to manage the firm's assets effectively in a given period (Rudianto, 2013:189). Financial performance is required to measure or evaluate a firm's level of profitability based on its accomplished financial objectives.

H4: marketing capabilities are positively and significantly critical to financial performance of fashion SMEs in Medan through innovation capabilities.

3 METHOD

The research used a quantitative approach to test the hypothesis. Sample of the research is 93 fashion SMEs in Medan. The sampling was done through area clustering, while the primary data collection was done through questionnaire. Data used in this study are quantitative data in the form of numbers, consisting of the results of statistical data management. Sources of data in this research are the primary data source, data obtained directly from respondents through questionnaires related to marketing and innovation capabilities, and financial performance on SMEs that are located in Medan. The data analysis method used was model analysis to test the direct and indirect effects of the research variables.

4 RESULTS AND DISCUSSION

4.1 Inferential Analysis

Table 1 Model I Analysis

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
(Constant)	22.886	5.497		4.163	.000
1 Marketing Capabilities	.264	.111	.241	2.369	.020

a. Dependent Variable: Innovation Capabilities

Table 2 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.241 ^a	.058	.048	3.95927

a. Predictors: (Constant), Marketing Capabilities

4.1.1 Coefficient of Model 1

Table 1 shows regression result of model 1. The regression output of model 1 on its coefficient table shows significance value of marketing capabilities is $0,020 < 0,05$. This result suggests, as for model 1 regression, marketing capabilities are significantly critical to innovation capabilities. The R2 value in table 2 of Model Summary is 0,058, which means that the effect of marketing capabilities contributes to innovation capabilities for 5,8%, while the remaining 94,2% is shared by other variables not under research.

Table 3: Model II Analysis

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-9.068	8.279		-1.095	.276
	X	.193	.159	.118	1.218	.226
	Y1	.617	.145	.412	4.264	.000

a. Dependent Variable: Financial Performance

Table 4 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.455 ^a	.207	.190	5.46506

a. Predictors: (Constant), Innovation Capabilities, Marketing Capabilities

4.1.2 Coefficient of Model 2

Model 2 regression output on coefficient table column showed the significance value of marketing capabilities is $0,226 > 0,05$, while the significance value of innovation capabilities of innovation capabilities is $0,000 < 0,05$. Such result concluded that marketing capabilities produced positive but insignificant influence towards financial performance on. On the other hand, innovation capabilities are positively and significantly critical to financial performance. The value of R2 on Model Summary table is 20,7% with the remaining 79,3% value is contributed by variables not under research.

Furthermore, table 3 revealed direct effect of marketing capabilities towards financial performance

for 0,118 and indirect effect of marketing capabilities towards innovation capabilities for $0,241 \times 0,412 = 0,0993$. Thus, the total effect of marketing capabilities towards marketing performance is $0,118 + 0,0993 = 0,217$. This concluded that through innovation capabilities marketing capabilities indirectly are positively and significantly critical to financial performance.

5 DISCUSSION

The research result showed that marketing capabilities directly contribute positively and significantly towards innovation capabilities. Marketing capabilities have an influence on innovation development and facilitate innovation success and creativity in the market (Weerawardena and O'Cass, 2004; Dutta et al., 1999). Marketing capabilities play a significant role in improving innovation in firms and create competitive advantages for companies (Shahhoseini and Ramezani, 2015). Marketing and innovation are necessary for firm to gain competitive and vantages (Song et al., 2005; Moorman and Slotegraaf, 1999; Möller and Anttila, 1987).

The research result showed a directly positive yet insignificant effect of marketing capabilities towards financial performance. As a matter of fact, marketing capabilities without product innovation often troubles fashion SMEs to boost their financial performance.

Another research result revealed directly positive and significant effect of innovation capabilities towards the financial performance of SMEs in Medan. Therefore, SMEs owners must be innovative in developing not only products but also services, technology, and market. Product innovation is possible through new model development by using new designs, materials, and colour variations compatible with the target market. Furthermore, service innovation may use technology to enable more responsive and accurate service; while technology innovation is applicable through ordering and payment systems. On the other hand, market innovation is made possible through sustainable market development or niche. Various innovations may boost selling and, thus, should improve the selling performance.

The last research result found that marketing capabilities directly have positive and significant effects towards financial performance through innovation capabilities, while indirectly insignificant to financial performance. Thus, it may be concluded that only innovation capabilities will improve

financial performance. Marketing capabilities include entrepreneurs' skills in maximizing their marketing mix strategies, which should help boost financial performance of SMEs.

The marketing capabilities aim to fulfil the market related needs of the business, allowing firms to provide superior added value and to adapt better to changing market conditions (Vorhies, 1998). Marketing capabilities are evident when individuals use accumulated knowledge of clients, markets, and the environment; their experience; and the firm's resources to resolve commercial problems, to generate higher value for the organization's clients and to be competitive (Tsai and Shih, 2004; Vorhies, 1998; Weerawardena, 2003).

6 CONCLUSIONS

Research results and discussions reveal that marketing capabilities directly contribute positively and not significant on financial performance, marketing capabilities directly had a positive and significant effect on innovation capabilities, innovation capabilities directly had a positive and significant on financial performance. On the other hand, marketing capabilities are positively and significant critical to financial performance through innovation capabilities.

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