

Lampiran Korespondensi Proses Submit Publikasi Artikel

Judul Artikel: THE ROLES OF PRODUCT INNOVATION CAPABILITY IN MARKETING PERFORMANCE

Reputasi: Scopus Q3

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JDE Desk Decision Inbox x

Michael Morris <mmorri24@nd.edu>
to me, Susana, Marla

Apr 28, 2023, 10:52 PM

Dear Professor Khasanah,

Thank you for your submission of "The Roles of Product Innovation Capability in Marketing Performance" for publication consideration in the *Journal of Developmental Entrepreneurship* (JDE manuscript #062-0423). Our process is to first put all papers through a rigorous desk review to assess fit with the journal, the extent of theoretical contribution, and the quality of paper execution. While the paper was not submitted in accord with our submission requirements (double-spaced, 12 point font, with tables and figures at the end), I am pleased to let you know that the paper has met the standard and has been sent out for peer review. You will hear further from us in eight to ten weeks once we have received the reviews.

Mike

Michael H. Morris, Ph.D.
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JDE Editorial Decision Inbox x

Michael Morris <mmorri24@nd.edu>
to me, Susana, Suanssee, Marla

Jul 6, 2023, 10:28 PM

Dear Professor Khasanah,

Thank you for your submission of "The Roles of Product Innovation Capability in Marketing Performance" (paper number 062-0423). We have now received reviews from two external reviewers. Both recommend a major revision. Based on my own re-reading of the manuscript, I concur and would like to invite you to revise and resubmit the paper. In the revision, please address each of the reviewer suggestions. As Reviewer 1 notes it is critical to systematically build a better case for your hypotheses. Given the comments from Reviewer 2, it is important that you demonstrate how this paper breaks new ground. This is a key issue, as your hypotheses seem rather self-apparent given earlier work. You might want to delve deeper in to the SME context and unique contextual aspects of the nature of your sample.

Reviewer 1
Abstract

Enhancement of the manuscript's abstract is required as it currently appears incomplete. Several crucial components, including the methodology employed, results obtained, and implications derived from the study, are noticeably absent. Although the abstract should be concise, it should still encompass these significant elements.

Introduction

The primary objective of this study is to examine the role of market sensing capability in enhancing marketing performance. However, the introduction lacks a comprehensive analysis of the key variables involved, namely market sensing capability, product innovation capability, competitive advantage, and marketing performance. This lack of clarity makes it challenging to identify the research gap or the rationale behind the study.

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To address this issue, a reconstruction of the introduction is necessary. The revised introduction should provide a thorough explanation of each variable, establish their significance in the context of marketing, and highlight the existing gaps or limitations in the literature that necessitate further investigation.

The revised introduction will effectively convey the purpose of the study, elucidate the relationship between the variables, and emphasize the relevance of exploring the role of market sensing capability in improving marketing performance. By offering a clearer and more comprehensive overview, readers will gain a better understanding of the research gap and the significance of the study's objectives.

Hypotheses

The author has provided a description of the variables of interest by referencing prior studies. However, it is crucial for the author to demonstrate their own comprehension of how this information contributed to the development of hypotheses. Merely citing existing research findings without establishing the underlying meaning or implications for their own hypotheses is insufficient. The author should strive to identify expected associations, causal links, or patterns suggested by previous research and incorporate their own understanding to formulate hypotheses. It is essential for the author to explicitly explain how each piece of information contributed to the development of their hypotheses, either by analyzing the existing literature or through their own insights and interpretation. By doing so, the author will provide a comprehensive account of how their hypotheses were derived based on the available information.

Research Methods

Validity and Reliability: Use dash() instead of comma(,) in all places that have decimals. Standard loadings mentioned in the table and the one in the SEM model are not aligned.

Discussion

Before conclusion, discussion should be constructed. I expected the followings:

Restate the research question or objective: Begin the discussion by restating the main research question or objective of the study. This helps to remind readers of the primary focus of the research.

Summarize the key findings: Provide a concise summary of the main findings of your study. This includes both the significant and non-significant results. Use clear and straightforward language to communicate the key outcomes of your research.

Relate the findings to existing literature: Discuss how your findings align with or differ from previous studies and existing literature. Highlight any consistencies or

contradictions in the results and provide explanations or interpretations for these discrepancies. Demonstrate a comprehensive understanding of the current knowledge in the field and the implications of your findings within that context.

The above should be done before implication and limitations.

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Reviewer 2

The paper investigates how product innovation capability mediates the relationship between market sensing capability and marketing performance. The empirical model includes four variables: market sensing capability, product innovation capability, competitive advantage, and marketing performance. The paper is well-written and clear-structured. However, the empirical topic the authors chose has been widely examined, and the hypothesized relationships have been widely established (e.g., Ardyan 2016, Han et al. 1998). Therefore, the empirical contributions of the findings to the field are quite limited. The followings are the concerns about the theoretical foundations, methodology, and potential contribution of the paper.

1. The author(s) adopt service-dominant logic as the theoretical framework to explain the hypothesized model. Theoretically, service-dominant logic emphasizes the dynamic value co-creation process as service plays a fundamental basis of exchange. However, the main constructs, market sensing capability, and product innovation capability are not defined based on the service-dominant logic perspective. The two constructs only focus on the SMEs' capabilities, while ignoring the active roles of customers in the value co-creation process.
2. Methodologically, the operationalization of competitive advantage and product innovation capability show overlaps, which significantly weakens the theoretical arguments and validity of the findings. It will be necessary to conduct factor analysis to empirically show the four main variables load on four different dimensions to detect the potential issues of multicollinearity before the model testing.

We would require the revision by August 25. It should be submitted to the JDE online submission system. Please include a letter detailing how you have addressed each reviewer suggestion. Good luck with the revision, and let me know if you have any questions.

Mike

Michael Morris and Susana Santos - Co-editors - JDE

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Reviewer 1

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The above should be done before implication and limitations.

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Reviewer 2

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THE ROLES OF PRODUCT INNOVATION CAPABILITY IN MARKETING PERFORMANCE

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Received Day Month Day
Revised Day Month Day

This study examines the role of product innovation capability in mediating the effect of market sensing capability on marketing performance. The sample data consist of 338 SMEs in the food product industry in Central Java, Indonesia. A model consisting of five hypotheses was proposed and tested. The statistical tests cover variables: market sensing capability, product innovation capability, competitive advantage, and marketing performance. Structural Equation Modeling (SEM AMOS 23) was used in the model and hypotheses testing. The results show that the five hypotheses have a positive and significant effect. Product innovation capability has the greatest influence on marketing performance, suggesting its important role in improving marketing performance. The results suggest that in increasing product innovation capability, SMEs must perpetually create and offer new ideas by considering market trends. Second, SMEs must be innovative in creating new food products in terms of both taste and packaging. Third, SMEs need to be the first to offer new products. Finally, SMEs must utilize the advancement of technology to develop food products and their variations.

Keywords: Market sensing capability; product innovation capability; competitive advantage; marketing performance

1. Introduction

Small and medium enterprises (SMEs) are key to economic growth, especially in developing countries (Ardyan, 2016). However, the dynamic and competitive market environment makes it challenging for SMEs to maintain marketing performance (Sugiyarti, Ferdinand, & Nurchayati, 2018). Surviving and thriving in competition requires well-planned marketing strategies because they determine profit generation (D'Souza, Nanere, Marimuthu, Arwani, & Nguyen, 2022). In addition, companies need to define their competitive advantage (Falihat, Soto-Acosta, & Ramayah, 2021).

In Indonesia, SMEs are growing rapidly, especially in the food product industry. The steady increase in the number of business units every year indicates promising business opportunities (Hutahayan, 2019). Like businesses of any scale, SMEs need market sensing to improve their marketing performance (Mulyana, Hendar, Zulfa, & Ratnawati, 2020), which is essentially the ability to respond appropriately to market changes. If SMEs can sense market environments accurately, they can see market needs, trends, and changes (Likoum, Shamout, Harazneh, & Abubakar, 2020). Therefore, market sensing will improve SMEs' marketing performance (Wahyono & Hutahayan, 2021).

Innovation is another critical factor for a business to survive in a competitive environment. Product innovation and commercialization can contribute to sustainable competitive advantage, eventually increasing company growth and profitability (Heng, Ferdinand, Afifah, & Ramadania, 2020). Innovative capability is closely related to market

sensing capability, with those who observe market conditions and the environment becoming more innovative. This is because research and observations from market sensing will motivate companies to utilize the latest knowledge and information to improve or develop new products. In this case, innovation often aims to create something new and interesting to attract more consumers (Deku, Wang, & Das, 2022). It is part of a company's strategy to collaborate and create an optimum competitive advantage in the market. The ability to create more value for customers will allow an innovative company to stay ahead of its main competitors, achieve superior performance, and dominate any existing or new markets. With such creation of competitive advantage, innovation also improves a company's marketing performance (Issau, Acquah, Gnankob, & Hamidu, 2021).

Past research has examined the relationship between market sensing capability and marketing performance, but the findings have gaps and inconsistencies. Most studies have shown that market sensing capability drives marketing performance (Alshanty & Emeagwali, 2019; Dias & Lages, 2021; Fang, Chang, Ou, & Chou, 2014; Likoum et al., 2020; Mulyana et al., 2020; Sudarti & Masfufah, 2019). However, other studies have also shown that the impact of market sensing on marketing performance is negligible, if not non-existent (Ardayan, 2016; Miocevic & Morgan, 2018; Sugiyarti & Ardayan, 2017). Such inconsistencies warrant further exploration.

This study aims to address these inconsistencies by testing the role of market sensing capability in improving marketing performance. The service-dominant logic theory is used in this study with the following considerations. First, the theory believes that no matter how good a product is and how much value is attached to it, if that value cannot be conveyed properly and instilled in the customers' memory, the product will fail in the market. Second, in a competitive market, a value has the potential to become a market attractor (a superior value perceived by customers), so it can be utilized to improve performance. Based on this logic, we developed a research model consisting of market sensing capability, product innovation capability, competitive advantage, and marketing performance variables.

This study proposes a conceptual model of how product innovation capability improves SMEs' marketing performance. The model developed in this study was piloted on SMEs in the food industry in Central Java, Indonesia. The research location was selected for two reasons. First, the SMEs focusing on food products are key players in the economy, and their products are high quality. Second, the problem faced by the food product businesses is how to properly implement product innovation capabilities to improve their marketing performance.

2. Literature Review and Hypothesis Development

2.1 Service-Dominant Logic

Service-dominant logic focuses on the value to be produced or offered to customers (value-driven services). Customers are active participants in the value-creation process. The relationship between a company and its customers is collaborative, where customers are considered co-creator, not passive recipients of value created for them (Stephen L Vargo & Lusch, 2004). Service-dominant logic, with its customer-driven value (Stephen L Vargo, Maglio, & Akaka, 2008), is the basis for common marketing thinking and practices. From a company perspective, especially in marketing activities to create value for customers (Robert F Lusch & Vargo, 2014), market sensing is essential to bringing market and customer knowledge into the company's decision-making (Jaworski & Kohli, 2014).

Service-dominant logic highlights the importance of creating shared value for stakeholders. It activates product innovation capability to increase value and create a competitive advantage (Robert F. Lusch, Vargo, & O'Brien, 2007), which determines good marketing performance (Ardayan, 2016). In other words, service-dominant logic contributes to the improvement of marketing performance (Stephen L. Vargo & Lusch, 2017). Therefore, service-

dominant logic can help SMEs navigate a competitive market. It will provide a solid foundation for implementing product innovation, building a competitive advantage, and achieving superior performance (Ferdinand & Zuhroh, 2021).

One of the marketing targets is to create sought-after values in the changing market conditions and follow the trends of customer needs, especially when changes are fast and unpredictable. Ensuring business sustainability means companies must create well-suited values (Stephen L Vargo & Lusch, 2004) and market them. Notably, such value creation depends on the innovation ecosystem within the organization. A fully supported innovation ecosystem will facilitate design and value creation. A good innovation ecosystem in an organization can prompt and nurture innovative ideas and their implementation in the target market (Adner & Kapoor, 2010). Companies can leverage people's creativity, combine the values generated, and instill them in the minds of the consumers. In other words, the process and quality of innovation are directed to value creation and co-creation centered on consumers (Ballantyne, Frow, Varey, & Payne, 2011). A value can reach optimum suitability if a company has developed and continues to develop its innovation ability. This can be done through organizational culture from the research and development practices (Heng et al., 2020). The indicator of success is the development of patents and new products and the creation of new value. It can also be seen in the ability to configure value beyond the existing content or effort to experiment and discover new products or services (Hiong, Ferdinand, & Listiana, 2020).

2.2 Market Sensing Capability and Product Innovation Capability

Market sensing capability is a process of generalizing knowledge about the market to inform a company's decision-making (Sugiyarti et al., 2018). This ability is an important part of learning about consumers, competitors, and other parties in the business environment (Ferdinand & Fitriani, 2015). This capability enables companies to monitor the market continuously, find market opportunities efficiently, and understand market threats (Ferreira & Coelho, 2020). SMEs with this ability will communicate, interpret, and analyze information and anticipate environmental changes better than their competitors.

Market sensing capability allows SMEs to observe market conditions and the surrounding environment. SMEs often have limited resources to use innovation as a corporate strategy (Ardayan, 2018), which is unfortunate because innovation is a strategic tool to deal with internal and external changes in the increasingly fierce market competition (D'Souza et al., 2022; Issau et al., 2021). SMEs with market sensing ability can observe market needs and trends to increase their product innovation (Likoum et al., 2020; Wahyono & Hutahayan, 2021). Market sensing is a learning process from collecting, interpreting, and evaluating information (Alshanty & Emeagwali, 2019; Ardayan, 2016). Companies that learn about their environment will be more innovative because they can use their knowledge capital and new information to improve their products (Kamarulzaman, Khairuddin, Hashim, & Hussin, 2021; Sugiyarti & Ardayan, 2017).

Innovation generally aims to develop highly marketable products (Heng et al., 2020). Therefore, companies must plan new concepts, products, and procedures, which requires readiness to change and adopt the latest technology and market trends (Al-Ansari, Pervan, & Xu, 2013; Yin & Li, 2023). Market knowledge is key because it allows companies to engage in new ideas, novelty, creative processes, and experiments that will create new products and services (Skålén, Gummerus, Von Koskull, & Magnusson, 2015). In other words, SMEs with market knowledge can follow the trend and create an innovation that suits the market. SMEs with market sensing capability tend to innovate their products more. They become more responsive and innovative as they continuously learn about their environment. They utilize the latest knowledge and information from market sensing to improve and develop new products. We thus propose our first hypothesis:

H1: Market sensing capability has a positive impact on product innovation capability

2.3 Market Sensing Capability and Competitive Advantage

Market sensing capabilities are important in gathering and filtering the information companies need in the business environment (Mulyana et al., 2020). This capability is needed for SMEs to identify and respond to changes to develop products that suit the market's needs and preferences (Dias & Lages, 2021), respond to customer needs, and anticipate competitors. SMEs with market sensing capabilities will create innovative products (Hoskins & Griffin, 2019). As such, they will survive, become more competitive, and can create more values (Aghazadeh, Beheshti Jazan Abadi, & Zandi, 2022; Ferdinand & Zuhroh, 2021; Sudarti & Masfufah, 2019).

Market sensing capabilities can also help identify market niches with unmet expectations (Silvia L Martin & Javalgi, 2016) and market segments underserved by competitors. It also helps companies recognize emerging markets, assess customer response, and design rapid market entry strategies (Falahat et al., 2021). Companies can also create a sustainable competitive advantage as market sensing allows companies to be aware of opportunities and threats (Likoum et al., 2020) by collecting and interpreting information (Sugiyarti et al., 2018). Information about consumer experience can be valuable material for deeper analysis to inform decision-making and increase competitiveness (Ferreira & Coelho, 2020).

Therefore, market sensing capability is important in gathering and filtering the information companies need from the business environment. This capability allows SMEs to sense and respond to changes that occur in the market so they can develop products that suit market needs and wants. Market sensing also helps identify competitors' underserved market segments. In sum, market sensing helps build a sustainable competitive advantage that makes companies aware of opportunities and threats. Therefore, the second hypothesis is:

H2: Market sensing capability has a positive impact on competitive advantage

2.4 Product Innovation Capability and Competitive Advantage

Product innovation capability can translate into value-added products that suit customers' needs, increasing companies' sustainable competitive advantage (Ferreira & Coelho, 2020). Innovation covers new ideas and products or services (Yin & Li, 2023). In rapidly changing market conditions, innovation is the key to survival (Seo, 2019). Exploiting new ideas successfully will allow a business to improve its processes, invent new and better products and services for the market, and increase efficiency and profitability (Al-Ansari et al., 2013). Companies need to develop product innovation to accommodate changes in consumer behavior and keep up with technological developments (Maldonado-Guzmán, Garza-Reyes, Pinzón-Castro, & Kumar, 2019). The innovation aims to fulfill consumer services and desires (Bouncken, Plüschke, Pesch, & Kraus, 2016). Innovation also allows businesses to enter or expand new markets and improve efficiency, competitive advantage, and profit (Quaye & Mensah, 2019). Product innovation is a strategy where companies work together to create a competitive advantage to dominate the existing and new markets (Rashidirad & Salimian, 2020).

Product innovation capability is often considered an asset that enables a company to achieve and maintain a competitive advantage. In this case, a company always tries to introduce new products timely and effectively to anticipate the increasing competition. Product innovation capability facilitates a company to apply technological advances properly to develop new products that meet market needs and thereby pre-empt threats from competition. The ability to innovate is essential to create a competitive advantage—the better the product innovation capability, the higher the competitive advantage.

We thus propose our third hypothesis as follows:

H3: Product innovation capability has a positive impact on competitive advantage

2.5 Competitive Advantage and Marketing Performance

Competitive advantage is customers' perceptions of a company's offering in a particular market. It is achieved when the offering is instilled in customers' minds more strongly than others (a superior value) (Ferreira & Coelho, 2020). It strongly indicates purchase intention, which directly contributes to good marketing performance (Aghazadeh et al., 2022). Regarding value, competitive advantage is when customers use the value created by producers, which meets their expectations. Meanwhile, good market performance is when the value captured by a seller is realized successfully and accepted by customers after the transaction (Davicik & Sharma, 2016). In a high-potential market, competitive advantage means generating customer demand from the company's offerings. The components of competitive advantage include cost and differentiation. Companies operating in a competitive environment are expected to excel in one component while achieving average industry levels in other components (Likoum et al., 2020). Meanwhile, product advantage refers to the competitive advantages of consumer goods in acquisition, delivery, and utilization (Healy, Ledwith, & O'Dwyer, 2014).

Companies' ability to create more value for their customers than their main competitors can help achieve superior performance in a competitive market (Bridson, Evans, Mavondo, & Minkiewicz, 2013). Researchers have examined this competitive advantage because it is considered a determinant of marketing performance (Kaleka & Morgan, 2017). Companies' achievements often depend on competitive advantage, reflected in various performance indicators. One of them is the proportion of market share or profit relative to competitors (Falihat et al., 2021). Companies that offer products and services with higher values to their customers will generate better purchase values than their competitors. In other words, the inherent advantages of innovative products and services are more significant than those of competitors (Silvia L. Martin, Javalgi, & Cavusgil, 2017).

Such product excellence drives product marketing success, and a company's positional advantage is essential in driving its marketing performance (Hendar, Ferdinand, & Nurhayati, 2017). Competitive advantage concerns customers' perception of the company's offering in a particular market. Companies with a competitive advantage occupy a privileged position in customers' minds, namely as creators of superior value. Therefore, competitive advantage can help a company improve its market performance (Ferdinand & Zuhroh, 2021). In terms of value, competitive advantage involves using the value created by sellers and consumers' expected use of value. Meanwhile, market performance depends on the value captured by sellers, and the realized exchange rate customers receive when an exchange occurs (Wong, 2012). Creating more value for customers than competitors in a competitive market can help a business achieve superior performance. Therefore, past research considers value creation as a determinant of marketing performance (Ahmadi, O'Cass, & Miles, 2014).

In brief, competitive advantage emerges from the values or benefits a company creates for its customers. Therefore, customers prefer to buy products with more value than they want or expect. Companies are successful if they can exceed consumers' expectations. They will have the power to compete with other companies because their products will continue to be demanded by customers. In other words, competitive advantage can help improve market performance. Maintaining and developing sources of competitive advantage will also maintain market performance. We thus propose our fourth hypothesis as follows:

H4: Competitive advantage has a positive impact on marketing performance

2.6 Product Innovation Capability and Marketing Performance

Product innovation capability shows a company's tendency to innovate or develop products (Wahyuni & Sara, 2020). Highly innovative companies are characterized by their ability to identify products or services and market opportunities, engineer new strategies, and strengthen existing strategies to respond to newly identified market

opportunities and take advantage of opportunities quickly (Deku et al., 2022). Product innovation capability affects marketing performance as innovation offers added value to buyers (Hiong et al., 2020; Wahyono & Hutahayan, 2021), who tend to choose products with more value than expected. Buyers purchase a product if they perceive its value for money is good (Sharma, Davcik, & Pillai, 2016). The positive impact of product innovation on marketing performance can be measured by profits, market share, sales volume, and return on investment (da Costa, Camargo, Toaldo, & Didonet, 2018). Innovative companies have the power to compete with other companies because their products are demanded by customers (Kamarulzaman et al., 2021). Product innovation has a positive influence on improving marketing performance (Najib & Kiminami, 2011).

Product innovation capability must be developed to attract consumers and to stay ahead of the curve arising from the market dynamics. Innovation must resonate with the consumers' needs, and the resulting innovative value must be instilled into the consumers' minds. Innovative products can be described as new products, new markets, and superior products that adapt to consumer needs. Product innovation aims to improve product performance. The success of product innovation is highly dependent on the company's ability to generate superior value to customers. Companies with a market-oriented culture understand the needs and wants of customers and use them as a basis for innovation. In other words, product innovation capability will boost performance and support marketing performance. Therefore, the fifth hypothesis is formulated as follows:

H5: Product innovation capability has a positive impact on marketing performance

2.7 Research Model

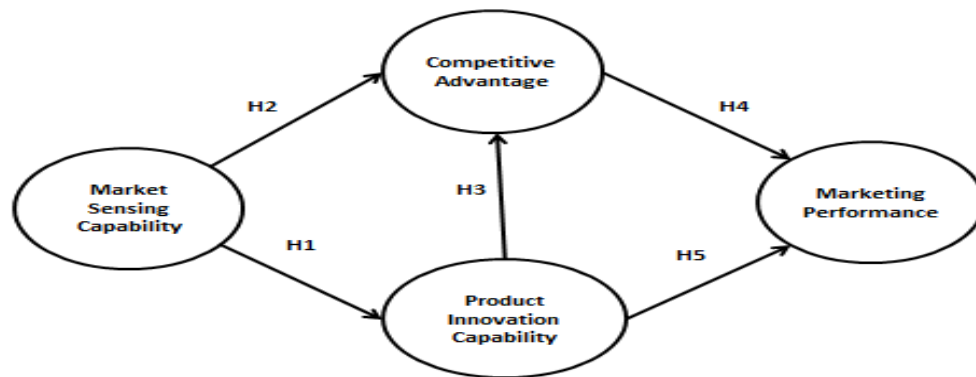


Fig. 1 The Research Model

(Source: Developed from the literature review for the current study, 2022)

3. Research Methods

3.1 Sample and Respondent

In this study, primary data were obtained directly from respondents through questionnaires, with questions arranged based on the variables to be responded to. Respondents were selected using probability sampling. The unit of analysis was food product SMEs, and the respondents were business owners, managers, owners, and managers of food product SMEs in Central Java, Indonesia. The population in this study is food product SMEs in Central Java. The sampling method selects a sufficient number of respondents to represent a population, ensuring that the research unit of analysis represents the population adequately.

This study uses structural equation modeling (SEM) with AMOS 23 as an analytic tool, so the sample determination must be fulfilled in the modeling. Based on the minimum SEM sample size with four variables and 17 indicators, this research uses a minimum sample of 100-300 (Hair, Black, Babin, & Anderson, 2019). This study uses as many as 338 samples to ensure the results are robust. The technique in this study used the probability technique with simple random sampling. This means that the technique disregards strata, and each member of the population has the same probability of being selected. The sample in this study was 338 food product SMEs in Central Java, Indonesia, consisting of business owners, managers, and owner cum managers of food product SMEs.

3.2 Method of Collecting Data

The research questionnaire consists of closed and open questions to ensure complete information. The rating used to answer the closed questions was a scale of 1-10, with 1 for strongly disagreeing and 10 for strongly agreeing. The measurement of the variable is presented in Table 1.

3.3 Measurement of Variable

Measurement of variables can be seen in Table 1

Table 1. Measurement of Variable

Variable	Operational Measurement	Source
Market Sensing Capability	<ul style="list-style-type: none"> • Ability to utilize market information • Ability to anticipate competitors' actions • Ability to understand market trends 	(Alshanty & Emeagwali, 2019; Ardyan, 2016; Sugiyarti et al., 2018)
Product Innovation Capability	<ul style="list-style-type: none"> • Ability to offer new ideas in the market • Ability to offer creative products • Ability to offer new products in the market • Ability to utilize the latest technology for product development • Ability to develop product variations 	(Ferreira & Coelho, 2020; Hiong et al., 2020; Maldonado-Guzmán et al., 2019)
Competitive Advantage	<ul style="list-style-type: none"> • Excellent product uniqueness • Superior product quality • Superior product pricing • Excellent product variety • Superior product selling power • Excellent product modification according to customers' needs 	(Falihat, Ramayah, Soto-Acosta, & Lee, 2020; Ferdinand & Zuhroh, 2021; Kaleka & Morgan, 2017)
Marketing Performance	<ul style="list-style-type: none"> • Sales growth • Subscriber growth • Sales volume 	(Ardyan, 2018; Gotteland, Shock, & Sarin, 2020; Mulyana et al., 2020)

3.4 Validity and Reliability

The validity was tested to ensure that the instrument or data collection tool captured the main target and the measurements. An instrument is valid if it can measure what it is supposed to measure and express what it wants. A

test is conducted to measure the validity of a questionnaire or an instrument. A questionnaire is valid if the questions can reveal data that the questionnaire will measure (Ghozali, 2018). Meanwhile, reliability is tested to ensure the consistency of the measurement results of a variable or a set of variables. Reliability is achieved when the results are repeatable, which means the exact measurements assess similar objects and tools at different times yield consistent results (Ghozali, 2018).

3.5 Analytic Tool

This study aims to prove and analyze the construction of a new model grounded in relevant theories. The analysis in this study examines the effect of exogenous variables on endogenous variables. These variables are latent variables formed by several indicators. Therefore, structural equation modeling (SEM) is used to analyze the data in this study. The technique uses AMOS version 23. SEM testing allows researchers to test the validity and reliability of research instruments, confirm model accuracy, and test the effect of a variable on other variables.

4. Results

4.1 Respondent Characteristic

The questionnaire consists of questions about the respondents' demographic data, i.e., gender, education, and positions in the company. The demographic data show that most respondents were women (69.82%). Regarding education, 57.39% were high school graduates, 40.24% had a bachelor's degree, 0.3% were junior high school graduates, 1.77% had a master's degree, and 0.3% had other qualifications. Regarding positions in the company, 86.98% of respondents were business owners and managers of SMEs, 10.65% were owners, and 2.37% were managers. Table 2 presents the respondents' data:

Table 2. Respondents' Data

Description	Frequency	Percentage
Gender		
Man	102	30.18
Woman	236	69.82
Total	338	100.0
Education		
Primary school	0	0
Junior High School	1	0.30
Senior High School	194	57.39
Bachelor's Degree	136	40.24
Master's Degree	6	1.77
Others	1	0.30
Total	338	100.0
Position		
Owner	36	10.65
Manager	8	2.37
Owner and manager	294	86.98
Total	338	100.0

Source: Processed primary data, 2022

4.2 Multicollinearity Testing

This study looks at data that AMOS has computed to check sample correlation and the existence of multicollinearity. The numbers between variables must have a criterion of less than 0.90 (Ghozali, 2018). Based on these provisions, it is concluded that the data shown in the Figure 2 meets these requirements. In other words, the data have no multicollinearity, which means feasible to use.

Sample Correlations (Group number 1)

	MP3	MP2	MP1	CA6	CA5	CA4	CA3	CA2	CA1	PIC1	PIC2	PIC3	PIC4	PIC5	MSC1	MSC2	MSC3
MP3	1,000																
MP2	,715	1,000															
MP1	,613	,616	1,000														
CA6	,277	,297	,299	1,000													
CA5	,261	,278	,298	,667	1,000												
CA4	,246	,257	,259	,637	,704	1,000											
CA3	,251	,273	,300	,647	,687	,651	1,000										
CA2	,288	,326	,317	,574	,606	,570	,590	1,000									
CA1	,375	,389	,361	,596	,657	,669	,620	,567	1,000								
PIC1	,358	,345	,385	,361	,293	,308	,363	,363	,376	1,000							
PIC2	,348	,331	,344	,380	,326	,349	,357	,322	,395	,647	1,000						
PIC3	,411	,383	,421	,308	,211	,291	,288	,324	,349	,648	,633	1,000					
PIC4	,375	,306	,387	,369	,283	,313	,353	,307	,349	,644	,650	,660	1,000				
PIC5	,373	,357	,397	,342	,223	,254	,260	,298	,296	,600	,613	,612	,618	1,000			
MSC1	,193	,225	,168	,294	,188	,317	,265	,194	,284	,259	,271	,308	,299	,276	1,000		
MSC2	,228	,285	,233	,340	,203	,305	,312	,320	,310	,302	,264	,321	,283	,284	,636	1,000	
MSC3	,242	,289	,195	,336	,243	,332	,305	,311	,312	,294	,253	,312	,279	,288	,644	,802	1,000

Condition number = 38,717

Eigenvalues
7,148 2,182 1,749 1,377 ,540 457 433 397 370 347 333 330 314 311 266 261 185

Fig.2 The Sample Correlations

4.3 Validity and Reliability Test

This study uses a construct reliability measurement technique with a required cut-off value of 0.70. In addition, the average variance extracted (AVE) value of higher than 0.50 must also be fulfilled (Ghozali, 2018). The results of the validity and reliability tests show that all items are valid with a loading factor greater than 0.5. All variables are valid with an AVE value greater than 0.5. All variables are reliable because they have a construct reliability of more than 0.7. Therefore, the validity of the reliability results in this study is acceptable. The details are presented in Table 3:

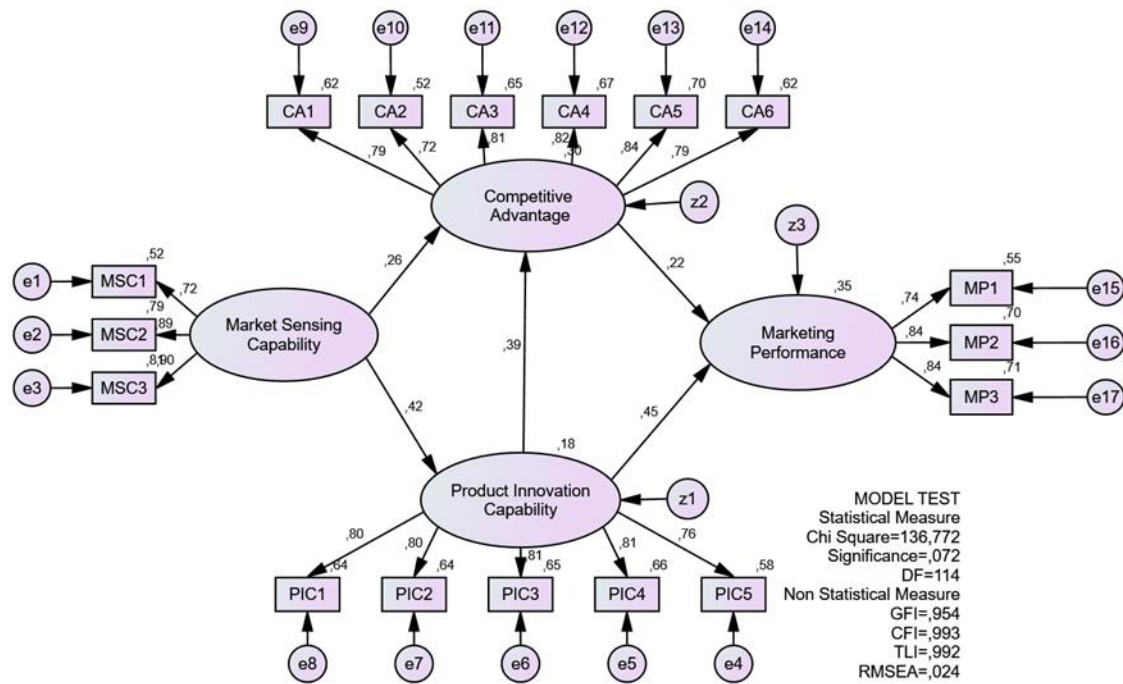
Table 3. Validity and Reliability Test Results

Variable, Indicator, and Reference	Std Loading	CV AVE ≥ 0.50	CR ≥ 0.70
Market Sensing Capability		0.706	0.877
• Ability to utilize market information	0.719		
• Ability to anticipate competitors' actions	0.889		
• Ability to understand market trends	0.900		
(Alshanty & Emeagwali, 2019; Ardyan, 2016; Sugiyarti et al., 2018)			

Variable, Indicator, and Reference	Std Loading	CV AVE ≥ 0.50	CR ≥ 0.70
Table 3. (Continued)			
Product Innovation Capability		0.632	0.896
• Ability to offer new ideas in the market	0.801		
• Ability to offer creative products	0.798		
• Ability to offer new products in the market	0.808		
• Ability to utilize the latest technology for product development	0.810		
• Ability to develop product variations	0.760		
(Ferreira & Coelho, 2020; Hiong et al., 2020; Maldonado-Guzmán et al., 2019)			
Competitive Advantage		0.613	0.907
• Excellence in product uniqueness	0.790		
• Superior in determining product quality	0.724		
• Superior in product pricing	0.807		
• Excellent in product variety	0.819		
• Superior in product selling power	0.837		
• Excellent in modifying products according to customer requirements	0.789		
(Falahat et al., 2020; Ferdinand & Zuhroh, 2021; Kaleka & Morgan, 2017)			
Marketing Performance		0.653	0.849
• Product sales target achieved in the last three years	0.744		
• Product supply has increased in the last three years	0.837		
• Our product sales area expanded in the last three years	0.841		
(Ardyan, 2018; Gotteland et al., 2020; Mulyana et al., 2020)			

4.4 Analysis and Statistic Results

SEM AMOS version 23 is used to test the proposed model and the proposed hypotheses. A statistical analysis of the goodness of fit for the proposed model was also conducted. The results show $\chi^2 = 136.772$, with a significance level of 0.072. The goodness of fit was found to be acceptable. The indices are GFI=0.954, CFI=0.993, TLI=0.992 and RMSEA= 0.024. This model evaluation procedure resulted in the acceptance of the model. Therefore, further analyses were carried out to test the hypotheses. Figure 3 shows the SEM Model results, and Table 4 shows the goodness of fit indices:



Source: Processed primary data, 2022

Fig. 3 The SEM Model

Table 4. The Goodness of Fit Indices

Parameter	Cut Off Points	Test Results	Interpretation
Goodness of Fit			
X ² -Chi-Square	139.920	136.772	Small value, with DF = 114, then the test result 136.772 is still smaller than the cut-off points (fit)
DF		114	
Probability	≥ 0.05	0.072	Fit
GFI	≥ 0.90	0.954	Fit
CFI	≥ 0.95	0.993	Fit
TLI	≥ 0.95	0.992	Fit
RMSEA	≤ 0.08	0.024	Fit

Source: Processed primary data, 2022

4.5 Hypothesis Testing

The test result of Hypothesis 1 shows that the effect of the market sensing capability on product innovation capability is accepted. The test result of Hypothesis 2 shows that the influence of market sensing capability on

competitive advantage is accepted. Likewise, Hypothesis 3 on the influence of product innovation capability on competitive advantage is also accepted. The same applied to Hypothesis 4, showing the influence of competitive advantage on marketing performance, and Hypothesis 5, showing the influence of product innovation capability on marketing performance. Table 5 shows the results of all hypothesis testing with the standardized regression weight and regression weight full model.

Table 5. Standardized Regression Weight & Regression Weight Full Model

	Standardized Estimate	Estimate	S.E.	C.R.	P	Evaluation
Market Sensing Capability → Product Innovation Capability	0.419	0.378	0.055	6.921	***	Accepted
Market Sensing Capability → Competitive Advantage	0.258	0.257	0.059	4.325	***	Accepted
Product Innovation Capability → Competitive Advantage	0.391	0.432	0.070	6.183	***	Accepted
Competitive Advantage → Marketing Performance	0.24	0.232	0.066	3.510	***	Accepted
Product Innovation Capability → Marketing Performance	0.451	0.515	0.080	6.460	***	Accepted

Source: Processed primary data, 2022

5. Discussion

This study proposes a conceptual model of the role of product innovation capability in improving marketing performance. The model aims to fill the gap in the literature by addressing the inconsistent findings from previous research, i.e., the role of market sensing capability in improving marketing performance. The analyses reveal several significant findings regarding how product innovation capability improves marketing performance. Testing the goodness of fit using the AMOS software has produced a fit structural equation model, as shown in the Figure Full Structural Equation Model. The structural equation model reveals the causality relationship values from the proposed hypotheses. The results of the five hypotheses' testing are positive and significant. Using a structural equation model with AMOS software, causality testing between variables generates five key findings.

First, market sensing capability significantly influences product innovation capability—the higher the market sensing capability, the higher the product innovation capability. This study's results confirm what has been found in previous studies, indicating how market sensing capability drives product innovation capability, including among SME owners (Alshanty & Emeagwali, 2019; Ardyan, 2016; Likoum et al., 2020; Skålén et al., 2015; Wahyono & Hutahayan, 2021). Therefore, market sensing is crucial to achieve product innovation capability.

Second, market sensing capability significantly influences competitive advantage—the higher the market sensing ability, the higher the competitive advantage. This study's results align with previous studies, indicating the importance of market sensing capability in increasing competitive advantage (Aghazadeh et al., 2022; Falahat et al., 2021; Ferdinand & Zuhroh, 2021; Ferreira & Coelho, 2020; Likoum et al., 2020; Sudarti & Masfufah, 2019; Sugiyarti et al., 2018). Competition among food businesses is expected to increase, so companies need to adapt their products to the needs of their market segments to retain their competitive advantage. The findings show that market sensing is crucial to achieving competitive advantage.

Third, product innovation capability significantly and positively influences competitive advantage—the higher the ability to innovate products, the higher the competitive advantage. The results align with previous studies, suggesting the importance of product innovation capability to increase competitive advantage (Al-Ansari et al., 2013; Ferreira & Coelho, 2020; Quaye & Mensah, 2019; Rashidirad & Salimian, 2020). Therefore, product innovation capability is needed to build a competitive advantage.

Fourth, competitive advantage significantly affects marketing performance—the higher the competitive advantage, the higher the marketing performance. The results align with previous studies, indicating the role of competitive advantage in improving marketing performance. Previous research has shown that superior value creation is essential to improve marketing performance (Aghazadeh et al., 2022; Bridson et al., 2013; Ferdinand & Zuhroh, 2021; Hendar et al., 2017; Kaleka & Morgan, 2017; O 'Cass, Heirati, & Ngo, 2014). Therefore, competitive advantage is a critical success factor of good marketing performance.

Finally, product innovation capability also significantly and positively influences marketing performance—the higher the ability to innovate products, the higher the marketing performance. These results confirm the results of previous studies, suggesting the importance of product innovation capability to improve marketing performance. Therefore, the ability to innovate on products reflects that one of the participatory ways of MSME owners is to improve marketing performance (da Costa et al., 2018; Hiong et al., 2020; Najib & Kiminami, 2011; Wahyono & Hutahayan, 2021). Therefore, the ability to innovate products contributes to the improvement of marketing performance.

6. Conclusion

This study examines the effect of market sensing capability on marketing performance and the role of product innovation capability as a mediating variable. The empirical evidence confirms the positive relationship between product innovation capability and marketing performance. A company's ability to create a new idea, product, or process can help achieve a competitive advantage through the creation of superior products. Product innovation capability also refers to the development of goods or services significantly different from a company's previous products. Such innovative products can increase a company's market performance. In other words, innovative capability can help maintain the value of a particular product for consumers. Product innovation capability that is continuously and intensively carried out will improve market performance. Therefore, product innovation capability should be a priority strategy to achieve competitive advantage.

7. Implications

7.1 Theoretical Implications

The findings of this study suggest theoretical implications of implementing service-dominant logic in SME management. First, SMEs require product innovation capability as the main capital of value creation and co-creation (Stephen L. Vargo & Lusch, 2017). Our findings show that innovation is not only needed by big companies to stay ahead of the competition through value co-creation but can also be applied in SME management as a value

accentuation process. Service-dominant logic suggests that SMEs continue to innovate, even on a modest scale. Innovation can be the key to success as long as it provides added value to customers due to the co-creation process, value accentuation, and part of value articulation. Value delivery is balancing capabilities in product innovation that will affect competitive advantage.

This study has provided empirical evidence on why SMEs should adopt the service-dominant logic philosophy to improve marketing performance. In addition, the findings offer originality and novelty by showing the role of product innovation capability as a mediating variable and the use of service-dominant logic. We address the gap between market sensing capability and marketing performance by adopting the service-dominant logic as an approach. This approach provides a strong theoretical basis to bridge market sensing capability and marketing performance. It provides insight into the importance of creating shared value for stakeholders through innovation capability that increases value and provides a competitive advantage. The resulting value and product-market good fit will be the levers for success.

7.2 Managerial Implications

The findings of this study indicate that increasing product innovation capability is mandatory. First, SMEs are expected to always be active in creating and offering new ideas according to market trends. Second, SMEs are expected to stay innovative in creating food products in terms of both taste and packaging. Third, SMEs must be the first to offer new products. Fourth, SMEs must utilize the latest technology in the food industry to develop innovative and new variations. Product innovation capability can be encouraged from a company's side by highlighting the innovative value and, more importantly, from a consumer's side, by providing products that fulfill the value sought.

8. Research Limitations and Future Research Agenda

As has been the case with other studies, this study has several limitations. The effect of the competitive advantage in explaining marketing performance variables is 22%, indicating the need to add more relevant variables to improve marketing performance. Therefore, future research must add other significant variables to improve marketing performance. Interviews or observations could also be used in addition to questionnaires to collect more robust data from food SMEs. Thus, the data collected will describe the condition of the object and subject more comprehensively.

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Dear Professor Khasanah,

We have received your revision of **"The Roles of Product Innovation Capability in Marketing Performance"** (JDE manuscript number 062-0423). We are pleased to inform you that, based on the improvements in your revised paper, that we are able to accept it for publication in the *Journal of Developmental Entrepreneurship*. Congratulations. Could you kindly send me a version of the paper in WORD (not PDF) as soon as possible? It will be copyedited and formatted for the journal. You will receive page proofs in the coming weeks. We will need and final corrections and answers to any inquiries within 48 hours your receipt of the page proofs. Please let me know if you have any questions.

Sincerely,

Michael Morris and Susana Santos, Co-editors, JDE

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Revision 2

THE ROLES OF PRODUCT INNOVATION CAPABILITY IN MARKETING PERFORMANCE

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This study examines the role of product innovation capability in mediating the effect of market sensing capability on marketing performance. The sample data consist of 338 SMEs in the food product industry in Central Java, Indonesia. A model consisting of five hypotheses was proposed and tested. The statistical tests cover variables: market sensing capability, product innovation capability, competitive advantage, and marketing performance. Structural Equation Modeling (SEM AMOS 23) was used in the model and hypotheses testing. The results show that the five hypotheses have a positive and significant effect. Product innovation capability has the greatest influence on marketing performance, suggesting its important role in improving marketing performance. The results suggest that in increasing product innovation capability, SMEs must perpetually create and offer new ideas by considering market trends. Second, SMEs must be innovative in creating new food products in terms of both taste and packaging. Third, SMEs need to be the first to offer new products. Finally, SMEs must utilize the advancement of technology to develop food products and their variations.

Keywords: Market sensing capability; product innovation capability; competitive advantage; marketing performance

2. Introduction

Small and medium enterprises (SMEs) are key to economic growth, especially in developing countries (Ardyan, 2016). However, the dynamic and competitive market environment makes it challenging for SMEs to maintain marketing performance (Sugiyarti, Ferdinand, & Nurchayati, 2018). Surviving and thriving in competition requires well-planned marketing strategies because they determine profit generation (D'Souza, Nanere, Marimuthu, Arwani, & Nguyen, 2022). In addition, companies need to define their competitive advantage (Falihat, Soto-Acosta, & Ramayah, 2021).

In Indonesia, SMEs are growing rapidly, especially in the food product industry. The steady increase in the number of business units every year indicates promising business opportunities (Hutahayan, 2019). Like businesses of any scale, SMEs need market sensing to improve their marketing performance (Mulyana, Hendar, Zulfa, & Ratnawati, 2020), which is essentially the ability to respond appropriately to market changes. If SMEs can sense market environments accurately, they can see market needs, trends, and changes (Likoum, Shamout, Harazneh, & Abubakar, 2020). Therefore, market sensing will improve SMEs' marketing performance (Wahyono & Hutahayan, 2021).

Innovation is another critical factor for a business to survive in a competitive environment. Product innovation and commercialization can contribute to sustainable competitive advantage, eventually increasing company growth and profitability (Heng, Ferdinand, Afifah, & Ramadania, 2020). Innovative capability is closely related to market

sensing capability, with those who observe market conditions and the environment becoming more innovative. This is because research and observations from market sensing will motivate companies to utilize the latest knowledge and information to improve or develop new products. In this case, innovation often aims to create something new and interesting to attract more consumers (Deku, Wang, & Das, 2022). It is part of a company's strategy to collaborate and create an optimum competitive advantage in the market. The ability to create more value for customers will allow an innovative company to stay ahead of its main competitors, achieve superior performance, and dominate any existing or new markets. With such creation of competitive advantage, innovation also improves a company's marketing performance (Issau, Acquah, Gnankob, & Hamidu, 2021).

Past research has examined the relationship between market sensing capability and marketing performance, but the findings have gaps and inconsistencies. Most studies have shown that market sensing capability drives marketing performance (Alshanty & Emeagwali, 2019; Dias & Lages, 2021; Fang, Chang, Ou, & Chou, 2014; Likoum et al., 2020; Mulyana et al., 2020; Sudarti & Masfufah, 2019). However, other studies have also shown that the impact of market sensing on marketing performance is negligible, if not non-existent (Ardayan, 2016; Miocevic & Morgan, 2018; Sugiyarti & Ardayan, 2017). Such inconsistencies warrant further exploration.

This study aims to address these inconsistencies by testing the role of market sensing capability in improving marketing performance. The service-dominant logic theory is used in this study with the following considerations. First, the theory believes that no matter how good a product is and how much value is attached to it, if that value cannot be conveyed properly and instilled in the customers' memory, the product will fail in the market. Second, in a competitive market, a value has the potential to become a market attractor (a superior value perceived by customers), so it can be utilized to improve performance. Based on this logic, we developed a research model consisting of market sensing capability, product innovation capability, competitive advantage, and marketing performance variables.

This study proposes a conceptual model of how product innovation capability improves SMEs' marketing performance. The model developed in this study was piloted on SMEs in the food industry in Central Java, Indonesia. The research location was selected for two reasons. First, the SMEs focusing on food products are key players in the economy, and their products are high quality. Second, the problem faced by the food product businesses is how to properly implement product innovation capabilities to improve their marketing performance.

2. Literature Review and Hypothesis Development

2.1 Service-Dominant Logic

Service-dominant logic focuses on the value to be produced or offered to customers (value-driven services). Customers are active participants in the value-creation process. The relationship between a company and its customers is collaborative, where customers are considered co-creator, not passive recipients of value created for them (Stephen L Vargo & Lusch, 2004). Service-dominant logic, with its customer-driven value (Stephen L Vargo, Maglio, & Akaka, 2008), is the basis for common marketing thinking and practices. From a company perspective, especially in marketing activities to create value for customers (Robert F Lusch & Vargo, 2014), market sensing is essential to bringing market and customer knowledge into the company's decision-making (Jaworski & Kohli, 2014).

Service-dominant logic highlights the importance of creating shared value for stakeholders. It activates product innovation capability to increase value and create a competitive advantage (Robert F. Lusch, Vargo, & O'Brien, 2007), which determines good marketing performance (Ardayan, 2016). In other words, service-dominant logic contributes to the improvement of marketing performance (Stephen L. Vargo & Lusch, 2017). Therefore, service-

dominant logic can help SMEs navigate a competitive market. It will provide a solid foundation for implementing product innovation, building a competitive advantage, and achieving superior performance (Ferdinand & Zuhroh, 2021).

One of the marketing targets is to create sought-after values in the changing market conditions and follow the trends of customer needs, especially when changes are fast and unpredictable. Ensuring business sustainability means companies must create well-suited values (Stephen L Vargo & Lusch, 2004) and market them. Notably, such value creation depends on the innovation ecosystem within the organization. A fully supported innovation ecosystem will facilitate design and value creation. A good innovation ecosystem in an organization can prompt and nurture innovative ideas and their implementation in the target market (Adner & Kapoor, 2010). Companies can leverage people's creativity, combine the values generated, and instill them in the minds of the consumers. In other words, the process and quality of innovation are directed to value creation and co-creation centered on consumers (Ballantyne, Frow, Varey, & Payne, 2011). A value can reach optimum suitability if a company has developed and continues to develop its innovation ability. This can be done through organizational culture from the research and development practices (Heng et al., 2020). The indicator of success is the development of patents and new products and the creation of new value. It can also be seen in the ability to configure value beyond the existing content or effort to experiment and discover new products or services (Hiong, Ferdinand, & Listiana, 2020).

2.2 Market Sensing Capability and Product Innovation Capability

Market sensing capability is a process of generalizing knowledge about the market to inform a company's decision-making (Sugiyarti et al., 2018). This ability is an important part of learning about consumers, competitors, and other parties in the business environment (Ferdinand & Fitriani, 2015). This capability enables companies to monitor the market continuously, find market opportunities efficiently, and understand market threats (Ferreira & Coelho, 2020). SMEs with this ability will communicate, interpret, and analyze information and anticipate environmental changes better than their competitors.

Market sensing capability allows SMEs to observe market conditions and the surrounding environment. SMEs often have limited resources to use innovation as a corporate strategy (Ardayan, 2018), which is unfortunate because innovation is a strategic tool to deal with internal and external changes in the increasingly fierce market competition (D'Souza et al., 2022; Issau et al., 2021). SMEs with market sensing ability can observe market needs and trends to increase their product innovation (Likoum et al., 2020; Wahyono & Hutahayan, 2021). Market sensing is a learning process from collecting, interpreting, and evaluating information (Alshanty & Emeagwali, 2019; Ardayan, 2016). Companies that learn about their environment will be more innovative because they can use their knowledge capital and new information to improve their products (Kamarulzaman, Khairuddin, Hashim, & Hussin, 2021; Sugiyarti & Ardayan, 2017).

Innovation generally aims to develop highly marketable products (Heng et al., 2020). Therefore, companies must plan new concepts, products, and procedures, which requires readiness to change and adopt the latest technology and market trends (Al-Ansari, Pervan, & Xu, 2013; Yin & Li, 2023). Market knowledge is key because it allows companies to engage in new ideas, novelty, creative processes, and experiments that will create new products and services (Skålén, Gummerus, Von Koskull, & Magnusson, 2015). In other words, SMEs with market knowledge can follow the trend and create an innovation that suits the market. SMEs with market sensing capability tend to innovate their products more. They become more responsive and innovative as they continuously learn about their environment. They utilize the latest knowledge and information from market sensing to improve and develop new products. We thus propose our first hypothesis:

H1: Market sensing capability has a positive impact on product innovation capability

2.3 Market Sensing Capability and Competitive Advantage

Market sensing capabilities are important in gathering and filtering the information companies need in the business environment (Mulyana et al., 2020). This capability is needed for SMEs to identify and respond to changes to develop products that suit the market's needs and preferences (Dias & Lages, 2021), respond to customer needs, and anticipate competitors. SMEs with market sensing capabilities will create innovative products (Hoskins & Griffin, 2019). As such, they will survive, become more competitive, and can create more values (Aghazadeh, Beheshti Jazan Abadi, & Zandi, 2022; Ferdinand & Zuhroh, 2021; Sudarti & Masfufah, 2019).

Market sensing capabilities can also help identify market niches with unmet expectations (Silvia L Martin & Javalgi, 2016) and market segments underserved by competitors. It also helps companies recognize emerging markets, assess customer response, and design rapid market entry strategies (Falahat et al., 2021). Companies can also create a sustainable competitive advantage as market sensing allows companies to be aware of opportunities and threats (Likoum et al., 2020) by collecting and interpreting information (Sugiyarti et al., 2018). Information about consumer experience can be valuable material for deeper analysis to inform decision-making and increase competitiveness (Ferreira & Coelho, 2020).

Therefore, market sensing capability is important in gathering and filtering the information companies need from the business environment. This capability allows SMEs to sense and respond to changes that occur in the market so they can develop products that suit market needs and wants. Market sensing also helps identify competitors' underserved market segments. In sum, market sensing helps build a sustainable competitive advantage that makes companies aware of opportunities and threats. Therefore, the second hypothesis is:

H2: Market sensing capability has a positive impact on competitive advantage

2.4 Product Innovation Capability and Competitive Advantage

Product innovation capability can translate into value-added products that suit customers' needs, increasing companies' sustainable competitive advantage (Ferreira & Coelho, 2020). Innovation covers new ideas and products or services (Yin & Li, 2023). In rapidly changing market conditions, innovation is the key to survival (Seo, 2019). Exploiting new ideas successfully will allow a business to improve its processes, invent new and better products and services for the market, and increase efficiency and profitability (Al-Ansari et al., 2013). Companies need to develop product innovation to accommodate changes in consumer behavior and keep up with technological developments (Maldonado-Guzmán, Garza-Reyes, Pinzón-Castro, & Kumar, 2019). The innovation aims to fulfill consumer services and desires (Bouncken, Plüschke, Pesch, & Kraus, 2016). Innovation also allows businesses to enter or expand new markets and improve efficiency, competitive advantage, and profit (Quaye & Mensah, 2019). Product innovation is a strategy where companies work together to create a competitive advantage to dominate the existing and new markets (Rashidirad & Salimian, 2020).

Product innovation capability is often considered an asset that enables a company to achieve and maintain a competitive advantage. In this case, a company always tries to introduce new products timely and effectively to anticipate the increasing competition. Product innovation capability facilitates a company to apply technological advances properly to develop new products that meet market needs and thereby pre-empt threats from competition. The ability to innovate is essential to create a competitive advantage—the better the product innovation capability, the higher the competitive advantage.

We thus propose our third hypothesis as follows:

H3: Product innovation capability has a positive impact on competitive advantage

2.5 Competitive Advantage and Marketing Performance

Competitive advantage is customers' perceptions of a company's offering in a particular market. It is achieved when the offering is instilled in customers' minds more strongly than others (a superior value) (Ferreira & Coelho, 2020). It strongly indicates purchase intention, which directly contributes to good marketing performance (Aghazadeh et al., 2022). Regarding value, competitive advantage is when customers use the value created by producers, which meets their expectations. Meanwhile, good market performance is when the value captured by a seller is realized successfully and accepted by customers after the transaction (Davicik & Sharma, 2016). In a high-potential market, competitive advantage means generating customer demand from the company's offerings. The components of competitive advantage include cost and differentiation. Companies operating in a competitive environment are expected to excel in one component while achieving average industry levels in other components (Likoum et al., 2020). Meanwhile, product advantage refers to the competitive advantages of consumer goods in acquisition, delivery, and utilization (Healy, Ledwith, & O'Dwyer, 2014).

Companies' ability to create more value for their customers than their main competitors can help achieve superior performance in a competitive market (Bridson, Evans, Mavondo, & Minkiewicz, 2013). Researchers have examined this competitive advantage because it is considered a determinant of marketing performance (Kaleka & Morgan, 2017). Companies' achievements often depend on competitive advantage, reflected in various performance indicators. One of them is the proportion of market share or profit relative to competitors (Falahat et al., 2021). Companies that offer products and services with higher values to their customers will generate better purchase values than their competitors. In other words, the inherent advantages of innovative products and services are more significant than those of competitors (Silvia L. Martin, Javalgi, & Cavusgil, 2017).

Such product excellence drives product marketing success, and a company's positional advantage is essential in driving its marketing performance (Hendar, Ferdinand, & Nurhayati, 2017). Competitive advantage concerns customers' perception of the company's offering in a particular market. Companies with a competitive advantage occupy a privileged position in customers' minds, namely as creators of superior value. Therefore, competitive advantage can help a company improve its market performance (Ferdinand & Zuhroh, 2021). In terms of value, competitive advantage involves using the value created by sellers and consumers' expected use of value. Meanwhile, market performance depends on the value captured by sellers, and the realized exchange rate customers receive when an exchange occurs (Wong, 2012). Creating more value for customers than competitors in a competitive market can help a business achieve superior performance. Therefore, past research considers value creation as a determinant of marketing performance (Ahmadi, O'Cass, & Miles, 2014).

In brief, competitive advantage emerges from the values or benefits a company creates for its customers. Therefore, customers prefer to buy products with more value than they want or expect. Companies are successful if they can exceed consumers' expectations. They will have the power to compete with other companies because their products will continue to be demanded by customers. In other words, competitive advantage can help improve market performance. Maintaining and developing sources of competitive advantage will also maintain market performance. We thus propose our fourth hypothesis as follows:

H4: Competitive advantage has a positive impact on marketing performance

2.6 Product Innovation Capability and Marketing Performance

Product innovation capability shows a company's tendency to innovate or develop products (Wahyuni & Sara, 2020). Highly innovative companies are characterized by their ability to identify products or services and market opportunities, engineer new strategies, and strengthen existing strategies to respond to newly identified market

opportunities and take advantage of opportunities quickly (Deku et al., 2022). Product innovation capability affects marketing performance as innovation offers added value to buyers (Hiong et al., 2020; Wahyono & Hutahayan, 2021), who tend to choose products with more value than expected. Buyers purchase a product if they perceive its value for money is good (Sharma, Davcik, & Pillai, 2016). The positive impact of product innovation on marketing performance can be measured by profits, market share, sales volume, and return on investment (da Costa, Camargo, Toaldo, & Didonet, 2018). Innovative companies have the power to compete with other companies because their products are demanded by customers (Kamarulzaman et al., 2021). Product innovation has a positive influence on improving marketing performance (Najib & Kiminami, 2011).

Product innovation capability must be developed to attract consumers and to stay ahead of the curve arising from the market dynamics. Innovation must resonate with the consumers' needs, and the resulting innovative value must be instilled into the consumers' minds. Innovative products can be described as new products, new markets, and superior products that adapt to consumer needs. Product innovation aims to improve product performance. The success of product innovation is highly dependent on the company's ability to generate superior value to customers. Companies with a market-oriented culture understand the needs and wants of customers and use them as a basis for innovation. In other words, product innovation capability will boost performance and support marketing performance. Therefore, the fifth hypothesis is formulated as follows:

H5: Product innovation capability has a positive impact on marketing performance

2.7 Research Model

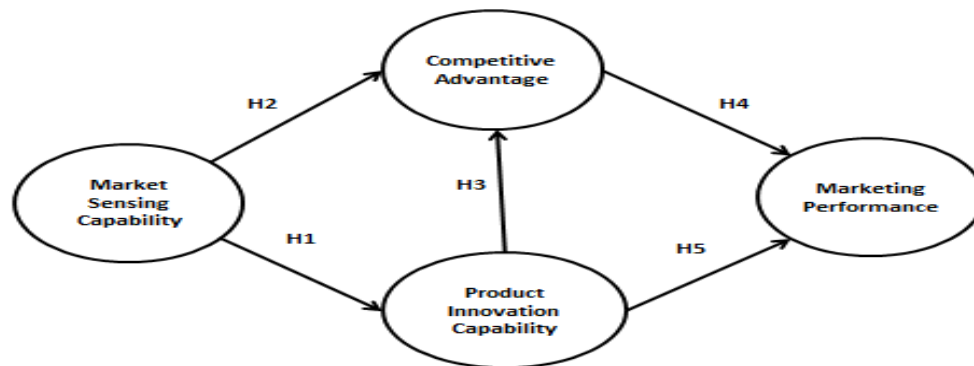


Fig. 1 The Research Model

(Source: Developed from the literature review for the current study, 2022)

3. Research Methods

3.1 Sample and Respondent

In this study, primary data were obtained directly from respondents through questionnaires, with questions arranged based on the variables to be responded to. Respondents were selected using probability sampling. The unit of analysis was food product SMEs, and the respondents were business owners, managers, owners, and managers of food product SMEs in Central Java, Indonesia. The population in this study is food product SMEs in Central Java. The sampling method selects a sufficient number of respondents to represent a population, ensuring that the research unit of analysis represents the population adequately.

This study uses structural equation modeling (SEM) with AMOS 23 as an analytic tool, so the sample determination must be fulfilled in the modeling. Based on the minimum SEM sample size with four variables and 17 indicators, this research uses a minimum sample of 100-300 (Hair, Black, Babin, & Anderson, 2019). This study uses as many as 338 samples to ensure the results are robust. The technique in this study used the probability technique with simple random sampling. This means that the technique disregards strata, and each member of the population has the same probability of being selected. The sample in this study was 338 food product SMEs in Central Java, Indonesia, consisting of business owners, managers, and owner cum managers of food product SMEs.

3.2 Method of Collecting Data

The research questionnaire consists of closed and open questions to ensure complete information. The rating used to answer the closed questions was a scale of 1-10, with 1 for strongly disagreeing and 10 for strongly agreeing. The measurement of the variable is presented in Table 1.

3.3 Measurement of Variable

Measurement of variables can be seen in Table 1

Table 1. Measurement of Variable

Variable	Operational Measurement	Source
Market Sensing Capability	<ul style="list-style-type: none"> • Ability to utilize market information • Ability to anticipate competitors' actions • Ability to understand market trends 	(Alshanty & Emeagwali, 2019; Ardyan, 2016; Sugiyarti et al., 2018)
Product Innovation Capability	<ul style="list-style-type: none"> • Ability to offer new ideas in the market • Ability to offer creative products • Ability to offer new products in the market • Ability to utilize the latest technology for product development • Ability to develop product variations 	(Ferreira & Coelho, 2020; Hiong et al., 2020; Maldonado-Guzmán et al., 2019)
Competitive Advantage	<ul style="list-style-type: none"> • Excellent product uniqueness • Superior product quality • Superior product pricing • Excellent product variety • Superior product selling power • Excellent product modification according to customers' needs 	(Falihat, Ramayah, Soto-Acosta, & Lee, 2020; Ferdinand & Zuhroh, 2021; Kaleka & Morgan, 2017)
Marketing Performance	<ul style="list-style-type: none"> • Sales growth • Subscriber growth • Sales volume 	(Ardyan, 2018; Gotteland, Shock, & Sarin, 2020; Mulyana et al., 2020)

3.4 Validity and Reliability

The validity was tested to ensure that the instrument or data collection tool captured the main target and the measurements. An instrument is valid if it can measure what it is supposed to measure and express what it wants. A test is conducted to measure the validity of a questionnaire or an instrument. A questionnaire is valid if the questions can reveal data that the questionnaire will measure (Ghozali, 2018). Meanwhile, reliability is tested to ensure the consistency of the measurement results of a variable or a set of variables. Reliability is achieved when the results are repeatable, which means the exact measurements assess similar objects and tools at different times yield consistent results (Ghozali, 2018).

3.5 Analytic Tool

This study aims to prove and analyze the construction of a new model grounded in relevant theories. The analysis in this study examines the effect of exogenous variables on endogenous variables. These variables are latent variables formed by several indicators. Therefore, structural equation modeling (SEM) is used to analyze the data in this study. The technique uses AMOS version 23. SEM testing allows researchers to test the validity and reliability of research instruments, confirm model accuracy, and test the effect of a variable on other variables.

4. Results

4.1 Respondent Characteristic

The questionnaire consists of questions about the respondents' demographic data, i.e., gender, education, and positions in the company. The demographic data show that most respondents were women (69.82%). Regarding education, 57.39% were high school graduates, 40.24% had a bachelor's degree, 0.3% were junior high school graduates, 1.77% had a master's degree, and 0.3% had other qualifications. Regarding positions in the company, 86.98% of respondents were business owners and managers of SMEs, 10.65% were owners, and 2.37% were managers. Table 2 presents the respondents' data:

Table 2. Respondents' Data

Description	Frequency	Percentage
Gender		
Man	102	30.18
Woman	236	69.82
Total	338	100.0
Education		
Primary school	0	0
Junior High School	1	0.30
Senior High School	194	57.39
Bachelor's Degree	136	40.24
Master's Degree	6	1.77
Others	1	0.30
Total	338	100.0
Position		
Owner	36	10.65
Manager	8	2.37
Owner and manager	294	86.98
Total	338	100.0

Source: Processed primary data, 2022

4.2 Multicollinearity Testing

This study looks at data that AMOS has computed to check sample correlation and the existence of multicollinearity. The numbers between variables must have a criterion of less than 0.90 (Ghozali, 2018). Based on these provisions, it is concluded that the data shown in the Figure 2 meets these requirements. In other words, the data have no multicollinearity, which means feasible to use.

Sample Correlations (Group number 1)

	MP3	MP2	MP1	CA6	CA5	CA4	CA3	CA2	CA1	PIC1	PIC2	PIC3	PIC4	PIC5	MSC1	MSC2	MSC3
MP3	1,000																
MP2	,715	1,000															
MP1	,613	,616	1,000														
CA6	,277	,297	,299	1,000													
CA5	,261	,278	,298	,667	1,000												
CA4	,246	,257	,259	,637	,704	1,000											
CA3	,251	,273	,300	,647	,687	,651	1,000										
CA2	,288	,326	,317	,574	,606	,570	,590	1,000									
CA1	,375	,389	,361	,596	,657	,669	,620	,567	1,000								
PIC1	,358	,345	,385	,361	,293	,308	,363	,363	,376	1,000							
PIC2	,348	,331	,344	,380	,326	,349	,357	,322	,395	,647	1,000						
PIC3	,411	,383	,421	,308	,211	,291	,288	,324	,349	,648	,633	1,000					
PIC4	,375	,306	,387	,369	,283	,313	,353	,307	,349	,644	,650	,660	1,000				
PIC5	,373	,357	,397	,342	,223	,254	,260	,298	,296	,600	,613	,612	,618	1,000			
MSC1	,193	,225	,168	,294	,188	,317	,265	,194	,284	,259	,271	,308	,299	,276	1,000		
MSC2	,228	,285	,233	,340	,203	,305	,312	,320	,310	,302	,264	,321	,283	,284	,636	1,000	
MSC3	,242	,289	,195	,336	,243	,332	,305	,311	,312	,294	,253	,312	,279	,288	,644	,802	1,000

Condition number = 38,717

Eigenvalues
7,148 2,182 1,749 1,377 ,540 ,457 ,433 ,397 ,370 ,347 ,333 ,330 ,314 ,311 ,266 ,261 ,185

Fig.2 The Sample Correlations

4.3 Validity and Reliability Test

This study uses a construct reliability measurement technique with a required cut-off value of 0.70. In addition, the average variance extracted (AVE) value of higher than 0.50 must also be fulfilled (Ghozali, 2018). The results of the validity and reliability tests show that all items are valid with a loading factor greater than 0.5. All variables are valid with an AVE value greater than 0.5. All variables are reliable because they have a construct reliability of more

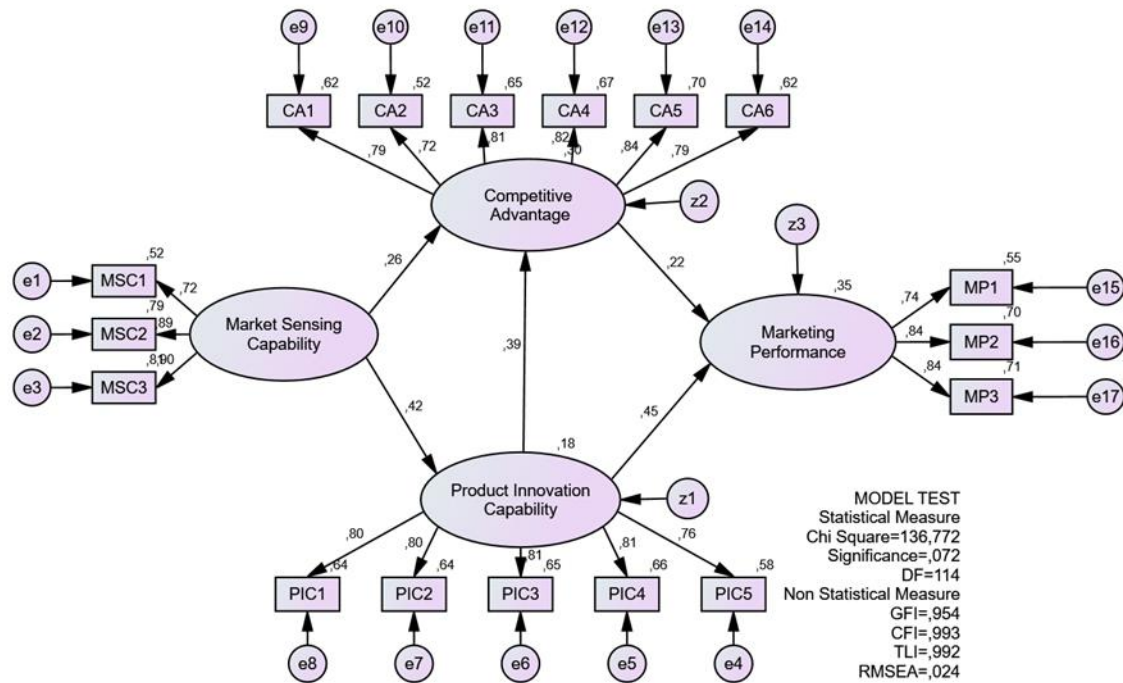
than 0.7. Therefore, the validity of the reliability results in this study is acceptable. The details are presented in Table 3:

Table 3. Validity and Reliability Test Results

Variable, Indicator, and Reference	Std Loading	CV AVE ≥ 0.50	CR ≥ 0.70
Market Sensing Capability		0.706	0.877
• Ability to utilize market information	0.719		
• Ability to anticipate competitors' actions	0.889		
• Ability to understand market trends	0.900		
(Alshanty & Emeagwali, 2019; Ardyan, 2016; Sugiyarti et al., 2018)			
Variable, Indicator, and Reference	Std Loading	CV AVE ≥ 0.50	CR ≥ 0.70
Table 3. (Continued)			
Product Innovation Capability		0.632	0.896
• Ability to offer new ideas in the market	0.801		
• Ability to offer creative products	0.798		
• Ability to offer new products in the market	0.808		
• Ability to utilize the latest technology for product development	0.810		
• Ability to develop product variations	0.760		
(Ferreira & Coelho, 2020; Hiong et al., 2020; Maldonado-Guzmán et al., 2019)			
Competitive Advantage		0.613	0.907
• Excellence in product uniqueness	0.790		
• Superior in determining product quality	0.724		
• Superior in product pricing	0.807		
• Excellent in product variety	0.819		
• Superior in product selling power	0.837		
• Excellent in modifying products according to customer requirements	0.789		
(Falihat et al., 2020; Ferdinand & Zuhroh, 2021; Kaleka & Morgan, 2017)			
Marketing Performance		0.653	0.849
• Product sales target achieved in the last three years	0.744		
• Product supply has increased in the last three years	0.837		
• Our product sales area expanded in the last three years	0.841		
(Ardyan, 2018; Gotteland et al., 2020; Mulyana et al., 2020)			

4.4 Analysis and Statistic Results

SEM AMOS version 23 is used to test the proposed model and the proposed hypotheses. A statistical analysis of the goodness of fit for the proposed model was also conducted. The results show $\chi^2 = 136.772$, with a significance level of 0.072. The goodness of fit was found to be acceptable. The indices are GFI=0.954, CFI=0.993, TLI=0.992 and RMSEA= 0.024. This model evaluation procedure resulted in the acceptance of the model. Therefore, further analyses were carried out to test the hypotheses. Figure 3 shows the SEM Model results, and Table 4 shows the goodness of fit indices:



Source: Processed primary data, 2022

Fig. 3 The SEM Model

Table 4. The Goodness of Fit Indices

Parameter	Cut Off Points	Test Results	Interpretation
Goodness of Fit			
X ² -Chi-Square	139.920	136.772	Small value, with DF = 114, then the test result 136.772 is still smaller than the cut-off points (fit)
DF		114	
Probability	≥ 0.05	0.072	Fit
GFI	≥ 0.90	0.954	Fit
CFI	≥ 0.95	0.993	Fit
TLI	≥ 0.95	0.992	Fit
RMSEA	≤ 0.08	0.024	Fit

Source: Processed primary data, 2022

4.5 Hypothesis Testing

The test result of Hypothesis 1 shows that the effect of the market sensing capability on product innovation capability is accepted. The test result of Hypothesis 2 shows that the influence of market sensing capability on competitive advantage is accepted. Likewise, Hypothesis 3 on the influence of product innovation capability on competitive advantage is also accepted. The same applied to Hypothesis 4, showing the influence of competitive advantage on marketing performance, and Hypothesis 5, showing the influence of product innovation capability on marketing performance. Table 5 shows the results of all hypothesis testing with the standardized regression weight and regression weight full model.

Table 5. Standardized Regression Weight & Regression Weight Full Model

	Standardized Estimate	Estimate	S.E.	C.R.	P	Evaluation
Market Sensing Capability → Product Innovation Capability	0.419	0.378	0.055	6.921	***	Accepted
Market Sensing Capability → Competitive Advantage	0.258	0.257	0.059	4.325	***	Accepted
Product Innovation Capability → Competitive Advantage	0.391	0.432	0.070	6.183	***	Accepted
Competitive Advantage → Marketing Performance	0.24	0.232	0.066	3.510	***	Accepted
Product Innovation Capability → Marketing Performance	0.451	0.515	0.080	6.460	***	Accepted

Source: Processed primary data, 2022

5. Discussion

This study proposes a conceptual model of the role of product innovation capability in improving marketing performance. The model aims to fill the gap in the literature by addressing the inconsistent findings from previous research, i.e., the role of market sensing capability in improving marketing performance. The analyses reveal several significant findings regarding how product innovation capability improves marketing performance. Testing the goodness of fit using the AMOS software has produced a fit structural equation model, as shown in the Figure Full Structural Equation Model. The structural equation model reveals the causality relationship values from the proposed hypotheses. The results of the five hypotheses' testing are positive and significant. Using a structural equation model with AMOS software, causality testing between variables generates five key findings.

First, market sensing capability significantly influences product innovation capability—the higher the market sensing capability, the higher the product innovation capability. This study's results confirm what has been found in previous studies, indicating how market sensing capability drives product innovation capability, including among SME owners (Alshanty & Emeagwali, 2019; Ardyan, 2016; Likoum et al., 2020; Skâlen et al., 2015; Wahyono & Hutahayan, 2021). Therefore, market sensing is crucial to achieve product innovation capability.

Second, market sensing capability significantly influences competitive advantage—the higher the market sensing ability, the higher the competitive advantage. This study's results align with previous studies, indicating the importance of market sensing capability in increasing competitive advantage (Aghazadeh et al., 2022; Falahat et al., 2021; Ferdinand & Zuhroh, 2021; Ferreira & Coelho, 2020; Likoum et al., 2020; Sudarti & Masfufah, 2019; Sugiyarti et al., 2018). Competition among food businesses is expected to increase, so companies need to adapt their products to the needs of their market segments to retain their competitive advantage. The findings show that market sensing is crucial to achieving competitive advantage.

Third, product innovation capability significantly and positively influences competitive advantage—the higher the ability to innovate products, the higher the competitive advantage. The results align with previous studies, suggesting the importance of product innovation capability to increase competitive advantage (Al-Ansari et al., 2013; Ferreira & Coelho, 2020; Quaye & Mensah, 2019; Rashidirad & Salimian, 2020). Therefore, product innovation capability is needed to build a competitive advantage.

Fourth, competitive advantage significantly affects marketing performance—the higher the competitive advantage, the higher the marketing performance. The results align with previous studies, indicating the role of competitive advantage in improving marketing performance. Previous research has shown that superior value creation is essential to improve marketing performance (Aghazadeh et al., 2022; Bridson et al., 2013; Ferdinand & Zuhroh, 2021; Hendar et al., 2017; Kaleka & Morgan, 2017; O 'Cass, Heirati, & Ngo, 2014). Therefore, competitive advantage is a critical success factor of good marketing performance.

Finally, product innovation capability also significantly and positively influences marketing performance—the higher the ability to innovate products, the higher the marketing performance. These results confirm the results of previous studies, suggesting the importance of product innovation capability to improve marketing performance. Therefore, the ability to innovate on products reflects that one of the participatory ways of MSME owners is to improve marketing performance (da Costa et al., 2018; Hiong et al., 2020; Najib & Kiminami, 2011; Wahyono & Hutahayan, 2021). Therefore, the ability to innovate products contributes to the improvement of marketing performance.

6. Conclusion

This study examines the effect of market sensing capability on marketing performance and the role of product innovation capability as a mediating variable. The empirical evidence confirms the positive relationship between product innovation capability and marketing performance. A company's ability to create a new idea, product, or process can help achieve a competitive advantage through the creation of superior products. Product innovation capability also refers to the development of goods or services significantly different from a company's previous products. Such innovative products can increase a company's market performance. In other words, innovative capability can help maintain the value of a particular product for consumers. Product innovation capability that is continuously and intensively carried out will improve market performance. Therefore, product innovation capability should be a priority strategy to achieve competitive advantage.

7. Implications

7.1 Theoretical Implications

The findings of this study suggest theoretical implications of implementing service-dominant logic in SME management. First, SMEs require product innovation capability as the main capital of value creation and co-creation (Stephen L. Vargo & Lusch, 2017). Our findings show that innovation is not only needed by big companies to stay ahead of the competition through value co-creation but can also be applied in SME management as a value accentuation process. Service-dominant logic suggests that SMEs continue to innovate, even on a modest scale. Innovation can be the key to success as long as it provides added value to customers due to the co-creation process, value accentuation, and part of value articulation. Value delivery is balancing capabilities in product innovation that will affect competitive advantage.

This study has provided empirical evidence on why SMEs should adopt the service-dominant logic philosophy to improve marketing performance. In addition, the findings offer originality and novelty by showing the role of product innovation capability as a mediating variable and the use of service-dominant logic. We address the gap between market sensing capability and marketing performance by adopting the service-dominant logic as an approach. This approach provides a strong theoretical basis to bridge market sensing capability and marketing performance. It provides insight into the importance of creating shared value for stakeholders through innovation capability that increases value and provides a competitive advantage. The resulting value and product-market good fit will be the levers for success.

7.2 Managerial Implications

The findings of this study indicate that increasing product innovation capability is mandatory. First, SMEs are expected to always be active in creating and offering new ideas according to market trends. Second, SMEs are expected to stay innovative in creating food products in terms of both taste and packaging. Third, SMEs must be the first to offer new products. Fourth, SMEs must utilize the latest technology in the food industry to develop innovative and new variations. Product innovation capability can be encouraged from a company's side by highlighting the innovative value and, more importantly, from a consumer's side, by providing products that fulfill the value sought.

8. Research Limitations and Future Research Agenda

As has been the case with other studies, this study has several limitations. The effect of the competitive advantage in explaining marketing performance variables is 22%, indicating the need to add more relevant variables to improve marketing performance. Therefore, future research must add other significant variables to improve marketing performance. Interviews or observations could also be used in addition to questionnaires to collect more robust data from food SMEs. Thus, the data collected will describe the condition of the object and subject more comprehensively.

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