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Exploring SMEs Marketing Performance Through

Networking Capacity and Relational Capability

Nuryakin\*

Master of Management Program, University Muhammadiyah Yogyakarta, Indonesia

**Abstract**

This research aims to analyse empirical evidence of the effect of relational capability and networking capacity on SMEs marketing performance Wooden Handicraft in the area of ​​ Klaten, Bantul and Sleman Regency of Yogyakarta. The object of this research was Wooden Handicraft Export SMEs. The area research of ​​Klaten, Bantul and Sleman Regency are two of the provinces in Indonesia. Sampling technique in this research use purposive sampling. The criteria used in the sampling were Wooden Handicraft Export SMEs that have been operating for three years or more. The questionnaire utilized in this study were 129 of the 140 respondents studied. The results showed that relational capability had a significant effect on SMEs marketing performance. Relational capability had a significant effect on networking capacity. Also, networking capacity had a significant effect on SMEs marketing performance.

**Keywords**

relational capability, networking capacity, marketing performance

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**Introduction**

The study of relational capabilities on improving marketing performance has given debatable results. Some research findings found a strong relationship between relational capabilities on marketing performance. Studies examining the causal relationship between the role of corporate rational capabilities and marketing performance provided conclusions that relational capabilities had a significant effect on marketing performance, as in research by (Nuryakin & Ardyan, 2018; Nuryakin, Aryanto, & Setiawan, 2018).

Tayles, Pike, and Sofian (2007) empirically prove the significant relationship between human intellectual capital, structural intellectual capital, and relational-intellectual capital on marketing performance, as measured by sales growth. Studies with the same results were conducted by (Sharabati, Jawad, & Bontis, 2010), who discovered human relational capital, social-relational capital, and relational capital provided a strong positive relationship with marketing performance. Smirnova, Naudé, Henneberg, Mouzas, and Kouchtch (2011) examined the relationship between relational capabilities and marketing performance, which showed the results that customer orientation had a positive effect on relational capabilities. Competitor orientation had no significant effect on relational capabilities and was significant in business performance. Relational capabilities affected on marketing performance.

The results of other studies even found that relational abilities negatively affected marketing performance, such as research (Fazli, Hooshangi, & Hosseini, 2013; Mention & Bontis, 2013; Raza, 2012; Welbourne & Val, 2009). The research results are interesting to study, considering that relational capital has a importance role to enhancing marketing performance. Welbourne and Val (2009) concluded that relational capital did not significantly influence on marketing performance. The study results also showed that relational capital with human capital dimensions had a negative effect on marketing performance. A study by F-Jardo and Martos (2009) showed that human capital had a significant effect on social capital.

This study would be conducted in the scope of small and medium businesses, namely the SMEs Wooden Handicraft industry. The development of small and medium enterprises (SMEs) will encourage economic growth and add robust competition between industry, environment, and technology adoption (Becherer, Diane Halstead, & Haynes, 2003; Setiowati, Hartoyo, Daryanto, & Arifin, 2015). Research on Small and Medium Enterprises (SMEs) that dominate the economy today is based on the use of tangible resources whose value is beneficial to companies that are far greater than the value of tangible assets. Intangible resources, which are the concepts of intellectual capital (IC) in Small and Medium Enterprises (SMEs), must be managed effectively to achieve a source of competitive advantage (Nuryakin, 2018).

This research aims to analyze an empirical evidence research gap of the effect between relational capability, networking capacity on marketing performance in Wooden Handicraft in the area of ​​Klaten, Bantul and Sleman Regency of Yogyakarta Indonesia. We explore and analyze by reflecting on the details of empirical research findings, including results, followed by discussion of research and the implications, limitations, and recommendations of future research.

**Theoretical Review**

**Relational Capability**

Organizational relationship with its networks is a critical strategy for the company (Karin Širec, 2000; Mort & Weerawardena, 2006; Mu, 2013). Liu, Ghauri, and Sinkovics (2010) stated that relational relationships are formed from two dimensions: trust in organizational competence and trust in organizational values. Meanwhile, Adecco (2007) defined relational capabilities as intangible assets based on efforts to develop, keep, maintain, and establish high-quality relationships with organizations, individuals, or groups that affect impacts or business, including customers, suppliers, employees, governments, partners, stakeholders, even competitors.

A study from Siadat, Hoveida, Abbaszadeh, and Moghtadaie (2012) explained the role of social capital in a company's relationship with its environment that is far more important than the role of physical capital and human capital. It is because the communication network in an integrated company consists of elements of the relationship between people and organizations. Whereas, Mu, Peng, and Love (2008) said the relationship between business partners in social capital and interaction between social members had a significant influence on the form of organizational interaction (Nuryakin et al., 2018). Knowledge acquisition and application to the process of interaction of social capital play an important role in knowledge acquisition.

Meanwhile, Capello and Milano (2001) uttered that relational capital is expected to emerge in organizations, where the homogeneity sector in companies leads to high interactions between local suppliers and customers, or among local economic actors who appear in the labour market. It has emphasized that since collaboration and synergy are formed within the company, its primary knowledge is obtained through knowledge creation. In an effort to overcome these risks, external networks in the form of strategic alliances, business agreements, and technological cooperation are needed to enable companies to have a transfer of knowledge of assets from outside the company. Furthermore, Capello and Milano (2001) mentioned two forms of the company's relational model: cooperation and synergy.

A study conducted by Hormiga, Batista-Canino, and Sánchez-Medina (2010) explain that relational capital is based on the idea that alliance within a company is deemed not isolated as a system that largely depends on their relationship with the environment. As such, the form of the relationship includes the value generated by relationships not only with customers, suppliers, or shareholders but with all stakeholders both internally and externally.

Relational skills provide specific issues in the context of business interaction. Some research has focused on understanding corporate behaviour and the role of business culture in shaping business relations practices (Ayios, 2004). It has reinforced the view that the role of interpersonal relationships remains as essential. Relational skills can create trust between companies and a high level of trust that remains at the interpersonal level (Butler & Purchase, 2008). Sharabati et al. (2010) measured relational capital with three dimensions, including 1) Alliance, licensing, and approval strategies; 2) Relationships with partners, suppliers, and customers; 3) Knowledge of partners, suppliers, and customers.

**Networking Capacity**

Davis (2007) study examined collaboration in organizations that have grown substantially and collaboration that has evolved. This strategy has emerged to measure collaboration networks. The literature on collaboration between organizations is extensive and based on several disciplines. Other researchers M.Welbourne and Pardo-del-Val (2008) explained that to remain competitive and be able to take advantage of new entrepreneurial opportunities, companies often need their resources that are not currently available. This need triggers companies to form formal and informal relationships with other companies. That is, they persuade other companies through negotiation and collaboration. Collaboration can be interpreted as a level. The lowest level of collaboration is the ability to occur when the productivity of the network produced will grow actively through individual partnerships (the work that is collected).

Other research conducted by Gulati, Nohria, and Zaheer (2000) showed the vital role of network relations between companies in strategic management research. Furthermore, Gulati et al. (2000) see companies as own entities that struggle for competitive advantage either from external industrial sources or internal resources and company capabilities. However, the network of relationships, in which the company is located, greatly influences marketing behavior and performance. The study identified five key areas of strategy: potential to combine strategic networks, namely through the industrial structure, position in an industry, company resources and capabilities, contracts and costs, and dynamic network constraints.

Tsai and Ghoshal (1998) examine the relationship between structural, relational, and cognitive dimensions of social capital on the pattern of resource exchange and product innovation in companies. Social interaction, a manifestation of the structural dimension of social capital, and trust are the manifestations of the relational dimension that significantly related to the level of exchange of resources, which in turn has a significant influence on product innovation carried out on the corporate network. Clarke and Fuller (2011) discovered the concept of network strategies complementary to strategies at the corporate, business, and functional levels. A network strategy is defined as the determination of a shared vision over a long period. The purpose of networking is to overcome some social issues. Another study developed by Wang and Archer (2004) defines collaboration as part of relational marketing, strategic management, and sociology. In both the marketing relationship and the strategic management literature, collaboration can be realized in the form of corporate networking that emerges through criticism of the Transaction Cost Economy (TCE) theory.

**SMEs Marketing Performance**

Lin and Peng (2008) said that performance is an accumulation of the organization's operational activities, including achieving corporate objectives and internal and external achievement. Achievement of the organization's goals is in the form of sales growth, profits, and market share. Some companies try to adopt specific strategies to lead and achieve their growth goals and targets (Panigyrakis & Theodoridis, 2009). One effort to achieve company goals and process control is by measuring the performance. Huang, Chen, and Stewart (2010) have divided three dimensions of concepts that can measure performance. These dimensions include business competition, manufacturing performance, and process efficiency. The dimensions of business competition include profitability, sales growth, total quality costs, and the company's ability to build new businesses. Manufacturing performance is focused on the average use of production machinery, production cycle time, operational costs, and customer satisfaction, both internal and external. Process efficiency is related to whether the company has carried out efficiency and effectiveness in its operational processes.

Taghieh, Taghieh, and Poorzamani (2013) affirmed that marketing performance could be seen from two dimensions: financial performance and corporate value. Intellectual capital is expected to add value to the company and influence corporate leaders to achieve a competitive advantage. Furthermore, Taghieh et al. (2013) concluded that the value of economic resources is a product of intellectual capital. The study examined the effects of relational capital (customers) as components of intellectual capital in the market and the value of financial performance. The study results concluded that relational capital (customers) provided significant positive support for marketing performance and firm value.

The performance of marketing is oriented to the results. Some of the company's operational results are not visible and are sometimes overlooked by managers (Sung, Lu, & Ho, 2010). Chang and Wang (2013) explain that the performance structure consists of three dimensions: (1) Organization and process management, namely methods and habits related to matters, and learning and implementation of a model. It contains three aspects: reconstructing coordination and integration, organizational learning, and resources and transformation, (2) Position. The strategic position of a company depends on organizational processes and certain assets, including tangible assets and intangible assets (e.g., technique), complementary assets, financial assets, reputation assets, structural assets, system assets, and market assets, (3) Strategy development, namely the dependency strategy by which the company develops the capabilities and functions of the company's activities.

Marketing performance is considered as an activity that needs to get the company's attention, which means it has the potential to get profit. Zaman, Javaid, Arshad, and Bibi (2012) described that performance includes the concepts of both financial performance indicators and operational performance. Whereas, Zohdi, Shafeai, and Hashemi (2013) used three dimensions in measuring marketing performance. The three dimensions of business performance consist of three components of performance: market performance, customer performance, and financial performance. In customer performance, customer loyalty and satisfaction are emphasized, the focus on market performance is on the value of sales, sales growth and stock returns in the market and financial performance measured by profit margins and focus on ROI.

**Hypothesis Development**

**The Relationship of between Relational Capability on SMEs Marketing Performance**

Lee, Lee, and Penning (2001) research tested the internal capabilities and external networks for marketing performance. Internal capabilities are operationalized in entrepreneurial orientation, technological capabilities, and financial resources invested during the development period. The test results showed that all three dimensions of internal capability had an impact on performance in innovation. The interaction between internal capabilities based on partnership relations had a statistically significant effect on performance.

Hormiga, Batista-Canino, and Sánchez-Medina (2011) examined relationships with customers, relationships with suppliers, informal networks of companies, and the company's reputation for successful marketing performance. The results showed that the relational capital with the dimensions of relations with customers and relationships with suppliers had a significant correlation on the success of marketing performance. Other results showed that the company's informal network and company reputation also correlated to the success of marketing performance. The results of the same study were conducted by (Borchert & Bruhn, 2010). The research results concluded that human capital, relational capital, team performance, and team size affected the company's goals that were measured by marketing performance.

Research done by Lu, Feng, Trienekens, and Omta (2012) revealed that strong business networks, high transaction-specific levels of investment, and interpersonal trust significantly contributed to high levels of relationship satisfaction with SMEs. Besides, interpersonal trust indicated a moderate effect on the relationship between transaction-specific investments and relationship satisfaction, ultimately bounding the network.

Based on theoretical studies and previous studies, the following hypotheses were developed:

H1: Relational Capability has a positive effect on SMEs marketing performance

**The relationship between Relational Capability on Networking Capacity**

The company's success in entering the international market is influenced by industry conditions and environmental conditions (Song, 2011; Sung et al., 2010). The competitive environment affects the number and types of competitors that marketing managers must face and how they will behave. The elements of the competitive environment by companies need to be studied in more depth because the failure of the industry in achieving sales growth comes from the inability of management to analyze the changes that occur in the industrial competition environment, including in achieving marketing degrees in international markets (Abrahamsson, Vanyushyn, & Boter, 2019; Ghauri Pervez, 2018).

Other studies carried out by Parnell, Lester, Long, and Koseoglu (2012) stressed the need for companies to combine existing strategies with their performance. It also emphasized the need for companies to form strategic groups with the highest performance achievements by focusing on strategic orientation with cost leadership and differentiation. Zohdi et al. (2013) explain that the needs and demands of customers to the company are always changing, so the company must understand these changes. In this way, the company will not allow any effort from the company related to the demands of the customers. Lee et al. (2001) tested the company's internal capabilities and external networks to improve company performance. Other results also found that internal capabilities operationalized in entrepreneurial orientation, technological capabilities, and financial resources invested during a specified period could achieve superior company performance.

Based on theoretical studies and previous studies, the following hypotheses were developed:

H2: Relational Capability has a positive effect on Networking Capacity

**The relationship between networking capacity on SMEs Marketing performance**

Zhou, Wu, and Luo (2007) research examined the role of social networking on the performance of small and medium-sized companies in the international market. The results showed that the network had a positive effect on export marketing performance and financial performance. Research by Santarelli and Tran (2012) revealed that the benefits of weak ties were higher than those who came from a strong bond. The interaction of human capital and social capital had a statistically significant positive effect on new companies’ performance.

The study of Ong, Ismail, and Goh (2010) explains that the company must have the responsibility to ensure the company’s survival and success. In addition, flexibility in operations and the ability to adapt to changes and the SMEs’ ability will be affected by the uncertainty of the existing conditions. These study results also showed that entrepreneurship and the luck of SMEs play an essential role in influencing SMEs’ competitive advantage and impacting SME performance. This research also makes an essential contribution to the formulation of a competitive advantage model among SMEs.

Research from Nandakumar, Ghobadian, and O’Regan (2010) showed the dynamics of the environment and competition as moderators in the relationship between business strategy and the level of competitive performance. In a low competitive environment, a cost leadership strategy, and a high competition environment, the differentiation strategy results in better performance than competitors. In a highly dynamic environment, a cost leadership strategy, and a dynamic and low environment, a differentiation strategy is more helpful in improving marketing performance. Research with the same results was conducted by Chew, Yan, and Cheah (2008), which summarized the core capabilities and competitive strategies found to influence SMEs’ impacting performance. In addition, there was a positive relationship between core capabilities and competitive strategy. It indicates the need for the company's efforts to align core capabilities and competitive strategies as an effort to improve superior marketing performance.

Based on theoretical studies and previous studies, the following hypotheses were developed:

H3: Networking capacity has a positive effect on SMEs marketing performance

**Research Methods**

**Research Sample and Sampling Technique**

The object of this research was Wooden Handicraft in the area of ​​Klaten, Bantul and Sleman Regency of Yogyakarta Indonesia. The Central Java and Yogyakarta Provinces is two of the provinces in Indonesia, which has the largest number of Wooden Handicraft in Indonesia.

Determination of a sample as many as 140 was focused on cities that had Wooden Handicraft canters in the Central Java region and Yogyakarta. Sampling in this study used purposive sampling. The criteria used in the sampling were companies that have been operating for three years or more.

Data collection in this study was carried out directly by researchers by visiting respondents one by one directly without going through the assistance of the enumerator. After checking, the questionnaires returned were 136 questionnaires from 140 respondent. The questionnaire used in this study was 128 samples.

**Scale and Measurement**

This study employed four variables: relational capabilities, networking capacity, and SMEs marketing performance. The operational definitions and measurement of variables used in analyzing this research model are explained in the following table.

**Table. 1. The Operational Definitions, Indicators, and Research Instruments**

|  |  |  |  |
| --- | --- | --- | --- |
| Variable | Operational definition | Indicator | Scale of Measurement |
| Relational capability | Relational capability is the ability of organizations to build relationships. | 1. Relationship with the internal partners 2. Relationship with external partners 3. Relationship with customers 4. Relationship with suppliers | Likert scale 1 - 7 |
| Networking capacity | Network capacity is the strength that companies have in relationship marketing. | 1. Capacity to sharing information. 2. Capacity to Joint commitment. 3. Capacity to created value. 4. Capacity to relationship | Likert scale 1 - 7 |
| Marketing performance | Marketing performance is a measure of the company’s results caused by marketing activities or company operations. | 1. Sales growth. 2. Increased number of sales. 3. Increase in sales value. 4. Increased market coverage. | Likert scale 1 - 7 |

***Validity and reliability testing***

The testing of the validity and reliability of the research instrument (questionnaire items) in this study used confirmatory factor analysis. Meanwhile, reliability testing employed Cronbach Alpha (Cronbach’s α). The following are the results of testing confirmatory factor analysis and Cronbach alpha

**Table 2. Scale item for measures**

|  |  |
| --- | --- |
| Likert scale 1 – 7 | Standardized factor loading |
| Relational capability (Cronbach’s α =0.762)   * Relationship with an internal partners * Relationship with external partners * Relationship with customers * Relationship with suppliers   Networking Capacity (Cronbach’s α =0.846)   * Capacity to Sharing information. * Capacity to Joint commitment * Capacity to create Value * Capacity to relationship   Marketing Performance (Cronbach’s α =0.855)   * Sales growth. * Increased number of sales. * Increase in sales value * Increased market coverage | 0.773  0.591  0.679  0.648  0.713  0.788  0.759  0.790  0.877  0.821  0.836  0.573 |
|  |  |

Statistical test results on the four constructs produced a loading factor value > 0.5, and the construct reliability value was > 0.6. Therefore, it can be concluded that the instrument was valid in measuring the variables.

**Analysis and results**

Statistical test results using structural equation modeling produced goodness of fit that has fulfilled like Chi-Square of 65,327. The probability value was 0.086. TLI value was 0.972, GFI value was 0.924, AGFI value was 0.884, and the RMSEA value was 0.047. It can be explained that these values met the specified cut-off value. It indicates that the research model was accepted and met the specified criteria (standards).

**Figure 2. Full model the relationship between relational capability, networking capacity on marketing performance**

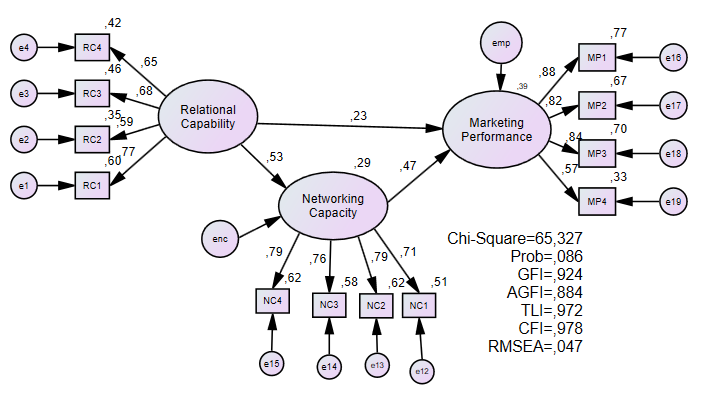
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Table 1. Indicates the standardized path coefficients of the relationship between relational capability, networking capacity and SMEs marketing performance. Then, the results of this study are also shown in Table 3, which formed three hypotheses.

**Table 3. Coefficient Test Results of Relational capability relationship path, networking capacity and marketing performance**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Hypothesis |  | Standardized  path  coefficients | **t-value** | **Prob.** | **Result** |
| H1 | Relational Capability → SMEs Marketing performance | 0.423 | 2.058 | 0.000 | Significant |
| H2 | Relational Capability → networking capacity | 0.648 | 2.058 | 0.040 | Significant |
| H3 | networking capacity → SMEs Marketing performance | 0.696 | 4.007 | 0.000 | Significant |
|  |  |  |  |  |  |

Note: \*Significant at p ≤ 0.05; if (t) ≥ 1.96

Relational capability have a significant effect on SMEs marketing performance. Table 3 displays the results of the structural model of the relationship between relational capability and SMEs marketing performance, as indicated by the value (t = 0.423 > 1.96), with a significance value (0.000 > 0.05). Thus, the hypothesis stating that the positive influence of relational capability with SMEs marketing performance was proven. Therefore, hypothesis 1 was accepted.

Relational capability had a significant effect on networking capacity. Table 3 shows the results of the structural model of the relationship between relational capability and networking capacity, as indicated by the value (t = 2.058 > 1.96), with a significance value (0.040 <0.05). It means that the hypothesis stating the positive influence of relational capability with networking capacity was proven. Thus, hypothesis 2 was accepted.

Networking capacity had a significant effect on SMEs marketing performance. Table 3 exhibits the results of the structural model of the relationship between networking capacity and SMEs marketing performance, as indicated by the value (t = 4.007 > 1.96), with a significance value (0.000 < 0.05). Therefore, the hypothesis, which stated the positive influence of networking capacity with SMEs marketing performance, was proven. Thus, hypothesis 3 was accepted.

**Discussion and Conclusions**

Relational capability have a significant effect on SMEs marketing performance. These study results differ from previous studies, which found a positive relationship between human capital, social capital, and relational capital on marketing performance Sharabati et al. (2010). This study also does not support research by Sulait (2012), which is also in line with the results of this study that states relational capital with a significant effect on marketing performance. This study is also inversely proportional to Smirnova et al. (2011) findings, which explained that customer orientation had a positive effect on the relational capabilities of marketing performance.

Relational capability had a significant effect on networking capacity. These study results are in line with the findings of the study, which explains that companies’ success in entering international markets is influenced by industry conditions and environmental conditions (Song, 2011; Sung et al., 2010). Other studies are also in line with the findings of this study, namely those conducted by Parnell et al. (2012). Lee et al. (2001) uncovered that internal capabilities that were operationalized in entrepreneurial orientation, technological capabilities, and financial resources invested during a specified period could achieve superior company performance. Sharabati et al. (2010), in their study, found a strong positive relationship between networks on marketing performance. Sulait (2012) affirmed the importance of building corporate relations with customers, suppliers, the company's internal network, relationships with competitors, relations with the community, and relations with the government.

Networking capacity had a significant effect on SMEs marketing performance. The results of this study support research conducted by Zhou et al. (2007) with the finding that the network had a positive effect on export marketing performance and financial performance. Research from Santarelli and Tran (2012) also discovered that the interaction of human capital and social capital had a statistically significant positive effect on the performance of new companies. Ong et al. (2010) also found that flexibility in operations and the ability to adapt to changes and SMEs’ ability would be affected by the uncertainty of existing conditions.

**Limitation and Future research recommendation**

An interesting finding in this study is that relational capability directly enhancing marketing performance. A more in-depth study of the research findings is needed. These study results empirically prove the importance of SMEs Wooden Handicraft in building the capacity of networking if they want to improve marketing performance in markets. For SMEs in the Wooden Handicraft sector in Indonesia, it is necessary to continuously build their networks in the international market through sharing information about international market conditions, creating joint commitments, creating added value for customers, and maintaining mutual relationships with relations. Increasing access to market for SMEs is also an essential factor that can be continuously improved through market information-gathering activities, meeting market demands, efforts to enter new markets, and approaches in reaching markets.

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