

Strategic Role of Entrepreneurial Marketing and Customer Relation Marketing To Improve Competitive Advantage in Small and Medium Enterprises in Bali Indonesia

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Abstract: Small and Medium Enterprises (SME) serve a strategic role in national economic development. So, it is necessary to do any strategic efforts and breakthrough to promote product innovation to reach the competitive advantage. This study aims to test and describe on the role of product innovation based on the entrepreneurial marketing and customer relationship marketing, to improve competitiveness. This study is done in export-oriented SMEs in Bali based on the Exporter Data in 2014 from the Trade and Industry Office Bali Province. The study sample is set up to be 85 business units, and selected using disproportionate sampling method. The data is obtained by survey and overall feasible to be used and analyzed using Structural Equation Modelling with software Smart-PLS. The study results show that the entrepreneurial marketing and customer relationship marketing are the important basics to create product innovation. Success in improving competitive advantage is determined directly by the entrepreneurial marketing and indirectly through product innovation. Entrepreneurial marketing turns out indirect effect found order competitive advantage through the mediation of product innovation. The results of this study provide evidence, entrepreneurial marketing and strategic role in customer relationship marketing strengthens product innovation, so that ultimately result in increased competitive advantage for SMEs

Keywords: Entrepreneurial marketing, customer relationship, product innovation, competitive advantage.

1. INTRODUCTION

Small medium enterprises (SMEs) in many countries have a strategic role in the economic growth. Indonesia is one of the world's developing countries strive to keep developing and empowering SMEs, because it plays an important role for economic growth and the absorption of labor.. Also, SMEs are proven to be tougher than big-scale business in facing economic crisis in Indonesia in 1998 and 2008. Based on the opinion by Firmanzah (2013), SME sector plays role and contribution in national economic structure. It is not only as one of the national priorities, but also as the expectation for the ongoing development acceleration agenda. At worsening global economic, SME sector serves as the support for the economic growth and availability of jobs so that the government should have consistency and big commitment in supporting the SME competitiveness improvement at the ongoing strengthening global economic integration.

In fact, there are various publications suggests that competitive advantage products Indonesia dominated by SMES are still below than neighboring countries. It can be seen from the indicators of Global Competitiveness Index is the position of a nation in directions of environmental and global competition. In a report on Global Competitiveness Index 2015-2016, Indonesia ranks 37. Meanwhile, Singapore ranks 2, Malaysia ranked 18, and Thailand ranked 32 (Hermana, 2012).

There are some studies on the competitive advantage, related to innovation and capability sources (Baark et al., 2011), as well as dynamic ability (Teece et al., 1997; Barney, 1991). Meanwhile Appe (2015) stated that the global economic competition is no longer based on the ownership of natural resources, but it is by the possession of technology ability to

enable to process resources innovatively so that it can improve the economic added value and distribute it. Thus, in improving the competitiveness, it is certainly necessary for any supports, both knowledge infrastructures, technologies and innovation.

To successfully facing the increasingly complex and dynamic competition, it is certainly necessary for strategic marketing. It serves important role in entrepreneurship synergize, called as the entrepreneurial marketing (Martin, 2009). The entrepreneurial marketing is the current marketing concept having the focus on creating profit or new value and innovation (Gerald et al., 2008). The Entrepreneurial marketing is defined as a strategic marketing activity by smaller company with limited resources leading to more creative company so that it can survive and reach success in the competition (Hacioglu et al., 2012). Thomas, Painb ni and Barton (2013) and Mort et al., (2012) also stated that the entrepreneurial marketing is able to create a product advantage which enables to increase competitiveness in the highly competitive and uncertain global market environment (Kraus et al., 2010). However, Jones and Rowley (2011) confirmed in their findings that the entrepreneurial marketing success in the competition will certainly require competence and skills, as well as government support.

In the current business environment, the product innovation and organization processes are the deciding factors determining the company ability to survive in any market competition and technological change (Baron et al., 2011), as well as the main source to achieve company competitive advantage (Cheng et al., 2012; and Karkalakos, 2013). In addition to the entrepreneurial marketing, others determining factors to develop by any company in this global competition, namely building trust, commitment, inter-entrepreneur conflict handling, establishing networks, norms, and good communication. These are interesting issues for many researchers called them as parts of customer relationship marketing (Dwyer et al., 1987; Sivadas and Dwyer, 2000).

The Customer relationship marketing basically reflect a relationship referring to all marketing activities having the purposes to build, develop and maintain successful relationships and long term interactions based on trust, norms, and networks (Callaghan et al., 1995). By having relational interactions with colleagues, friends, and clients, this provides an opportunity for companies to transform the financial and human capital into profits (Burt, 2004). Meanwhile, Lavado et al. (2010) stated that the customer relation marketing relates to the organizational innovation development. It can be defined that the better established communication and network stronger will direct to the organizational innovation improvement. The company can present this condition by increasing the new idea and concept exchanges, and sharing on knowledge among the organization members (Brooks and Nafukho, 2006). However, a research conducted by Pearce and Ensley, 2004) found that the customer relation marketing activity cannot lead to the innovation. Meanwhile, Kamakura et al. (2010) in his research on the DB Schenker company in Finland stated that in improving competitive advantage, the customer relation marketing will have so significant effects if there is no comprehensive services and the excellence creation in logistics field as well as competitive tariff rates.

There is an increasing effort and study to strengthen SMEs in the business arena so that it can increase innovation and achieve competitive advantage. Based on an adaptation of Hitt et al. (2011), competitive advantage is skill level the company in producing a product (goods and services) to meet market demand by focusing on the skills of superiority and or resource superiority (superior resources), so being able to get results that outperformed its competitors. Meanwhile, Porter (1998) asserts that a positional advantage business can be won by the company in a unique visits by customers and has the advantage of relatively low cost position compared with competitors. Match found Phyra et al. (2012), competitive advantage can be achieved when a company is able to produce and offers its products in the market with innovations.

Based on the above description, it provides the motivation to study empirically related to the issues in improving the SME competitiveness. The study is conducted by testing and describing on the entrepreneurial marketing effects and the customer relationship marketing on the product innovation and competitive advantage by the export-oriented SMEs in Bali province.

2. LITERATURE STUDY AND HYPOTHESES

Correlation of Entrepreneurial Marketing, Customer Relationship Marketing on the Product Innovation:

The Entrepreneurial marketing is not a direct effect of managerial decision, but as a result of entrepreneurship and cultural processes (Morris et al., 2002). The company's strategic focus for entrepreneurial marketing is addressed on the creation of new value and profits or often on the creation of new demand called as innovation (Hills and Wright, 2000). A research conducted by Hacioglu et al. (2012) on SMEs in Turkey found that entrepreneurial marketing positively affected on the

company innovative performance. The study conducted by Hacıoglu et al. (2012) focused on the entrepreneurial marketing effect on the innovation achieved by SMEs. Additionally, Niammuad (2014) presented her findings showing that the entrepreneurship certainly gave a strong tendency to create and encourage innovation in the form of ideas and new products. However, the effect was not significant (very small) because there were still environmental factors giving obstacles to entrepreneurs so that it lowered their spirit to produce benefits on their creativity. Meanwhile, several studies have shown that entrepreneurial marketing can improve the company innovation (Thomas et al., 2013; Kocak and Abimbola, 2009; Mort et al., 2012).

Innovation has become an important factor to give success in the creation of economic productivity, working methods, and operations (Baron and Tang, 2011; Cheng et al., 2012; Edison et al., 2013). To still being competitive, companies must keep being innovate to produce new products (both goods and services) based on the customer wishes and needs (Khalil and Olafsen, 2010; Edison et al., 2013). Therefore, there will also be a good relationship between current customers, as well as the company also has to build new and long-term relationships with them (Kotler and Armstrong, 2010). Thus, the customer relationship marketing is an important concept to attract and maintain the company customers (Velnampy and Sivesan, 2012). Winer (2001) asserted that the customer relation marketing is a relationship referring to all marketing activities with the purposes to build, develop, and maintain successful long term relationship interactions. These can be done by combining the ability to respond immediately and to serve customers with high interaction.

Velnampy and Sivesan (2012) in their empirical study found that the customer relation marketing was positively related to the customer value creation including as a part of the innovation process. Morgan and Hunt (1994) also found that customer relation marketing dimension, namely trust, significantly affected on the customer relationship commitment. There is also another finding, Boier (2014) said that innovation was positively related to the product marketing. This contributes to the increasing customer satisfaction and loyalty, so that later the company is encouraged to improve innovation, including on the product innovation.

Based on the explanation above, it can be put forward the hypotheses as follows:

H₁: The Entrepreneurial marketing positively affects on the product innovation.

H₂: The Customer relationship marketing positively affects on the product innovation.

Correlation of Entrepreneurial Marketing, Customer Relationship Marketing and Product Innovation On the Competitive Advantage:

Vanany (2002) revealed that the development of a very dynamic business environment affects on every company related to its product innovation, large, medium and small companies. Thus, it is certainly necessary for a company to select and determine new innovations so that it can strengthen the company's competitive advantage. Adapted from Hitt et al. (2011), the competitive advantage is skill level companies produce products to meet market demand by focusing on superior skill and or superior resources, so being able to get results that outperformed its competitors. In this very important competitive advantage for the company in order to gain superiority and grow in global competition.

The Entrepreneurial marketing is a synergy between entrepreneurial and marketing field so that the company is able to create its products excellence leading to the improvement of its competitive advantage in the highly competitive and uncertain global market environment (Thomas et al., 2013; Mort et al., 2012). However, Jones and Rowley (2011) found that to achieve the entrepreneurial marketing success to the competition, it certainly requires competence and skills, as well as government support. Likewise, Cristina (2014) found that the entrepreneurial marketing with several other variables could create company competitive advantage if the company has the ability to invest, the ability to create new products, and compete domestically before competing at global level. Similarly, Daniela (2012) stated that the entrepreneurial marketing is important so that the companies can achieve competitive advantage, better performance and grow in an increasingly tight global competition today.

.In addition to entrepreneurial marketing, the customer relation can strengthen the company competitive advantage (Alrubaiee and Nahla, 2008). The customer relation marketing is an activity providing customer needs and satisfaction, by this, the customers can be more loyal to strengthen the company's competency in the competition (Gilaninia et al., 2011). The results of other finding showing that trust as part of the customer relation marketing is a fundamental and important component in the business world. Singh and Sirdeshmukh (2000) added that the trust is the basis for building and maintaining long-term relationships, and creating mutually beneficial relationships with customers; it also can increase the competitive advantage (Barney and Hansen, 1994).

The company innovation in producing new products and well-adjusted products based on customer wishes is proven to add the company strength in the competition. Some researchers have found that the product innovation can be used to obtain any opportunities (Thoumrungroje and Racela, 2013) and achieve competition ability (Phyra Airs et al., 2012). Similarly, Triebswetter, and Wackerbauer (2008) found that the product innovation combined with innovation found in the environment where there is government regulation in the form of legislation can improve the company competitive advantage. Reguia (2012) in his research found that the product innovation and the process, marketing, organization, and paradigm innovation can increase the company competitive advantage and economic benefit. Likewise, Murat's empirical study (2012) found that the innovative green products positively affected on the company ability in the competition.

Based on the description above, it can put forward the study hypothesis as follows:

H₃: The Entrepreneurial marketing positively affects on the competitive advantage.

H₄: The Customer relationship marketing positively affects on the competitive advantage.

H₅: The product innovation positively affects on the competitive advantage.

It can also put forward the hypotheses:

H₆: The Entrepreneurial marketing affects indirectly on the competitive advantage by mediation of product innovation.

H₇: The Customer relationship marketing affects indirectly on the competitive advantage by mediation of product innovation.

Based on the study hypothesis description, so it can arrange the study conceptual framework in the Figure 1 as follows:

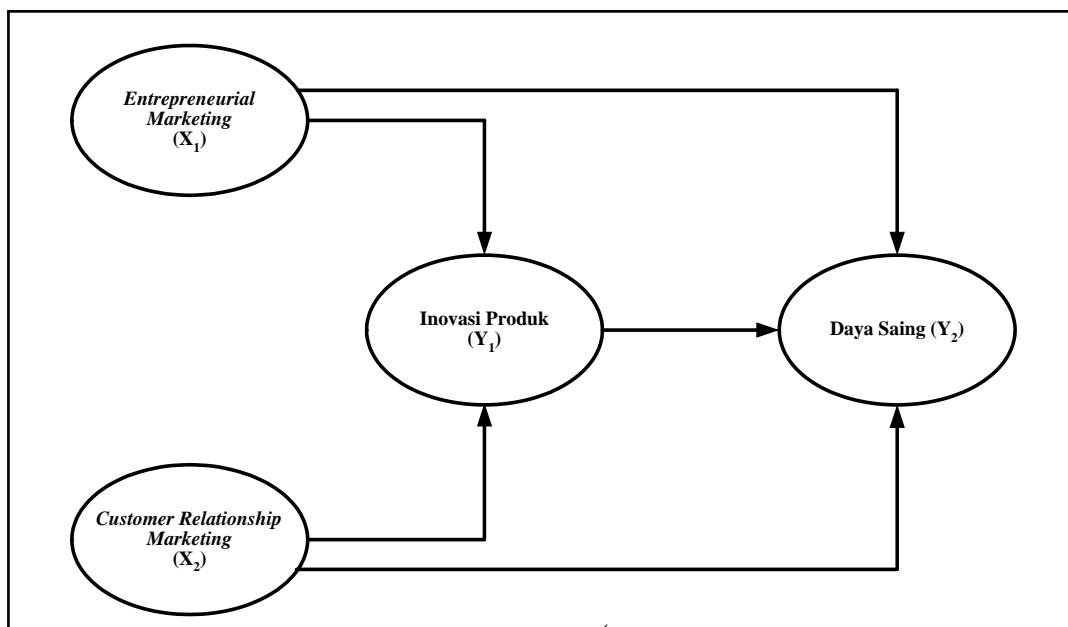


Figure 1. Study Conceptual Framework

Study Method:

This study is a survey study with the purpose to test hypothesis and describe the role of entrepreneurial marketing and the customer relationship marketing on the product innovation and competitive advantage. The population in this study is all SMEs in wooden processing industry producing exported commodity and registered in List of Exporters in Bali region in 2014 published by Industry and Trade Office Bali Province. The SMEs are distributed in some Regencies/Cities in Bali.

The study uses the statistical approach by Yamane (1973) in Ferdinand (2006) to determine the minimum sample target, so it is decided to take 85 units as this sample study. The determination of sample uses disproportionate sampling method allocating in the Regency / City based on the population frame, and the SME manager / owner is determined as the respondents.

The data is obtained by questionnaire distribution, then it is analyzed using Structural Equation Modelling (SEM) based on variance known as Partial Least Square (PLS) using SmartPLS software program. It does not only test the hypothesis on direct effects, it also is analyzed to test the direct effect or mediation effects, including to the intervention of mediation variables, whether it is proven as fully mediated or partially mediated or not as mediation variables. This mediation testing method follows the guidance by Hair et al. (2010).

3. RESULTS AND DISCUSSION

Analysis Results:

Before testing on the hypotheses, previously, there is an evaluation on PLS analysis, both the outer model and inner model. The evaluation results of outer model use convergent and discriminant validity from the indicators, as well as composite reliability. These variables show the corresponding results and can be followed by following analysis. In the evaluation stage, the structural model (inner model) uses Q^2 predictive relevance model proving that it has very appropriate goodness of fit model namely with the contribution of 97,77 percent.

After test model (outer and inner model), then conducted an investigation into the structural models for testing hypotheses. As for the results of the analysis of structural model can be presented in Figure 2 as follows.

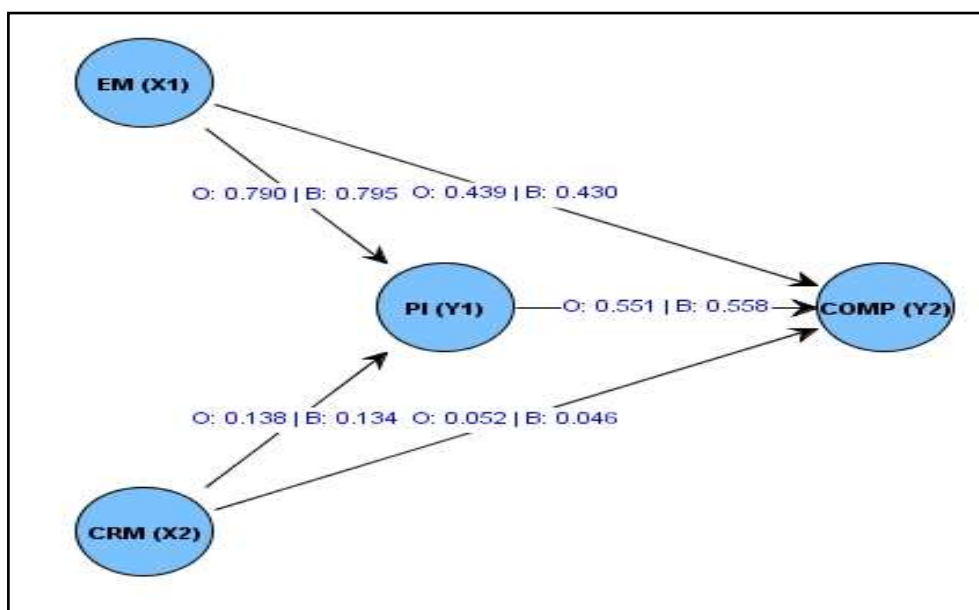


Figure 2. The Results of analysis Structural Model (Bootstrapping)

From the result testing of figure 2, the entrepreneurial marketing (X_1) is proven to affect positively and significantly on the product innovation (Y_1). This result is shown by the path coefficient with positive value namely 0,795 with T-statistic = 17,678 (T-statistic > 1,96), so that the 1st hypothesis (H_1) can be accepted empirically. The result obtained can mean that the better application of entrepreneurial marketing lead to SME more ability to innovate its product. The customer relationship marketing (X_2) is also proven to affect positively and significantly on the product innovation (Y_1). This result is shown by the path coefficient with positive value, namely 0,134 with T-statistic = 2,516 (T-statistic > 1.96), so that the 2nd hypothesis (H_2) can be accepted. The analysis results can mean that the improvement on the customer relationship marketing application can improve the SME product innovation.

There is also another information to present, the entrepreneurial marketing (X_1) is proven to affect positively and significantly on the competitive advantage (Y_2). This result is shown by the path coefficient with positive value, namely 0,430 with T-statistic = 6,514 (T-statistic > 1.96), so that the 3rd hypothesis (H_3) fails to be rejected. This means that if a SME creates more application of the entrepreneurial marketing, so it can improve its competitive advantage. There is different result showing that the customer relationship marketing (X_2) affects positively and not significantly on the competitive advantage (Y_2). This result is shown by the path coefficient with positive value, namely 0,046 with T-statistic = 1,552 (T-statistic > 1.96), so that the 4th hypothesis (H_4) fails to be accepted. This result indicates that the improvement on the customer relationship marketing application does not lead directly on the improvement of SME competitive

advantage. The further information shows that the product innovation (Y_1) is proven to affect positively and significantly on the competitive advantage. This result is shown by the path coefficient with positive value, namely 0,558 with T-statistic = 8,066 (T-statistic > 1.96), so that the 5th hypothesis (H_5) can be accepted. This result means that the increasingly innovative SME on the products produced, this can improve its competitive advantage.

From the indirect effect testing, it shows that the product innovation (Y_1) is proven to mediate significantly on the indirect effect of the entrepreneurial marketing (X_1) on the competitive advantage (Y_2). This result means that the improvement on the entrepreneurial marketing can support the SME to be more innovative on its product. This leads to its stronger competitive advantage. However, the product innovation is not the key mediator for the indirect effect of the entrepreneurial marketing on the competitive advantage, because it is categorized as partial mediation. Meanwhile, for the indirect effect of the customer relationship marketing (X_2) on the competitive advantage (Y_2), the product innovation (Y_1) is proven to mediate significantly. This result shows that the improvement on the customer relationship marketing application can support SME to innovate its product. This can lead to its stronger competitive advantage. In this indirect effect, the product innovation is the key mediator because it is categorized as the full mediation.

To know the overall effects, it is presented the recapitulation of direct effect, indirect effect and total effects in Table 1.

Table 1: The Recapitulation Of Direct Effect, Indirect Effect And Total Effects

| Variable Correlation | Direct Effect | Indirect Effects | Total Effect |
|---|---------------|--------------------------|--------------|
| Entrepreneurial Marketing (X_1) → Product Innovation (Y_1) | 0,795 | - | 0,795 |
| Customer Relation Marketing (X_2) → Product Innovation (Y_1) | 0,134 | - | 0,134 |
| Entrepreneurial Marketing (X_1) → Competitive Advantage (Y_2) | 0,430 | 0,444 (0,795 * 0,558) | 0,874 |
| Customer Relation Marketing (X_2) → Competitive Advantage (Y_2) | 0,046 | 0,075 (0,134*0,558) | 0,121 |
| Product Innovation (Y_1) → Competitive Advantage (Y_2) | 0,558 | - | 0,558 |

Source: Processed Data

4. DISCUSSION

SMEs are certainly necessary to apply strategic efforts in order to be able to innovate on their products created. This will give the ability to face and compete in the increasing competition dynamics. The synergy between strategic marketing and entrepreneurial called as the entrepreneurial marketing plays an important role in the product innovation (Hills and Wright, 2000). The better entrepreneurial marketing application can be done by innovation, courage to take risks, being proactive, focusing on opportunities, creating value, intensity on customers, and use of SME resources; all of which can increase the product innovation. This study finding is well-suited with Niammuad (2014) and Hacıoglu et al. (2012) stating that the entrepreneurial marketing has a strong tendency to form and encourage innovation, good ideas, processes and new products. Also, according to the empirical findings by Thomas et al. (2013); Kocak and Abimbola (2009); and Mort et al. (2012) proving that the entrepreneurial marketing can improve the company innovation. However, there is also an additional information to be delivered from these study results, namely the value creation is important for the entrepreneurial marketing to further innovate the SME products. In other words, the good application of entrepreneurial marketing by highlighting on the value creation can improve product innovation, especially in technical innovation.

To achieve the competitive advantage, companies must keep being innovative in creating new products (both goods and services) in accordance with the customer wishes and needs (Khalil and Olafsen, 2010; Edison et al., 2013). Therefore, there certainly must be a relationship with current customers, as well as build a new sustainable relationship by implementing the customer relationship marketing. Customer relation marketing is a relationship referring to all marketing activities with the purposes to build, develop, and maintain successful long term relationship interactions. This can be done by combining the ability to give immediate respond and to serve customers with high interaction. (Velnampy and Sivesan, 2012; Winer, 2001). The customer relation marketing application is reflected by the trust, commitment, and conflict so that it can motivate SMEs to improve their product innovation. The study's findings are corresponding to the research results by Velnampy and Sivesan (2012); Morgan and Hunt (1994); and Boier (2014) showing that the customer relation marketing application is able to respond directly and serve customers with high interaction by doing the product innovation. Furthermore, it can be added that the customer relation marketing application giving priority on commitment is also able to increase the SME product innovation.

The development of dynamic business environment and competitive encourages any company to try to maintain its survival ability to being innovative so that it can strengthen its competitive advantage. The entrepreneurial marketing is able to create the product excellence leading to the ability to increase the competitive advantage in the highly competitive and uncertain global market environment (Thomas et al., 2013; Mort et al., 2012; Cristina, 2011). Similar to the empirical study results by previous studies, this study also finds that the entrepreneurial marketing application can give immediate effect on the increasing SME competitive advantage, especially from the aspect of cost. Unlike the customer relation marketing, this study shows that it is not able to affect directly on the SME competitive advantage. This may be caused by yet optimal customer relation marketing application by the SMEs, because of limited resources (such as technology, networking), knowledge and government support. Based on the empirical findings by Kamakura et al. (2010) stating that in improving competitive advantage, the customer relation marketing gave no significant effect without any comprehensive services and the creation of excellence in logistics; this is shown by competitive tariff rates. On the other hand, the innovation is proven to be able to improve the product competitiveness. This finding indicates the SME innovation in producing new products and well-suited products based on customer wishes so that these are proven to strengthen the competitive advantage. These results are corresponding to the findings by Phyrá Airs et al. (2012); Triebswetter, and Wackerbauer (2008); Reguia (2012); and Murat (2012), showing that the product innovation can be used to achieve opportunities and competitiveness ability.

There is also another important information to be delivered from this research result showing that the product innovation based on the entrepreneurial marketing application is able to produce stronger competitive advantage. Meanwhile, the product innovation plays an important role as the mediator in the customer relation marketing relationship and the Competitive advantage. Based on that explanation can be expressed that entrepreneurial marketing and customer relation marketing is play in strategic role of strengthens product innovation, so that ultimately result in increased competitive advantage for SMEs.

5. CONCLUSION AND RECOMMENDATIONS

Conclusion:

The Entrepreneurial marketing and customer relationship marketing are the important bases to create product innovation. The success in improving competitive advantage is determined by the entrepreneurial marketing and product innovation to compete directly, as well as indirect effects of entrepreneurial marketing by mediation of product innovation. The interesting results of this study presents that the customer relation marketing is not proven as direct determinant of competitiveness, but it is as the stimulant in product innovation so that SMEs can create their competitive advantage. Thus, the overall study findings show that the combination of entrepreneurial marketing and customer relation marketing is the strategic instrument underlying the SMEs in product innovation, so that it can maintain or improve its competitive advantage..

Recommendation:

The value creation plays a very important role for SME in the a entrepreneurial marketing application. This value creation can be done in the forms of giving consideration on the customer needs, effort in giving the best services, understanding the best ways to build customer loyalty, giving better services and after-sales services than other competitors, and consideration on the customers as the best partners. The SME managers must certainly consider on these matters so that they can improve the product innovation by technical innovation. Later, this will lead to the SME competitive advantage improvement from the cost efficiency aspect.

The commitment plays a very important role on the customer relationship marketing. This shows that the SME managers should prioritize on their commitment in business activity, namely to keep learning on the provision of customer needs, giving qualified services, creating customer satisfaction, and creating close customer relationship. By these efforts, SME will be able to apply the customer relation marketing for the product innovation in order to achieve the SME stronger competitive advantage.

Further studies:

Further studies should be addressed to develop study model in expanding SME innovation strategies so that there will be appropriate strategies for stronger competitive advantage and the achievement of business performance improvement. Other studies can be done by replicating on the study model in non-SME business organizations such as hotelier, manufactures, etc. Given that the product innovation is a central issue in the competitive advantage improvement in all business sectors.

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