

The Effect of Geo-Cultural Product Attractiveness on Marketing Performance: A Conceptual Framework

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Abstract

Small-medium Enterprises (SMEs) is one of a contributor to employment opportunity, gross domestic product growth and non-oil and gas export in Indonesia. But most SMEs are not able to go up the class due to various weaknesses. One of the weaknesses of SMEs is marketing ability/performance. This study aims to fill the research gap factor between the ability of product innovation and enrich marketing performance. This study proposed Geo-cultural product attractiveness to bridge the gap between product innovation capabilities in improving marketing performance. Sample data from 250 SMEs in South Sulawesi Province in Indonesia was used to test our model. Data analyzed using descriptive statistics and Structural Equation Modeling. The result confirmed the model that with variables: Innovation, Geo-cultural product attractiveness, Marketing Orientation and Marketing performance, indicated that Geo-cultural product attractiveness holds a strategic role in enhancing marketing performance.

Keywords: geo-cultural product attractiveness; marketing performance; innovation; marketing orientation.

1. Introduction

Small Medium Enterprises (SMEs) in the economy has a significant and strategic role. This condition can be seen from various data that support that the existence of SMEs is quite dominant in the Indonesian economy. First, the amount of industry is significant and it's found in every economic sector. Secondly, it's vast potential in absorbing labor, and thirdly, the contribution of SMEs to GDP formation is quite significant, namely 52.33% of total GDP in 2014 (Ministry of Cooperation and SME of Republic of Indonesia, 2018).

Since 2015, Indonesia has faced the challenge of changing the ASEAN Economic Community (AEC). With AEC 2015, ASEAN is expected to have four main pillars, namely: (1) ASEAN as a single and single-production-based market supported by elements of free flow of goods, services, investment, educated labor and more free capital flows; (2) ASEAN as a region with high economic competitiveness, with elements of competition regulations, consumer protection, intellectual property rights, infrastructure development, taxation, and e-commerce; (3) ASEAN as a region with equitable economic growth with elements of small and medium enterprise development, and ASEAN integration initiatives for CMLV (Cambodia, Myanmar, Laos and Vietnam) countries; and (4) ASEAN as a region that is fully integrated with the global economy with elements of coherent approach to economic relations outside the area, enhancing participation in global production networks (ASEAN, 2013).

It is a reality that Small and Medium Enterprises (SMEs) are the most strategic national economic sectors that concern the lives of many people so that they become the backbone of the national economy. SMEs are also the largest group of economic actors in the economy in Indonesia and have proven to be a vital safeguard of the national economy in times of economic crisis and become a disseminator of post-crisis economic growth.

To deal with the complexity of the marketing environment, especially those that use less sophisticated technology in de-

signing and producing products such as SMEs in Indonesia, innovation is something that is very important and is a necessity to create products that compete to market through new products and are seen as growth engines (Torun & Cicekci, 2007). Companies to win the competition must always try to offer innovative products as a strategy to increase the attractiveness of products provided to the market, strengthen product uniqueness or innovation. There is evidence in a study by Shan, Song & Ju (2016) that the speed of innovation is known as one of the strategic drivers for performance.

Various literature shows the effect of innovation on performance such as the study conducted by Molina-Castillo, Jimenez-Jimenez, & Munuera-Aleman, (2011); Rhee, Park, & Lee, (2010); Shan et al., (2016). These studies state that innovation has a positive influence on marketing performance. Studies by Cheng, Chang, and Li (2013) show that the renewal of innovation is a source of marketing success. Although product innovation is considered crucial for marketing performance, studies conducted by García, Sanzo, and Trespalcacios (2008) conclude that product innovation does not have a significant influence on marketing performance. Various studies of innovation provide gaps about the inability of product line innovation in influencing company performance such as the findings by Cillo, De Luca, and Troilo (2010) which states that innovation does not have a significant influence on company performance. In a study conducted by Liao and Cheng (2014) the effect of failed innovations such as damage to brand reputation for products that have high brand equity. While in other research conducted by Santos, Basso, Kimura, and Kayo (2014) indicate lack of evidence that innovation in one period has a positive influence on company performance in the next period. Different results of various studies on the effect of innovation on marketing performance offer a research gap on the inability of product innovation to enrich product excellence and marketing performance. For that gap, further research is still needed.

To fill this research gap, the purpose of this study is to build

a conceptual model that becomes a strategic bridge between innovation, market orientation and the marketing performance of Small and Medium Enterprises. To develop our conceptual model, we offer the concept of Geo-cultural Product Attractiveness as a strategic bridge for innovation to maintain and improve marketing performance.

2. Literature review

2.1. Geo-cultural product attractiveness

The study of products and their attributes to attract consumers is one of the primary studies in product strategy. The classic view in marketing strategy so far explains the importance of product design as the primary driver of product success to enter the market still appears in the current marketing literature (Bloch, 1995; Liu & Atuahene-Gima, 2018). A good design for a product is not only crucial for the appearance of the product but also for attracting potential consumers to see and try the product. The product design process starts by understanding consumer needs and sometimes involving consumers in the design process. The findings by Sri Suresh Tulshiram Salunke and Srivastava (2013) states that core products are a basis for creating marketing performance, the product design process is seen as an effort to offer something more attractive to the market to enrich specific interests (Hisarciklilar & Boujut, 2009). Handicraft products that based on local culture are believed to have advantages over imported products from abroad. First, the product evokes a personal bond because it represents the identity of the wearer's cultural roots. This product is felt in fashion products such as traditional Sumatra Songket, Bugis Silk, Jogja batik or other fabrics. Secondly, become the souvenirs domestic and national for travelers as a marker for visiting the area where the craft originated. Thirdly, local cultural handicraft products also become a means of inter-regional solidarity and generate pride in the diversity of the nation. (Ministry of Industry of Republic of Indonesia, 2015). In the product design process, the company tries to create something interesting for its products, which produces various attributes that reflect certain cultures and locations that have the potential to attract consumers to see and buy the product.

In countries with geographic and cultural diversity such as Indonesia, a product can be built with ethnic attributes derived from the interaction between location and culture where it's located. By integrating multi-ethnicity and culture, a company can sort and choose various elements of foreign culture and domestic culture (Celenk, & Van de Vijver, 2011), and combine these attributes to be embedded in their products, produce a product with some attractiveness attributes conceptualized in this study as Geo-cultural product attractiveness.

2.2. Innovation

The most innovative companies are involved in a continuous search for better products, services, and ways of doing things. They try to continue to improve their internal capabilities and other resources. The more innovative the companies of a country, the stronger the competitive advantage of the nation and more productive companies are more efficient in using their resources (Wang and Ahmed, 2004).

According Wu et al. (2008) in Akgün et al. (2010:44) shows that innovation is defined as an idea, a product or process, or a system that is considered new to an individual. Damanpour (1991) explains the concept of innovation as an understanding of equipment, system, legal, products or services, new technology production process, a structure and a new planning program to be adopted in the organization. According to Wang & Ahmed (2004) Organizational innovation as an overall innovative ability of an organization to introduce new products to the market, or open new markets, through combining strategic orientation with creative behavior and processes. Meanwhile, according to Oslo Manual (2005), innovation is the implementa-

tion of a new or improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations

From some of the definitions above, innovation is creating something that is new or enhancing from existing (performance or perception of higher value) both for goods and services as a strategic choice of the organization to improve the organization and make it more competitive. Innovation can come in various forms, such as product or process innovation, radical or incremental innovation, administrative or technological innovation, etc. (Zaltman et al., 1973; Utterback, 1994; Cooper, 1998 in Wang & Ahmed, 2004).

2.3. Marketing orientation

Marketing orientation is an organizational culture that leads to the market. Market orientation focuses on understanding the current, and the future customer wants and needs (Kasim, Ekinci, Altinay, & Hussain, 2018). Market orientation can be broadly defined as expanding traditional understanding by combining distribution and environmental orientations. Market orientation is also defined as a set of beliefs and a value system that puts the customer's interests above all else to develop a profitable company in the long run (Hartini, 2008).

Companies with high market orientation prioritize the quality or suitability of the product or service offered with the expectations or specifications set by the customer. Thus, market orientation has a positive impact on product quality, which in turn affects competitive advantage and company performance (Hartini, 2008). It is found that Market orientation has a positive impact on Return on Investment, market share and the success of new products (Matsuno et al. 2002). The higher the market orientation, the product will be in accordance with the development of consumer needs and desires. Thus the new product offered will be widely accepted by consumers, which in turn will expand market share, with increasing market share, the company's revenue will also increase. The increase in company revenue will impact on increasing Return on investment.

2.4. Marketing performance

Marketing performance is a variable that can be used to measure the marketing performance of a business. This meaning is related by Permadi (1998) which states that marketing performance is a concept to measure the market performance of a product. Clark (2000) reports that marketing performance is an essential element of company performance in general because the performance of a company can be seen from its marketing performance.

Voss and Voss (2000) define market performance as an effort to measure the level of performance which includes the number of sales, number of customers, profits and sales growth. Halim et al., (2012) in his research measuring marketing performance through four indicators, namely customer satisfaction, delivery of value, the effectiveness of marketing programs, and the success of new products.

Based on a literature review and previous research, the model of our empirical research in this study can be described as follows:



Figure 1. Empirical Research Model

Figure 1 above shows the empirical research model built in this study. Based on the literature review and picture above, there are four hypotheses formulated in this study as follows:

1. The more Innovation, the higher Geo-cultural product attractiveness.
2. The more Marketing Orientation, the higher Geo-cultural product attractiveness.
3. The more Geo-cultural product attractiveness, the higher Marketing Performance.
4. The more Marketing Orientation, the higher Marketing Performance.

3. Research method

This research is survey research with a quantitative approach. The population in this study is small and medium

enterprises engaged in the craft and creative industries. Data were collected from sample data from 250 small and medium enterprises in South Sulawesi Province to test models and hypotheses. Sample selection is based on the proportional sampling technique. The respondents in this study were business owners or managers.

In this study four variables are used as follows; innovation, geo-cultural product attractiveness, marketing orientation and marketing performance. A closed question questionnaire is used to ask the perception of each respondent. Variables and indicators are measured using a 1 to 5 Likert Scale, where scale 1 indicates strongly disagree and scale 5 shows strongly agree. To operationalize the variables in the model, definition, and indicators are shown in the table 1.

Variable	Core Meaning	Indicators
Innovation	Ability to innovate products	1. Ability to make various types of products 2. Special design capabilities 3. Ability to make different brands
Marketing Orientation	An effective and efficient organizational culture in creating behavior that is important for the creation of superior value for consumers and will be an excellent performance for business	1. Customer orientation, 2. Competitor orientation, 3. Coordination between functions
Geo-cultural Product Attractiveness	The level of product attributes as an attraction which is a combination of regional and cultural areas	1. Motif Attractiveness 2. Style Attractiveness 3. Cultural Symbolic Attractiveness
Marketing Performance	The level of marketing achievement in the market	1. Sales Volume 2. Sale Value 3. Customer Growth

Table 1. Variables and Indicators

In this study, reliability is measured by using Construct Reliability (CR) and Variance Extracted (VE) on each latent variable. Usually, the minimum value of Construct reliability is 0.70 (Hair et al., 2010). While the minimum value of VE is 0.50 (Ghozali, 2011 in Ilyas and Munir, 2017). In this study, all variables are considered reliable because each value has passed the required value.

While validity testing uses confirmatory factor analysis (CFA)

which will produce the value of the loading factor for each indicator on the latent variable. Value of loading factor which greater than 0.50 is used as a cut-off value of construct indicator validity (Hair et al., 2010). Table 2 shows all the indicator values are calculated at more than 0.50. Therefore, all of the indicators in this study are confirmed as valid.

Data were then analyzed using AMOS 23 statistic software for a full structural equation model.

Variable	Indicators	Standardized Loading Factors	Standard Errors	Reliability	
				CR	VE
Innovation	X11	0.940	0.77	0.79	0.55
	X12	0.845	0.68		
	X13	0.789	0.77		
Marketing Orientation	X21	0.902	0.53	0.72	0.51
	X22	0.888	0.52		
	X23	0.908	0.53		
Geo-cultural product attractiveness	X31	0.953	0.66	0.75	0.53
	X32	0.947	0.60		
	X33	0.924	0.66		
Marketing Performance	X41	0.864	0.79	0.84	0.63
	X42	0.909	0.81		
	X43	0.890	0.79		

Table 2. Validity and Reliability

4. Result and discussions

Our structural model analysis demonstrated good model acceptance level as concluded from several indices such as $\chi^2 = 71.71$; Significance Probability = 0.019; GFI= 0.907; AGFI= 0.852; TLI = 0.976; CFI =0.982; RMSEA = 0.064, therefore our model fit with the expected population. The structural model is presented in the following Figure 2.

The structural coefficient for regression analysis is presented in the following Table 3.

As presented in Table 3, all hypotheses were tested; the significance probability is lower than 5% for every relationship between hypothesized variables, we can conclude that the data of our sample support all hypotheses.

5. Conclusions

As stated at the beginning of this study, that the objective of the study is to fulfill a research gap on the inability of innovation in enhancing marketing performance. A model relation of Innovation, Marketing Orientation, Geo-cultural Product Attractiveness and Marketing Performance is built and tested empirically using a structural equation model. The acceptance of our hypothesized model and relationships demonstrates several ways to enhance marketing performance. Three key findings are described as follows: (1) a company with high Innovation will increase the attractiveness of geo-cultural product leading to marketing performance. This type of Innovation such as the ability to make various kinds of products and to make different brands also

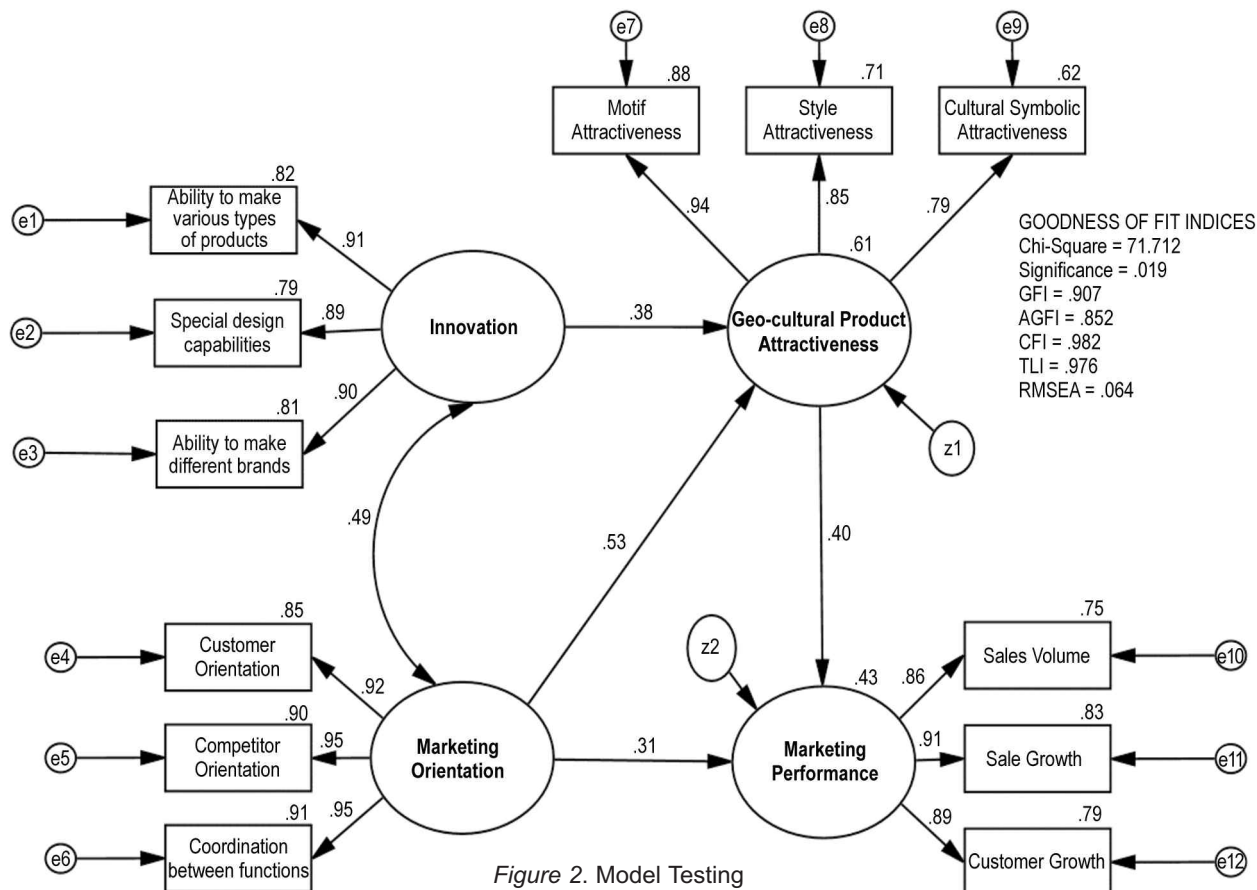


Figure 2. Model Testing

Hypothesis			Standardized Estimates	P
Innovation	→	Geo-cultural Product Attractiveness	0.378	0.000
Marketing Orientation	→	Geo-cultural Product Attractiveness	0.527	0.000
Geo-cultural Product Attractiveness	→	Marketing Performance	0.395	0.001
Marketing Orientation	→	Marketing Performance	0.313	0.009

Table 3. Results of Hypothesis Testing

capabilities to make particular design are expected to be a driver for increasing the attractiveness of geo-cultural product attributes as leverage for enhancing marketing performance, (2) a company with Marketing orientation is expected to strengthen the attractiveness of geo-cultural product as a driver for enhancing marketing performance, (3) thus geo-cultural product attractiveness indeed plays a role as a mediator in the relation between Innovation, Marketing Orientation and marketing performance.

Theoretically, the findings of this study contribute to solving problems of the inconsistent relation of Innovation and market orientation with marketing performance. The new concept of geo-cultural product attractiveness which is offered as mediation in connection with marketing orientation and marketing performance has been tested and plays a vital role in bridging the correlations between the two variables. Then, further research needs to add some variables, the coverage area of research, and types of industries to gain research findings widely.

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