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- Editor JOURNAL OF MANAGEMENT & ENTREPRENEURSHIP (redaksi\_jmk)
- Hanfan Ahmad (ahmadhanfan)

### Messages

#### Note

#### From

Dear,

Editor Jurnal Manajemen dan Kewirausahaan

I hereby submit my article entitled: "PRODUCT CONFIGURATION CAPABILITY FOR IMPROVING MARKETING PERFORMANCE OF SMALL AND MEDIUM METAL INDUSTRY IN CENTRAL JAVA - INDONESIA", to be published in Jurnal Manajemen dan Kewirausahaan. Thank you.

ahmadhanfan  
2021-03-22  
11:40 AM

Best regards,

Ahmad Hanfan

Yth. Bapak Ahmad Hanfan

Terima kasih atas minat publikasi di JMK.

Harap memberikankonfirmasi atas beberapa hal, sbb:

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Demikian pemberitahuan kami. Apabila ada hal lain yang ingin ditanyakan, silahkan hubungi kami. Terima kasih.

Salam hormat,

Editor

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Hormat saya,

Ahmad Hanfan

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Baik, segera akan saya kirim. Terima kasih...

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Bapak Ahmad,

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## [jmk] Editor Decision

2021-05-07 05:58 PM

Dear Mr. Hanfan Ahmad:

We have reached a decision regarding your submission to Jurnal Manajemen dan Kewirausahaan, "PRODUCT CONFIGURATION CAPABILITY FOR IMPROVING MARKETING PERFORMANCE OF SMALL AND MEDIUM METAL INDUSTRY IN CENTRAL JAVA - INDONESIA".

Our decision is to resubmit for review. Therefore, please revise all the reviewers' comments below as well as in the attachment. Color all the revised parts. Enclose a table of revisions separately containing the reviewers' comments, the revisions, and the page of revisions.

### REVIEWER'S COMMENTS:

- 1) Pay more attention and be consistent in the use of terms
- 2) Several statements need to be improved in writing sentences
- 3) The appropriateness of the SME context in using the term product configuration capability
- 4) Accuracy of definitions and empirical indicators for the construct of marketing performance

Looking forward to your revisions and the table as soon as possible. Thank you.

Editor

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Jurnal Manajemen dan Kewirausahaan (Journal of Management and Entrepreneurship)

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## **[jmk] Editor Decision**

2021-05-29 09:48 AM

Dear Mr. Hanfan Ahmad:

We have reached a decision regarding your submission to Jurnal Manajemen dan Kewirausahaan, "PRODUCT CONFIGURATION CAPABILITY FOR IMPROVING MARKETING PERFORMANCE OF SMALL AND MEDIUM METAL INDUSTRY IN CENTRAL JAVA - INDONESIA".

Our decision is to resubmit for review.

Revise all the attached comments. Highlight all revised parts. Resubmit by login on your account as well as email to [redaksi.jmk@petra.ac.id](mailto:redaksi.jmk@petra.ac.id).

Editor

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## **[jmk] Editor Decision**

2021-06-08 08:02 PM

Hanfan Ahmad:

We have reached a decision regarding your submission to Jurnal Manajemen dan Kewirausahaan, "PRODUCT CONFIGURATION CAPABILITY FOR IMPROVING MARKETING PERFORMANCE OF SMALL AND MEDIUM METAL INDUSTRY IN CENTRAL JAVA - INDONESIA".

Our decision is to publish your manuscript. Congratulation!

Editor

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# PRODUCT CONFIGURATION CAPABILITY FOR IMPROVING MARKETING PERFORMANCE OF SMALL AND MEDIUM METAL INDUSTRY IN CENTRAL JAVA - INDONESIA

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## Abstract

*This study explores and examines the role of product configuration capabilities to improve marketing performance. Product configuration capability represents the company's capability to configure products with visibility/clarity of product origin, products that are different from competitors and products that are difficult to imitate. This capability indicates that the products produced by the company are more efficient and quailed than that of others. The results found that product configuration capabilities can improve product success, growth in product marketing reach and market share product. This study is expected to provide a contribution to both theoretical and practical knowledge of strategic management. Business players should focus on developing dynamic capabilities to address the constantly changing business environment.*

**Keywords:** Dynamic capability, marketing mixture, product configuration capability, ability to respond costumers, market competence

## Introduction

Business opportunities in a global environment are always open to both new and old companies. To be able to capture these opportunities, companies require to have the ability to provide timely and fast responses. Capabilities must be possessed by the companies in terms of shaping, reshaping, configuring, and reconfiguring company capabilities. They can respond to changes in the environment well by making flexible product innovations, combined with management capabilities for effective coordination and placing internal competencies as well as externally appropriately (Teece, *et al.*, 1997).

Small and medium sized enterprises (SMEs) of metal industry on Tegal region have the potential to be developed into the metal industry, which produces accessories and modification products enthusiasts for end consumers. The quality of the products produced by these SMEs is not underestimated, as evidenced by several well-known companies entrusting some of the engine components constructed by the industry. The Industrial and Labor District Service of Tegal recorded that there were nearly 4000 SMEs in the district. Metal SMEs in the district has a variety of products, including automotive parts and jewellery

accessories (Gumilang, 2018). In order to survive, the metal processing industries require dynamic capabilities to face the challenge of globalization which causes rapid changes. The development of the metal industries was supposed to be Japan's Indonesia, because the Tegal metal casting and craft industry, which was built since 1940, was intended to meet the need for war equipment for the Japanese army.

The community began to acquire the skills to work on metal so that the expertise was used to build simple workshops in the aftermath. Besides being known for having high creativity, the Tegal community is also known for being reliable in the metal industry. All of that can be created from the cool and creative hands of the community. The metal industry's business activities in the district consist of metal working and casting to manufacture automotive parts and jewellery accessories (Nugroho, 2017). The products are processed using conventional tools and machines withused metal materials. The production processes are conducted at home workshops.

The metal industry in Tegal Regency is worth researching because the metal SMEs play an important role in the economy of Tegal district, in terms of numbers of business units, employment and contribution to regional income. The number of business



units increased at a decreasing rate from about 2930 units in 2011 to 2995 units in 2018 and became stagnant during the last three years. The industries absorbed about 32,000 labour, in spite of its stagnancy during the period. The contribution to the regional income in the form of local tax increased steadily from about 22 billion IDR to 107 billion IDR (BPS, 2019). Despite the significant increase in the contribution to regional income, the number of business units and employment are relatively sluggish. It should be noted that SMEs play a significant role in economic development (Bloch & Bhattacharya, 2016). As the SMEs are the backbone of the economy both at a local, regional and national level, there is a need to continue to grow in order to absorb the labour force and support other industries that use the products.

Wang & Ahmed (2007) suggested the importance of companies to have dynamic capabilities. To realize the dynamic capabilities, companies must have three capabilities, namely adaptive capability, absorptive capability and innovative capacity. Adaptive capability is the ability to identify and capitalize on any opportunities arising from the market. The adaptive capability is measured from the ability to respond to opportunities, monitor markets, customers and competitors, and allocate resources for marketing activities. Absorptive capability is the ability to evaluate and utilize knowledge from outside the organization. Absorptive capability is indicated by the intensity of research and development activities. Innovative capability is the ability to develop new products or markets. Innovative capability is measured by the number of product or service innovations, process innovations, and solutions to new problems. Dynamic capability is the ability to form, reshape, configure, and reconfigure company capabilities so that they can respond to changes in the environment well (Teece, *et al.*, 1997). Dynamic capabilities that lead to innovation are absolutely necessary if the company wants to be consistent in pursuing revenue.

The dynamic capability process within a company consists of three things, namely the ability to interpret, to integrate, and to carry out operations (Teece, 2007). Chen & Geraldine (2007) argued that two

important factors determine the dynamic capabilities, namely people who are able (capable people) and systems that are unified (agile process). M.Hess & Rothaermel (2007) mentioned three factors, namely people, organizations and organizational networks. These two studies differ in the context of the research. The former has a homogeneous environment, and limited actors and the later has a heterogeneous and multi-actor environment. The dynamic capabilities of the company enable the company to do the sensing stage faster than the existing company. The company can also do the seizing stage effectively and support the transformation phase needed to remain competitive (Schoemaker & George, 2016). In practice, there are similarities in the sensing process in all types of industries. Therefore, managers should not merely adjust internal strategies to respond to environmental changes, but must also need to be capable of developing unique capabilities that are not possessed by competitors (Helfat & Peteraf, 2003).

Based on the three dynamic capability components mentioned above, the recognising stage is the initial stage that must be well understood by the company. That is because the sensing process is a process for developing valid and accurate hypotheses about what is happening in the business environment. This is a process where the company tries to look back at the opportunities in front of the organization. Teece (2009) argues that the opportunity can occur through two things: first, because the organization gets the same information from the perspective of different sources; secondly because organizations gain new knowledge and information. The dynamic lens capability enables companies to feel opportunities faster than other companies, seize their markets more effectively and support the organizational transformation needed to stay ahead. Dynamic capabilities can be broadly classified into first-order or operational levels and second-order or dynamic capabilities. Basic level activities are the company's operational capability in carrying out daily activities while dynamic capability is the ability to develop and arrange configurations so that these daily activities can have a certain order. Like in a music orchestra, the dynamic capability is the ability

to manage musicians consisting of individuals with a variety of musical instruments.

The problem in this study stems from the existence of a research gap on the results of a product innovation research on marketing performance. Studies Hua & Wemmerlöv (2006) who studied 55 US companies in the personal computer (PC) industry, found that firm's product change frequency were confirmed to increase market share and market growth performance. Sharma & Davcik (2017) research which examines the types of small and medium sized retail companies (SMEs), and multinational companies (MNC) using signaling theory and dynamic marketing capability (DMC) perspective from resource based theory (RBT) found that product innovation enables companies to not only develop new market segments but also expand its current market segments and product portfolios. Study Hanfan & Setiawan (2018) which examined 118 Brebes salted egg SMEs stated regiosentric product innovation increased sales growth, sales volume and sales profit.

Otherwise Baker & Sinkula (1999) states that product innovation has no effect on organizational performance, but market oriented organizations will formally carry out activities that produce market intelligence and disseminate intelligence results to all departments and are responsive to follow up on what consumers need and expect. Han, *et al.*, (1998) who examined the banking industry found a missing link between the relationship between market orientation and organizational performance. The missing link is the absence of a relationship between product innovation and organizational performance. Canh, *et al.*, (2019) who examined Vietnamese manufacturing companies during 2011-2013, showed that process and product innovation were beneficial for company performance in terms of market share, but not return on total assets. This implies that investing in innovative activities takes time to create positive change in profitability, but may help win customer loyalty. They also found evidence suggested that innovation can make companies more blurred, especially when there are external parties involved.

The second problem is the number of business units and labour working for metal

industries in the region is sluggish (BPS, 2019). There is a need to study this particular sub sector of SMEs to assist in addressing the mentioned problems. This study aims to test empirically the effect of product innovation on product configuration capability, the influence of the ability to respond costumers to product configuration capability, the influence of market competence on product configuration capability and the influence of product configuration capability on marketing performance. This study also aims to bridge the research gap between product innovation and marketing performance through the mediating variable product configuration capability. The research is exploring product configuration capabilities to improve marketing performance. This study is expected to provide a contribution to fill the gap and address the local problem.

### *Dynamic Capability*

Resource-based view theory assumes that companies can be conceptualized as a set of resources heterogeneously distributed to companies and that these resources persist over time (Eisenhardt & Martin, 2000). Based on this assumption the researchers have a theory postulating that when a company has valuable, scarce, unduplicable and irreplaceable resources, the company can gain competitive advantage by implementing new value creation strategies that are not easily reproduced by competitors.

In the perspective of RBV, the free movement of capital, goods, labour and knowledge in the global economic system has reduced barriers and obstacles to competition. Against the backdrop of increasing environmental instability, the growing importance of intangible organizational resources, the impact of hidden knowledge in the decision-making process, the development of informal relationships with stakeholders. The strategic selection focuses more on the interrelationships between strategy and the organization's internal environment. The organization's long-term advantages are not only based on manufacturing excellence and the high risk borne by the imitating party. Accepting this assumption means competitive advantage is not the same as manufacturing advantage. Product price and quality

advantages can be quickly eroded by competitors and may fail to provide benefits (Krzakiewicz & Cyfert, 2017). The concept of dynamic capability has three basic elements, namely sensing, seizing and transforming (Teece, *et al.*, 1997). The three main elements turned out to have many variations, depending on the type of industry character of the business environment (Teece & Leih, 2016). Schoemaker & George (2016) describe dynamic capabilities as having six elements, namely peripheral vision, vigilant learning, problem and learning, flexible investing, organizational redesign, and external shaping. Of the six elements, each industry has a different emphasis.

### ***Marketing Mixture***

Kotler & Keller (2016) define the marketing mixture as a set of controlled marketing variables that are used by companies to produce company-controlled responses, from the target market, the marketing mix consists of everything that a company can do to influence the demand for its products, known as product, price, place and promotion. Product is an important element in a marketing program. Product strategies can influence other marketing strategies. Purchasing a product is not just to own the product but also to meet the needs and desires of consumers. Product is anything that can be offered to the market to be noticed, obtained, used, or consumed that can fulfil wants or needs (Kotler & Armstrong, 2014).

### ***Product Configuration Capability Concepts***

Based on the concept of dynamic capability and marketing mixture approaches, product configuration capability propositions can be arranged as a novelty in this research. Product configuration capability is the company's ability to configure products with visibility/clarity of product origin, products that are different from competitors and products that are difficult to replicate, so the products produced by the company are efficient and of high quality. Product configuration capability is expected to create sustainable competitive advantage and eventually to improve marketing performance.

Based on the description above, the following hypothesis can be proposed:

***H<sub>1</sub>: The better the product innovation, the better the product configuration capability.***

Innovation is the company's mechanism to adapt in a dynamic environment; therefore, companies are required to be able to create new thoughts, new ideas, and offer innovative products and service improvements that satisfy customers (Hurley & Hult, 1998). There are six indicators of product innovation including new products for the world, new product lines, additions to existing product lines, improvements and revisions to existing products, redefining and reducing costs (Kotler & Armstrong, 2014).

The results of the study by Su, *et al.*, (2018) show that budget slack, information system quality, innovation process and product all innovations are significantly related to configuration capability innovation, where high-quality information and low budget slack levels are key factors that support innovation capacity. In addition, configuration capability has a full mediating effect, that is, the perception of innovation needs positively influences the capability of configuration, which, in turn, improves organizational performance. **Supported by the research results above, it is hoped that the better the innovation carried out by metal SMEs the better the product configuration capability.**

***H<sub>2</sub>: The higher the ability to respond costumers, the better the product configuration capability.***

Research models on the impact of market orientation and dynamic capabilities on firm performance are proposed and described. With the conceptual model developed, the authors show how market orientation can be transformed into dynamic capabilities and said to be market-oriented competitive values positively mediated by dynamic capabilities (Hou, 2008). The effectiveness of strategic orientation depends on market dynamics. Specifically, when market demand becomes increasingly uncertain, customer orientation has a weaker impact, while technology orientation has a stronger effect on adaptive ability. As competition increases, competitor orientation

and technology build adaptive capabilities more effectively (Zhou & Li, 2010).

Corporate customers need digital transformation through the development of dynamic capabilities that focus on customer value and operating models. Customer value reflects market orientation, while the operating model is related to the company's ability to formulate innovations. The study of digital leadership in the relationship between dynamic capabilities and digital leadership, market orientation and dynamic, able innovation has not been explored; therefore, this study aims to assess the effective pathway in developing dynamic capabilities, both directly and indirectly through market orientation or innovation capabilities driven by leadership digits. The results explain that digital leadership has a significant influence both directly and indirectly through market orientation on developing dynamic capabilities (Mihardjo & Rukmana, 2019). **Based on the research results, it is expected that the higher the ability to respond to costumers, the better the product configuration capability.**

***H<sub>3</sub>: The higher the market competence, the better the product configuration capability.***

Market knowledge has become a significant asset of modern businesses and the key to maintaining their competitiveness. Research by Hou (2008) attempts to explore the impact of market knowledge management competencies on performance through a dynamic capability perspective. Empirical findings support the relationship between market knowledge management competencies and dynamic capabilities to have a positive influence on business performance.

Small and medium businesses (SMEs) face challenges in an increasingly challenging environment. To overcome this problem, this paper draws on dynamic capability theory and develops dynamic capability research models that enable information systems to test the role of information systems competencies to enhance

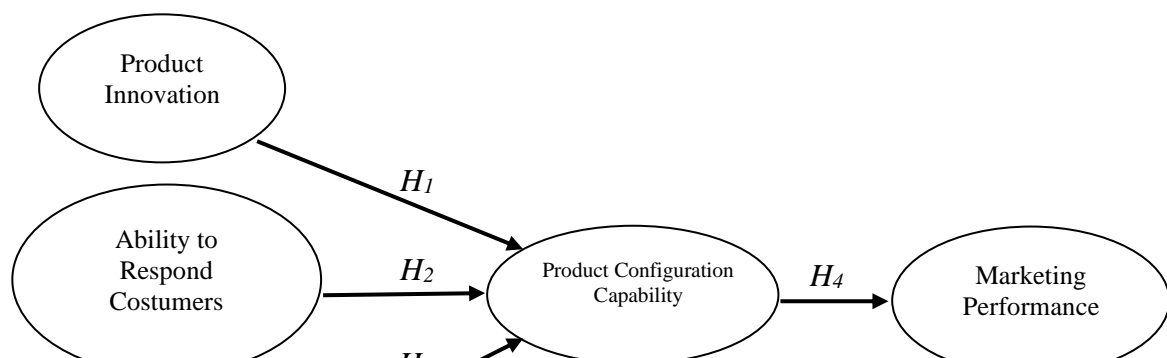
the dynamic capabilities of SMEs in the environment. Competitive business. Analytic results support the research model and emphasize that information system competencies contribute significantly to the dynamic ability of SMEs to gain competitive advantage (Wang & Shi, 2011). **Based on the research results, it is expected that the higher the market competence, the better the product configuration capability will be.**

***H<sub>4</sub>: The better the product configuration capability, the higher the marketing performance.***

Dynamic capabilities are widely considered to incorporate processes that enable organizations to maintain superior performance over time. Wilden, *et al.*, (2013) argue that this effect depends on organizational structure and competitive intensity in the market. Analysis of the results of structural equation modelling, shows that organic organizational structure facilitates the impact of dynamic capabilities on organizational performance.

The current conventional strategic management model is not able to handle various questions about organizational management in dynamically disconnected environments. Therefore, how a company can effectively apply management knowledge capabilities and develop unique dynamic capabilities to provide rapid response to dynamic environments has become urgent needs. A study conducted by Tseng & Lee (2014) shows that knowledge management capabilities enhance dynamic organisational capabilities. While dynamic capabilities, in turn, enhance organizational performance and provide a competitive advantage. **From the research results above, it is expected that the better the product configuration capability, the higher the marketing performance of metal SMEs**

Based on the hypothesis developed above and the literature review conducted, an empirical research model is presented, as shown in Figure 2.



**Figure 2: Empirical model of study**

### **Research Methods**

#### ***Data Types and Sources***

This study uses primary data, namely data obtained by interview based on a list of questions to a number of respondents selected for this study. Data collection was carried out by survey method through a structured questionnaire with a ten-point rating scale. The questionnaire was processed and analysed by structural equation modelling (SEM) using AMOS ver. 22 analysis tools. This study was conducted with a population of 4000 SMEs metal entrepreneurs in Tegal Regency, Central Java Province, Indonesia. The number of samples used was 108 respondents. This number met the criteria minimum standard samples suggested by Hair, *et. al.*, (2018), which states that the sample size is five times the number of indicators. This study has 15 indicators, so the number of samples used in this study is  $5 \times 15 = 75$  samples. Then the recommended number of samples is between 100 and 200 companies. By using a sample of 108 owners of metal industry SMEs, the sample size requirements can be met.

The sampling technique is based on random sampling because the sampling is carried out on random members of the population regardless of the strata in the population. Sampling is carried out in such a

way as to ensure that the selection of elements to be studied is based on objectivity, not subjectivity. This study uses primary data obtained from questionnaires distributed directly to 108 respondents. The data was collected through a survey, which was conducted by asking respondents. The survey method in this study was carried out using research instruments such as a questionnaire with open questions consisting of items representing the independent variable and the dependent variable. Questionnaires are distributed to respondents directly, so that respondents can provide scores and short answers to the available open questions.

#### ***Operational Measurement and Indicators***

The definition of each variable needs to be explained in a more operational measure. Each variable has a meaning that is very relevant to the context of the variable in the research model. Explanations from various experts regarding the meaning, antecedents and consequences of a variable are transformed in the core definition to sharpen the explanation of the variable. A variable has generally described what is to be studied, but the measurement of that variable needs to be concrete through operational measurements which then become a reflective indicator of a variable (Table 1).

**Table 1**  
**Operational Definition and Indicator**

<b>Variabel</b>	<b>Operational Definitions</b>	<b>Indicator</b>
<b>Product Innovation</b>	The company's mechanism to adapt in a dynamic environment, therefore the company is required to be able to create new thoughts, new ideas, and offer	X <sub>1</sub> : The ability to make new products X <sub>2</sub> : The ability to create additions to existing products

	innovative products and improved services that satisfy customers	X <sub>3</sub> : Ability to repair and revise existing products
Ability to Respond Costumers	The company's ability to respond to customer desires	X <sub>4</sub> : Ability to enter new markets X <sub>5</sub> : Ability to meet market demands X <sub>6</sub> : Ability to search for market information
Market Competence	The ability of the company to see opportunities in the market	X <sub>7</sub> : Ability to meet customer demands. X <sub>8</sub> : The ability to respond to customers X <sub>9</sub> : Ability to meet customer tastes
Product Configuration Capability	The company's ability to configure products with visibility/clarity of origin of products, products that are different from competitors and products that are difficult to imitate, so the products produced by the company are more efficient in terms of cost and quality	X <sub>10</sub> : Ability to have a level of visibility/clarity of origin of the product X <sub>11</sub> : Ability to make different products X <sub>12</sub> : The ability to make products that are difficult to imitate
Marketing Performance	The concept for measuring the market performance of a product	X <sub>13</sub> : Product success X <sub>14</sub> : Growth in product marketing reach X <sub>15</sub> : Market share

### Results and Discussion

The results of estimation using AMOS ver 22 can be seen in Figure 3. The values and interpretations of goodness of fit is as follows. Chi-Square=92.402; CMIN/DF=1.113; probability=0.225; RMSEA=0.033; GFI=0.908; AGFI=0.866; TLI=0.986; CFI=0.989. Furthermore, the last goodness of fit statistic is critical N developed by Hoelter(Hair, *et. al.*,(2018)).Critical N analysis is intended to estimate the size of a

Tabel2

#### Goodness of Fit for Full Model

Goodness of Fit Index	Cut-off Value	Analysis Result	Model Evaluation
Chi-Square	Expected to be low	92.402	Good
CMIN/DF	≤2.00	1.113	Good
Probability	≥0.05	0.225	Good
RMSEA	≤0.08	0.033	Good
GFI	≥0.90	0.908	Good
AGFI	≥0.90	0.866	Marginal
TLI	≥0.95	0.986	Good
CFI	≥0.95	0.989	Good
Hoelter's 0,05	≤122	108	Good
Hoelter's 0,01	≤135	108	Good

#### Significance Test for Loading Factors

sample size sufficient to produce a fit model. The model is said to be able to produce the goodness of fit, if and only if, it has a sample lower than the value of tested Hoelter with a probability of 0.05 or 0.01. The following are the results of the critical analysis of N Hoelter 0.05 and Hoelter 0.01, namely Hoelter 0.05 is 122 and Hoelter 0.01 is 135 which all meet the fit criteria because the total sample size of 108 is below the recommended Hoelter value Hair, *et. al.*,(2018). The model fit test results in a good level of acceptance.

The loading factor significance test aims to evaluate whether an indicator used

confirms that the indicator can, together with other indicators, explain a variable. The

loading factor value required is must reach  $\lambda \geq 0.50$  (Hair, *et. al.*, 2018).

**Table3**  
**Loading Factor Values ofIndicator**

Variabel	Value
Product Innovation	X <sub>1</sub> : 0.673
	X <sub>2</sub> : 0.833
	X <sub>3</sub> : 0.752
Ability to Respond Customers	X <sub>4</sub> : 0.857
	X <sub>5</sub> : 0.856
	X <sub>6</sub> : 0.836
Market Competence	X <sub>7</sub> : 0.876
	X <sub>8</sub> : 0.849
	X <sub>9</sub> : 0.843
Product Configuration Capability	X <sub>10</sub> : 0.890
	X <sub>11</sub> : 0.903
	X <sub>12</sub> : 0.819
Marketing Performance	X <sub>13</sub> : 0.855
	X <sub>14</sub> : 0.833
	X <sub>15</sub> : 0.747

Table 3 shows that the value of the  $\lambda$  coefficient or loading factors have values above 0.5, by mean that all the criteria meet the requirements and the model is good.

reliability of the next variable is to calculate the value of construct reliability and minimum extracted variance to state that the accuracy and reliability have been reached is 0.50.

**Validity and Reliability Testing**

The extent of the accuracy and validity of a measuring instrument in research is needed while knowing the reliability of research measuring instrument requires a high level of reliability. Testing the validity and

The results of the calculation of construct reliability values presented in Table 4 show that construct reliability and variance extracted have values above 0.5. This shows that the indicators used in this study have good validity and reliability to explain the variables. The proposed hypothesis is tested using the AMOS ver. 22.0 analysis tool as follows.

**Table4**  
**Construct reliability and extracted variance of full model**

Indicator	Estimates	Squared loading	Error	Construct reliability	Variance Extract
X <sub>1</sub>	0.6730	0.4529	0.5471		
X <sub>2</sub>	0.8330	0.6939	0.3061		
X <sub>3</sub>	0.7520	0.5655	0.4345		
Total	2.2580	1.7123	1.2877	0.7984	0.5708
X <sub>4</sub>	0.8570	0.7344	0.2656		
X <sub>5</sub>	0.8560	0.7327	0.2673		
X <sub>6</sub>	0.8360	0.6989	0.3011		
Total	2.5490	2.1661	0.8339	0.8863	0.7220
X <sub>7</sub>	0.8760	0.7674	0.2326		
X <sub>8</sub>	0.8490	0.7208	0.2792		
X <sub>9</sub>	0.8430	0.7106	0.2894		
Total	2.5680	2.1988	0.8012	0.8917	0.7329
X <sub>10</sub>	0.8900	0.7921	0.2079		
X <sub>11</sub>	0.9030	0.8154	0.1846		
X <sub>12</sub>	0.8190	0.6708	0.3292		
Total	2.6120	2.2783	0.7217	0.9043	0.7594

X <sub>13</sub>	0.8550	0.7310	0.2690		
X <sub>14</sub>	0.8330	0.6939	0.3061		
X <sub>15</sub>	0.7470	0.5580	0.4420		
Total	2.4350	1.9829	1.0171	0.8536	0.6610

From testing the hypotheses as listed in Table 5, it can be concluded that  $H_1$  test showed a significant result with the value of  $CR=2.935 \geq 1.96$  with probability of 0.003, the probability of testing fulfils the requirements below 0.05. Thus,  $H_1$  in this study can be accepted. This finding supports the findings of Miller (2015) and Sajilan & Tehseen (2019) that entrepreneurial innovativeness leads to high business performance.  $H_2$  test showed significant results with  $CR=4.059 \geq 1.96$  with probability of  $< 0.001$  the test probability meets the requirements below 0.05. Thus,  $H_2$  was accepted in this study. This is an important outcome. The SMEs' capability to become proactive and aggressive in responding to the customers' requirements has the advantage of firms facilitate in improving the company's performance. This characteristic is necessary for assisting firms to challenge the rapidly changing business environment and fulfil the varying emerging customers' requirements (Eggers, F., *et al.*, 2013).  $H_3$  test showed significant results with  $CR=2.777 \geq 1.96$  with probability of 0.005, then the probability of testing fulfilled the requirements below 0.05. Thus,  $H_3$  in this study can be accepted. This finding is not in line with (Radzi, *et al.*, 2017) stating that marketing competence shows an insignificant effect on business success. However Mariyono, *et al.*, (2019) found that in terms of choosing a marketing channel, marketing competence has the potential to improve business performance.

$H_4$  test showed significant results with  $CR=3.711 \geq 1.96$  with probability of  $< 0.001$ . The test probability meets the requirements of lower than 0.05, and conclude that  $H_4$  in this study is acceptable. Here, product configuration capability plays a mediating role of abilities of product innovation, customers' response and marketing competence. This means that all strategic capabilities work together in escalating marketing performance. This particular finding is powerfully relevant to a study of Hareebin, *et al.*, (2018) that highlights strategic organisational capabilities consisting of resource-based capabilities, knowledge-based capabilities, network-based capabilities play significant roles in shaping dynamic organisational strategies. This role is linked to the development of a dynamic, process-oriented strategy that seeks to maintain a higher profit and to focus on new markets. As the capabilities of SME players is crucial, it is urgently recommended that the SME players need to improve their capability. Afzal, *et al.*, (2018) suggested that the capability of entrepreneurs is strongly dependent on personal characteristics and the business environment. Thus, further studies related to the factors determining SMEs' capabilities need to be formulated. In the context of SMEs' innovation capability, providing soft loan is one alternative as suggested by Mariyono (2019) that micro-credit serves as catalyst in the process of technology and innovation adoption by the SMEs' players.

**Tabel 5**  
**Result of Test for The Full Model**

Variable relation	Estimates	S.E.	C.R	P	Decision
Product Configuration Capability ← Product Innovation	0.432	0.147	2.935	0.003	Fail to reject $H_1$
Product Configuration Capability ← Ability to Respond Customers	0.415	0.102	4.059	0.000	Fail to reject $H_2$



Product Configuration Capability	←	Market Competence	0.289	0.104	2.777	0.005	Fail to reject $H_3$
Marketing Performance	←	Product Configuration Capability	0.367	0.099	3.711	0.000	Fail to reject $H_4$

### Conclusion and Implications

The metal industry in Tegal Regency, which produces automotive parts and jewellery accessories, plays an important role in the economy of the local community. It has a multiplier effect since the metal industry supports the automotive industry sector. There is a problem related to the stagnancy of the industry. The number of business units and labour absorbed by the industry are sluggish. This study was conducted to explore and examine the capabilities of business players as the determinants of marketing performance. By using SEM based on the surveyed business players, this study shows significant findings that can be used to improve the performance. The industry capability in configuring product transformation led to marketing performance. This capability served as mediating factors of abilities of the industry to respond to customers' needs, to innovate the product, and to increase market competence.

The managerial implication of this research is that metal SMEs that produce automotive parts and jewelry accessories must be able to create new products, add to existing products, improve and revise existing products that need to be maintained. The ability to enter new markets, meet market demands and find market information for automotive parts and jewelry accessories products must be improved, as well as the ability to meet customer demands, respond to customers and meet customer perceptions. By increasing product innovation, customer response and market opportunities will improve product configuration capabilities

when producing automotive parts and jewelry accessories. Thus the Tegal metal SME products will become top of mind, embedded more deeply in the minds of consumers. Furthermore, increasing all the capabilities of the metal SMEs will result in an increase in their marketing performance.

The theoretical implication provides an overview of the references used in this study, be it a reference to problems, modeling, results and previous research agendas. The theoretical implication is a reflection for any research. From the results of the full model analysis, a theoretical implication is obtained, namely when metal SMEs have the goal of improving marketing performance, metal SMEs need to consider how to improve product configuration capability. Based on the research results, the increase in product configuration capability has an effect on increasing marketing performance. The full model test results show that product configuration capability has an important role in improving the marketing performance of metal SMEs (0.39). Product configuration capability is influenced by product innovation (0.32), ability to respond to costumers (0.37) and market competence (0.28). In order to achieve the company can maximally enhance that product configuration capability, it must pay attention to product innovation, ability to respond costumers and market competence. Marketing performance can increase to the maximum if metal SMEs attention to product configuration capability, product innovation, ability to respond costumers and market competence.

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## The table of revision

<b>The reviewers' comments 1:</b>			
No.	The reviewers' comments	The revisions	The pages of revision
1.	Comment (R1) : Pay attention to the data (indicators) that have been used. The indicator is not yet isomorphic with the construct. Marketing performance is not sufficiently reflected in sales results. It would be more appropriate to use the term SME products accessibility	X <sub>13</sub> : Product success X <sub>14</sub> : Growth in product marketing reach X <sub>15</sub> : Market share	7
2.	Comment (R2) : Data used is only sales results	The concept for measuring the market performance of a product	7
3.	Comment (R3) : If the provisions of this standard are used, it becomes irrelevant to the object under study. Especially for the term product configuration capability. If the products produced are (intermediate goods) to meet the needs of large companies, then small entrepreneurs are required to meet the standards set by large companies. Conversely, the term product configuration capability will be more relevant if the research subjects are small entrepreneurs producing products for end consumers, accessories and modification enthusiasts.	Small and medium sized enterprises (SMEs) of metal industry on Tegal region have the potential to be developed into the metal industry, which produces accessories and modification products enthusiasts for end consumers.	1
4.	Comment (R4) : Should not be displayed, because it does not match the object under study	Figure is not displayed	2
5.	Comment (R5) : However, the researchers did not say what the difference was	The problem in this study stems from the existence of a research gap on the results of a product innovation research on marketing performance. Studies Hua & Wemmerlöv (2006) who studied 55 US companies in the personal computer (PC) industry, found that firm's product change frequency	3

		<p>were confirmed to increase market share and market growth performance. Sharma &amp; Davcik (2017) research which examines the types of small and medium sized retail companies (SMEs), and multinational companies (MNC) using signaling theory and dynamic marketing capability (DMC) perspective from resource based theory (RBT) found that product innovation enables companies to not only develop new market segments but also expand its current market segments and product portfolios. Study Hanfan &amp; Setiawan (2018) which examined 118 Brebes salted egg SMEs stated regiosentric product innovation increased sales growth, sales volume and sales profit.</p> <p>Otherwise Baker &amp; Sinkula (1999) states that product innovation has no effect on organizational performance, but market oriented organizations will formally carry out activities that produce market intelligence and disseminate intelligence results to all departments and are responsive to follow up on what consumers need and expect. Han, <i>et. al.</i>,(1998) who examined the banking industry found a missing link between the relationship between market orientation and organizational performance. The missing link is the absence of a relationship between product</p>	
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		<p>innovation and organizational performance. Canh, <i>et al.</i>, (2019) who examined Vietnamese manufacturing companies during 2011-2013, showed that process and product innovation were beneficial for company performance in terms of market share, but not return on total assets. This implies that investing in innovative activities takes time to create positive change in profitability, but may help win customer loyalty. They also found evidence suggested that innovation can make companies more blurred, especially when there are external parties involved.</p>	
6.	<p>Comment (R6) : Wrong statement, need to be rewritten</p>	<p>The problem in this study stems from the existence of a research gap on the results of a product innovation research on marketing performance. Studies Hua &amp; Wemmerlöv (2006) who studied 55 US companies in the personal computer (PC) industry, found that firm's product change frequency were confirmed to increase market share and market growth performance. Sharma &amp; Davcik (2017) research which examines the types of small and medium sized retail companies (SMEs), and multinational companies (MNC) using signaling theory and dynamic marketing capability (DMC) perspective from resource based theory (RBT) found that product innovation enables companies</p>	3

		<p>to not only develop new market segments but also expand its current market segments and product portfolios. Study Hanfan &amp; Setiawan (2018) which examined 118 Brebes salted egg SMEs stated regiosentric product innovation increased sales growth, sales volume and sales profit.</p> <p>Otherwise Baker &amp; Sinkula (1999) states that product innovation has no effect on organizational performance, but market oriented organizations will formally carry out activities that produce market intelligence and disseminate intelligence results to all departments and are responsive to follow up on what consumers need and expect. Han, <i>et. al.</i>,(1998) who examined the banking industry found a missing link between the relationship between market orientation and organizational performance. The missing link is the absence of a relationship between product innovation and organizational performance. Canh, <i>et al.</i>, (2019) who examined Vietnamese manufacturing companies during 2011-2013, showed that process and product innovation were beneficial for company performance in terms of market share, but not return on total assets. This implies that investing in innovative activities takes time to create positive change in</p>	
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		profitability, but may help win customer loyalty. They also found evidence suggested that innovation can make companies more blurred, especially when there are external parties involved.	
7.	Comment (R7) : It makes no sense to compare it to a false statement	<p>The problem in this study stems from the existence of a research gap on the results of a product innovation research on marketing performance. Studies Hua &amp; Wemmerlöv (2006) who studied 55 US companies in the personal computer (PC) industry, found that firm's product change frequency were confirmed to increase market share and market growth performance. Sharma &amp; Davcik (2017) research which examines the types of small and medium sized retail companies (SMEs), and multinational companies (MNC) using signaling theory and dynamic marketing capability (DMC) perspective from resource based theory (RBT) found that product innovation enables companies to not only develop new market segments but also expand its current market segments and product portfolios. Study Hanfan &amp; Setiawan (2018) which examined 118 Brebes salted egg SMEs stated regiosentric product innovation increased sales growth, sales volume and sales profit.</p> <p>Otherwise Baker &amp; Sinkula (1999) states that product innovation has no effect on</p>	3



		<p>organizational performance, but market oriented organizations will formally carry out activities that produce market intelligence and disseminate intelligence results to all departments and are responsive to follow up on what consumers need and expect. Han, <i>et. al.</i>,(1998) who examined the banking industry found a missing link between the relationship between market orientation and organizational performance. The missing link is the absence of a relationship between product innovation and organizational performance. Canh, <i>et al.</i>, (2019) who examined Vietnamese manufacturing companies during 2011-2013, showed that process and product innovation were beneficial for company performance in terms of market share, but not return on total assets. This implies that investing in innovative activities takes time to create positive change in profitability, but may help win customer loyalty. They also found evidence suggested that innovation can make companies more blurred, especially when there are external parties involved.</p>	
8.	<p>Comment (R8) : Measured by a ten point rating scale ?</p>	<p>This study uses primary data, namely data obtained by interview based on a list of questions to a number of respondents selected for this study. Data collection was carried out by survey method</p>	6 & 7

		<p>through a structured questionnaire with a ten-point rating scale.</p> <p>X<sub>13</sub>: Product success  X<sub>14</sub>: Growth in product marketing reach  X<sub>15</sub>: Market share</p>	
9.	Comment (R9) : Isn't it the more the number of samples the better	<p>Furthermore, the last goodness of fit statistic is critical N developed by Hoelter (Hair, <i>et. al.</i>,(2018).Critical N analysis is intended to estimate the size of a sample size sufficient to produce a fit model. The model is said to be able to produce the goodness of fit, if and only if, it has a sample lower than the value of tested Hoelter with a probability of 0.05 or 0.01. The following are the results of the critical analysis of N Hoelter 0.05 and Hoelter 0.01, namely Hoelter 0.05 is 122 and Hoelter 0.01 is 135 which all meet the fit criteria because the total sample size of 108 is below the recommended Hoelter value Hair, <i>et. al.</i>,(2018). The model fit test results in a good level of acceptance.</p>	7
10.	Comment (R10) : Inconsistency	Product Innovation	8
11.	Comment (R11) : Is it true that machine parts and components (not accessories) require the product configuration capabilities of a small and medium enterprise? Don't they need product standardization?	<p>The metal industry in Tegal Regency, which produces automotive parts and jewellery accessories, plays an important role in the economy of the local community.It has a multiplier effect since the metal industry supports the automotive industry sector.</p>	10
<b>The reviewers' comments 2 :</b>			

No.	The reviewers' comments	The revisions	The pages of revision
1.	<p><b>INTRODUCTION</b></p> <p>This section should be used by the authors to explain why this study is interesting, important, or relevant for the journal's readers. Why is it interesting/important/relevant to read an article about metal industry in Central Java? Why not investigating another industry? Moreover, what kind of business problems – or in this case marketing problems – faced by the industry? Why did the authors relate the marketing problem with the industry capability? Is there any data to suspect that the problems were caused by the industry capability? And on what basis did the authors choose the three antecedents in this study? Did those three antecedents play some parts in the problems? All of these were missing in the current version of the manuscript. In reporting scientific studies, we can not just choose some variables to study without explaining the scientific logical reasoning.</p> <p>Moreover, the research questions or objectives should be explained explicitly in this section, to help the readers understand what this study was trying to answer. Please address these following points in the Introduction, (1) why this topic is important, interesting, and relevant for the journal's readers? (2) the research questions this study was trying to answer, (3) what business/marketing problems this industry was facing? Explain it and support the explanation with solid data, (4) what reasons behind the decision to choose those antecedents? and (5) what contributions this paper was trying to offer? What research gaps this paper was trying to address?</p>	<p>(1). The metal industry in Tegal Regency is worth researching because the metal SMEs play an important role in the economy of Tegal district, in terms of numbers of business units, employment and contribution to regional income. The number of business units increased at a decreasing rate from about 2930 units in 2011 to 2995 units in 2018 and became stagnant during the last three years. The industries absorbed about 32,000 labour, in spite of its stagnancy during the period. The contribution to the regional income in the form of local tax increased steadily from about 22 billion IDR to 107 billion IDR (BPS, 2019). Despite the significant increase in the contribution to regional income, the number of business units and employment are relatively sluggish. It should be noted that SMEs play a significant role in economic development (Bloch &amp; Bhattacharya, 2016). As the SMEs are the backbone of the economy both at a local, regional and national level, there is a need to continue to grow in order to absorb the labour force and support other industries that use the products.</p> <p>(2). This study aims to test empirically the effect of product innovation on</p>	<p>2</p> <p>3</p>

		<p>product configuration capability, the influence of the ability to respond costumers to product configuration capability, the influence of market competence on product configuration capability and the influence of product configuration capability on marketing performance. This study also aims to bridge the research gap between product innovation and marketing performance through the mediating variable product configuration capability. The research is exploring product configuration capabilities to improve marketing performance. This study is expected to provide a contribution to fill the gap and address the local problem.</p> <p>(3) The problem in this study stems from the existence of a research gap on the results of a product innovation research on marketing performance. Studies Hua &amp; Wemmerlöv (2006) who studied 55 US companies in the personal computer (PC) industry, found that firm's product change frequency were confirmed to increase market share and market growth performance. Sharma &amp; Davcik (2017) research which examines the types of small and medium sized retail companies (SMEs), and multinational companies (MNC) using signaling theory and dynamic marketing capability (DMC) perspective</p>	<p>2 &amp; 3</p>
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		<p>from resource based theory (RBT) found that product innovation enables companies to not only develop new market segments but also expand its current market segments and product portfolios. Study Hanfan &amp; Setiawan (2018) which examined 118 Brebes salted egg SMEs stated regiosentric product innovation increased sales growth, sales volume and sales profit.</p> <p>Otherwise Baker &amp; Sinkula (1999) states that product innovation has no effect on organizational performance, but market oriented organizations will formally carry out activities that produce market intelligence and disseminate intelligence results to all departments and are responsive to follow up on what consumers need and expect. Han, <i>et. al.</i>,(1998) who examined the banking industry found a missing link between the relationship between market orientation and organizational performance. The missing link is the absence of a relationship between product innovation and organizational performance. Canh, <i>et al.</i>, (2019) who examined Vietnamese manufacturing companies during 2011-2013, showed that process and product innovation were beneficial for company performance in terms of market share, but not return on</p>	
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		<p>total assets. This implies that investing in innovative activities takes time to create positive change in profitability, but may help win customer loyalty. They also found evidence suggested that innovation can make companies more blurred, especially when there are external parties involved.</p> <p>The second problem is the number of business units and labour working for metal industries in the region is sluggish (BPS, 2019). The number of business units increased at a decreasing rate from about 2930 units in 2011 to 2995 units in 2018 and became stagnant during the last three years. The industries absorbed about 32,000 labour, in spite of its stagnancy during the period. The contribution to the regional income in the form of local tax increased steadily from about 22 billion IDR to 107 billion IDR (BPS, 2019). Despite the significant increase in the contribution to regional income, the number of business units and employment are relatively sluggish. It should be noted that SMEs play a significant role in economic development (Bloch &amp; Bhattacharya, 2016). As the SMEs are the backbone of the economy both at a local, regional and national level, there is a need to continue to grow in order to absorb the labour force and support other industries that use the products.</p>	
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		<p>(4) This study aims to test empirically the effect of product innovation on product configuration capability, the influence of the ability to respond costumers to product configuration capability, the influence of market competence on product configuration capability and the influence of product configuration capability on marketing performance. This study also aims to bridge the research gap between product innovation and marketing performance through the mediating variable product configuration capability. The research is exploring product configuration capabilities to improve marketing performance. This study is expected to provide a contribution to fill the gap and address the local problem.</p> <p>(5) The managerial implication of this research is that metal SMEs that produce automotive parts and jewelry accessories must be able to create new products, add to existing products, improve and revise existing products that need to be maintained. The ability to enter new markets, meet market demands and find market information for automotive parts and jewelry accessories products must be improved, as well as the ability to meet customer demands, respond to customers and meet customer perceptions. By increasing product innovation, customer</p>	<p>3</p> <p>12</p>
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		<p>response and market opportunities will improve product configuration capabilities when producing automotive parts and jewelery accessories. Thus the Tegal metal SME products will become top of mind, embedded more deeply in the minds of consumers. Furthermore, increasing all the capabilities of the metal SMEs will result in an increase in their marketing performance.</p> <p>The theoretical implication provides an overview of the references used in this study, be it a reference to problems, modeling, results and previous research agendas. The theoretical implication is a reflection for any research. From the results of the full model analysis, a theoretical implication is obtained, namely when metal SMEs have the goal of improving marketing performance, metal SMEs need to consider how to improve product configuration capability. Based on the research results, the increase in product configuration capability has an effect on increasing marketing performance. The full model test results show that product configuration capability has an important role in improving the marketing performance of metal SMEs (0.39). Product configuration capability is influenced by product</p>	
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		<p>innovation (0.32), ability to respond to costumers (0.37) and market competence (0.28). In order to achieve the company can maximally enhance that product configuration capability, it must pay attention to product innovation, ability to respond costumers and market competence. Marketing performance can increase to the maximum if metal SMEs attention to product configuration capability, product innovation, ability to respond costumers and market competence.</p>	
<p>2.</p>	<p><b>LITERATURE REVIEW</b></p> <p>When I read the literature review section of this manuscript, I found it aimless. It was not well structured. There is no framework used as a guidance to present the literature review. There is no grand theory that was properly explained to underpin this study. The authors should use the literature review to explain what has been done (and what has not been done) in previous studies on those constructs investigated. What potential gap that may exist – and what literature gap addressed by this study.</p> <p>Moreover, to develop a hypothesis, the authors must explain the conceptual logic behind the hypothesis. For example, in developing H1, the authors must explain how come did the authors think that the higher the product innovation, the higher the capability. Explain the logic. In this current version of the manuscript, I found that the development of all the hypotheses was not properly explained, the authors did not explain the logic behind the hypothesis development. To enhance</p>	<p>Based on the concept of dynamic capability and marketing mixture approaches, product configuration capability propositions can be arranged as a novelty in this research. Product configuration capability is the company's ability to configure products with visibility/clarity of product origin, products that are different from competitors and products that are difficult to replicate, so the products produced by the company are efficient and of high quality. Product configuration capability is expected to create sustainable competitive advantage and eventually to improve marketing performance.</p> <p><i>H<sub>1</sub></i>: The better the product innovation, the better the product configuration capability.</p>	<p>4</p> <p>4</p>

	<p>the paper quality, please (1) explain the conceptual logic behind the development of all and every hypothesis, (2) enrich the literature by analyzing what has been done – and what has not been done – in the previous studies, and what theoretical contribution that this study might offer, and (3) explain more appropriately the grand theory used to underpin this study – and develop your literature review in a more structured manner following the grand theory chosen.</p>	<p>Innovation is the company's mechanism to adapt in a dynamic environment; therefore, companies are required to be able to create new thoughts, new ideas, and offer innovative products and service improvements that satisfy customers (Hurley &amp; Hult, 1998). There are six indicators of product innovation including new products for the world, new product lines, additions to existing product lines, improvements and revisions to existing products, redefining and reducing costs (Kotler &amp; Armstrong, 2014).</p> <p>The results of the study by Su,<i>et al.</i>, (2018) show that budget slack, information system quality, innovation process and product all innovations are significantly related to configuration capability innovation, where high-quality information and low budget slack levels are key factors that support innovation capacity. In addition, configuration capability has a full mediating effect, that is, the perception of innovation needs positively influences the capability of configuration, which, in turn, improves organizational performance. Supported by the research results above, it is hoped that the better the innovation carried out by metal SMEs the better the</p>
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		product configuration capability.	
3.	<p><b>RESEARCH METHOD</b></p> <p>In this section, the authors must explain in detail how the research process was designed – so that the readers can replicate the study. Therefore, some basic information must be provided. However, this manuscript didn't explain many basic information that should be presented.</p> <p>1. For example, there is no information about who were the respondents. The authors mentioned that this study involved 108 respondents. But there is no information whatsoever about who were they. How were they approached? How were they selected? What sampling technique was adopted by the authors? How was the response rate?</p> <p>2. The authors mentioned that this study reported in the manuscript was a descriptive study. Were the authors familiar with descriptive study, or even research method in general?</p> <p>3. The authors should also explain how they got the measurement items – from what articles they obtained the measurement items, from whom they adopted the OD of each construct, otherwise, the authors can be considered as committing to research unethical behavior or even plagiarism.</p> <p>4. To be brutally honest, I am really skeptical about the statistical result reported by this study. Investigating a quite big model – with each construct measured only by 3 indicators, and with only 108 respondents using AMOS, but came up with a good fit result is very unlikely to happen.</p> <p>To improve the quality of the manuscript, please address all points that I have highlighted above – the</p>	<p>1. This study was conducted with a population of 4000 SMEs metal entrepreneurs in Tegal Regency, Central Java Province, Indonesia. The number of samples used was 108 owners of metal industry SMEs,</p> <p>2. Has been eliminated.</p> <p>3. This study uses primary data, namely data obtained by interview based on a list of questions to a number of respondents selected for this study. Data collection was carried out by survey method through a structured questionnaire with a ten-point rating scale.</p> <p>4. The original AMOS analysis results are in appendix 1 (Lampiran 1 TEXT OUTPUT AMOS 22)</p>	<p>6</p> <p>6</p> <p>6</p>

	<p>respondents, the sampling technique, the data collection procedure, the response rate, and the sources of the ODs and indicators. Also, if this manuscript is resubmitted after revision, I'd love to see the original AMOS results – copy and paste the results from the AMOS to the word file, then submit it with the manuscript/response to reviewer's comment.</p>		
<p>4.</p>	<p><b>RESULTS AND DISCUSSION</b>  Please understand that the authors should use the Results section and Discussion section differently. The authors can use the Results section to report the statistical numbers and the results of the hypotheses tests, meanwhile, in the Discussion section, the authors should explain the statistical results – elaborate the results with the theories or compare and contrast the results with the findings from prior studies, then tell the readers how the results answer the research problems presented in the Introduction. The problems with this manuscript were (1) the business problems were not explained, and (2) the underpinning theories were not explained either. Therefore, the discussion must be very bland and shallow. In this current version of the manuscript, the statistical results were not properly discussed. To improve the quality of this manuscript, (1) present the revision by splitting the results and discussion section to ensure that the authors do the homework, (2) for the Results section, focus on reporting the statistical tests and their numbers, while for the Discussion section, compare and contrast the results with the literature and the theory – elaborate them and suggest whether the study answer the research problem.</p>	<p>(1)From testing the hypotheses as listed in Table 5, it can be concluded that <math>H_1</math> test showed insignificant results with the value of <math>CR=2.935 \geq 1.96</math> with probability of 0.003, the probability of testing fulfils the requirements below 0.05. Thus, <math>H_1</math> in this study can be accepted. This finding supports the findings of Miller (2015) and Sajilan &amp; Tehseen (2019) that entrepreneurial innovativeness leads to high business performance. <math>H_2</math> test showed significant results with <math>CR=4.059 \geq 1.96</math> with probability of <math>&lt; 0.001</math> the test probability meets the requirements below 0.05. Thus, <math>H_2</math> was accepted in this study. This is an important outcome. The SMEs' capability to become proactive and aggressive in responding to the customers' requirements has the advantage of firms facilitate in improving the company's performance. This characteristic is</p>	<p>9</p>

		<p>necessary for assisting firms to challenge the rapidly changing business environment and fulfil the varying emerging customers' requirements (Eggers, F., <i>et al.</i>, 2013). <math>H_3</math> test showed significant results with <math>CR=2.777 \geq 1.96</math> with probability of 0.005, then the probability of testing fulfilled the requirements below 0.05. Thus, <math>H_3</math> in this study can be accepted. This finding is not in line with (Radzi, <i>et al.</i>, 2017) stating that marketing competence shows an insignificant effect on business success. However Mariyono, <i>et al.</i>, (2019) found that in terms of choosing a marketing channel, marketing competence has the potential to improve business performance. <math>H_4</math> test showed significant results with <math>CR=3.711 \geq 1.96</math> with probability of <math>&lt;0.001</math>. The test probability meets the requirements of lower than 0.05, and conclude that <math>H_4</math> in this study is acceptable. Here, product configuration capability plays a mediating role of abilities of product innovation, customers' response and marketing competence. This means that all strategic capabilities work together in escalating marketing performance. This</p>	
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		<p>particular finding powerfully relevant to a study of Hareebin, <i>et al.</i>, (2018) that highlights strategic organisational capabilities consisting of resource-based capabilities, knowledge-based capabilities, network-based capabilities play significant roles in shaping dynamic organisational strategies. This role is linked to the development of a dynamic, process-oriented strategy that seeks to maintain a higher profit and to focus on new markets. As the capabilities of SME players is crucial, it is urgently recommended that the SME players need to improve their capability. Afzal, <i>et al.</i>, (2018) suggested that the capability of entrepreneurs is strongly dependent on personal characteristics and the business environment. Thus, further studies related to the factors determining SMEs' capabilities need to be formulated. In the context of SMEs' innovation capability, providing soft loan is one alternative as suggested by Mariyono (2019) that micro-credit serves as catalyst in the process of technology and innovation adoption by the SMEs' players.</p> <p>(2) The metal industry in Tegal Regency, which</p>	
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		<p>produces automotive parts and jewellery accessories, plays an important role in the economy of the local community. It has a multiplier effect since the metal industry supports the automotive industry sector. There is a problem related to the stagnancy of the industry. The number of business units and labour absorbed by the industry are sluggish. This study was conducted to explore and examine the capabilities of business players as the determinants of marketing performance. By using SEM based on the surveyed business players, this study shows significant findings that can be used to improve the performance. The industry capability in configuring product transformation led to marketing performance. This capability served as mediating factors of abilities of the industry to respond to customers' needs, to innovate the product, and to increase market competence.</p> <p>The managerial implication of this research is that metal SMEs that produce automotive parts and jewelry accessories must be able to create new products, add to existing products, improve and revise existing products that need to be maintained. The ability to enter new</p>	10
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		<p>markets, meet market demands and find market information for automotive parts and jewelry accessories products must be improved, as well as the ability to meet customer demands, respond to customers and meet customer perceptions. By increasing product innovation, customer response and market opportunities will improve product configuration capabilities when producing automotive parts and jewelery accessories. Thus the Tegal metal SME products will become top of mind, embedded more deeply in the minds of consumers. Furthermore, increasing all the capabilities of the metal SMEs will result in an increase in their marketing performance.</p> <p>The theoretical implication provides an overview of the references used in this study, be it a reference to problems, modeling, results and previous research agendas. The theoretical implication is a reflection for any research. From the results of the full model analysis, a theoretical implication is obtained, namely when metal SMEs have the goal of improving marketing performance, metal SMEs need to consider how to</p>	
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		<p>improve product configuration capability. Based on the research results, the increase in product configuration capability has an effect on increasing marketing performance. The full model test results show that product configuration capability has an important role in improving the marketing performance of metal SMEs (0.39). Product configuration capability is influenced by product innovation (0.32), ability to respond to costumers (0.37) and market competence (0.28). In order to achieve the company can maximally enhance that product configuration capability, it must pay attention to product innovation, ability to respond costumers and market competence. Marketing performance can increase to the maximum if metal SMEs attention to product configuration capability, product innovation, ability to respond costumers and market competence.</p>	
5.	<p><b>CONCLUSION</b>  In the Conclusion section, the authors should explain the contributions or implications of their research, both to the literature and the practitioners/managers. However, the contributions and the implications explained should be based on the findings of the study, not from any random sources that were not explained</p>	<p>The managerial implication of this research is that metal SMEs that produce automotive parts and jewelry accessories must be able to create new products, add to existing products, improve and revise existing products that need to be maintained. The ability to enter new</p>	10

	<p>or investigated. The contributions should also be clearly presented. In this current version of the manuscript, the managerial implications explained were normative – and they were not linked to the business problems that the industry is facing as they should be (sure, because the authors did not explain the problems at the beginning). It is difficult to identify the managerial implications if the study doesn't identify the managerial problems as the research background. Moreover, this study didn't identify any theoretical contribution. Does it mean that this study has no theoretical contribution to offer? If so, why did the authors submit this manuscript to an academic journal? Please address all of these issues.</p>	<p>markets, meet market demands and find market information for automotive parts and jewelry accessories products must be improved, as well as the ability to meet customer demands, respond to customers and meet customer perceptions. By increasing product innovation, customer response and market opportunities will improve product configuration capabilities when producing automotive parts and jewelry accessories. Thus the Tegal metal SME products will become top of mind, embedded more deeply in the minds of consumers. Furthermore, increasing all the capabilities of the metal SMEs will result in an increase in their marketing performance.</p>	
<b>The reviewers' comments 3 :</b>			
No.	The reviewers' comments	The revisions	The pages of revision
1.	Comment (A1) : Abstract must be in italic	<i>Abstract</i>	1
2.	Comment (A2) : This needs further editing. If you are making a couple of recommendations in one line, then I suggest break it down.	<i>The results found that product configuration capabilities can improve product success, growth in product marketing reach and market share product. This study is expected to provide a contribution to both theoretical and practical knowledge of strategic management. Business players should focus on developing dynamic capabilities to address the constantly changing business environment.</i>	1
3.	Comment (A3) : This is very confusing to read. Get the meaning right. Simplify this wording	Based on the description above, the following hypothesis can be proposed:	4

4.	Comment (A4) : Capability is built in or is it needed?	<i>H<sub>1</sub></i> : The better the product innovation, the better the product configuration capability.	4
5.	Comment (A5) : This is wrong writing. Look at and follow the example in the template. Check the others and revise them.	However Mariyono, <i>et al.</i> , (2019) found that in terms of choosing a marketing channel, marketing competence has the potential to improve business performance.	9
6.	Comment (A6) : Remove all horizontal lines in the body of table. Look at and follow the example in the template. Check the others and revise them.	All horizontal lines in the body of the table have been deleted	7,8,9,12
7.	Comment (A7) : All the statistical and mathematics symbols must be written in italic. Look at and follow the example in the template. Check the others and revise them.	All statistical and mathematical symbols are in italics	4,5,6,9
8.	Comment (A8) : This is a very interesting study and some robust results as well. I think the authors need to spend more time on fleshing out the results via discussion and implications. I am also suggesting that they cut back on the results section and instead talk about its implications. That is where the story of this research is. Get into the details.	The managerial implication of this research is that metal SMEs that produce automotive parts and jewelry accessories must be able to create new products, add to existing products, improve and revise existing products that need to be maintained. The ability to enter new markets, meet market demands and find market information for automotive parts and jewelry accessories products must be improved, as well as the ability to meet customer demands, respond to customers and meet customer perceptions. By increasing product innovation, customer response and market opportunities will improve product configuration capabilities when producing automotive parts and jewelry accessories. Thus the Tegal metal SME products will	10

		<p>become top of mind, embedded more deeply in the minds of consumers. Furthermore, increasing all the capabilities of the metal SMEs will result in an increase in their marketing performance.</p> <p>The theoretical implication provides an overview of the references used in this study, be it a reference to problems, modeling, results and previous research agendas. The theoretical implication is a reflection for any research. From the results of the full model analysis, a theoretical implication is obtained, namely when metal SMEs have the goal of improving marketing performance, metal SMEs need to consider how to improve product configuration capability. Based on the research results, the increase in product configuration capability has an effect on increasing marketing performance. The full model test results show that product configuration capability has an important role in improving the marketing performance of metal SMEs (0.39). Product configuration capability is influenced by product innovation (0.32), ability to respond to costumers (0.37) and market competence (0.28). In order to achieve the company can maximally enhance that product configuration capability, it must pay attention to product</p>	
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		<p>innovation, ability to respond costumers and market competence. Marketing performance can increase to the maximum if metal SMEs attention to product configuration capability, product innovation, ability to respond costumers and market competence.</p>	
9.	<p>Comment (A9) : Make sure all the citation sources in the text are listed in the references. Vice versa. Write the references correctly. Look at and follow the example in the template. Check the others and revise them</p>	<p style="text-align: center;"><b>References</b></p> <p>Afzal, M. N. I., Siddiqui, S. A., Mansur, K. H., &amp; Sulong, R. S. (2018). An empirical investigation of factors affecting entrepreneurial capability (EC) environment in ASEAN-5 economies. <i>Asian Academy of Management Journal</i>, 23 (2), 25–44. Bloch, H., &amp; Bhattacharya. (2016). Promotion of innovation and job growth in small- and medium-sized enterprises in Australia: Evidence and policy issues. <i>Australian Economic Review</i>, 49 (2), 192–99.</p> <p>Baker, W. E., &amp; Sinkula, J. M. (1999). Learning orientation, market orientation, and innovation: Integrating and extending models of organizational performance. <i>Journal of Market Focused Management</i>, 4 (4), 295–308.</p> <p>BPS. (2019). Kabupaten Tegal dalam angka.</p> <p>Canh, N., Nguyen, Liem., Thu, P. A., &amp; Vinh K. N. (2019). The impact of innovation on the firm performance and corporate social responsibility of Vietnamese manufacturing</p>	10

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# PRODUCT CONFIGURATION CAPABILITY FOR IMPROVING MARKETING PERFORMANCE OF SMALL AND MEDIUM METAL INDUSTRY IN CENTRAL JAVA - INDONESIA

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## *Abstract*

*This study explores and examines the role of product configuration capabilities to improve marketing performance. Product configuration capability represents the company's ability to configure products with visibility/clarity of product origin, products that are different from competitors and products that are difficult to imitate. This capability indicates that the products produced by the company are more efficient and **quality** than that of others. The results found that product configuration capabilities can improve product success, growth in product marketing reach and market share product. This study is expected to provide a contribution to both theoretical and practical knowledge of strategic management. **Business players had focussed on developing dynamic capabilities to address the constantly changing business environment.***

**Keywords:** Dynamic capability, marketing mixture, product configuration capability, ability to respond costumers, market competence

## **Introduction**

**Business opportunities in a local environment are always open to both new and old companies. To be able to capture these opportunities, companies require to have the ability to provide timely and fast responses. Capabilities must be possessed by the companies in terms of shaping, reshaping, configuring, and reconfiguring company capabilities.** They can respond to changes in the environment well by making flexible product innovations, combined with management capabilities for effective coordination and placing internal competencies as well as externally appropriately (Teece, *et al.*, 1997).

Small and medium sized enterprises (SMEs) of metal industry on Tegal region have the potential to be developed into the metal industry, which produces accessories and modification products enthusiasts for end consumers. The quality of the products produced by these SMEs is not underestimated, as evidenced by several well-known companies entrusting some of the engine components constructed by the industry. The Industrial and Labor District Service of Tegal recorded that there were nearly 4000 SMEs in the district. Metal SMEs in the district has a variety of products, including automotive parts and jewellery

accessories (Gumilang, 2018). In order to survive, the metal processing industries require dynamic capabilities to face the challenge of globalization which causes rapid changes. The development of the metal industries was supposed to be Japan's Indonesia, because the Tegal metal casting and craft industry, which was built since 1940, was intended to meet the need for war equipment for the Japanese army.

**The community began to acquire the skills to work on metal so that the expertise was used to build simple workshops in the aftermath. The production processes are conducted at home workshops. Besides being known for having high creativity, the Tegal community is also known for being reliable in the metal industry. All of that can be created from the cool and creative hands of the community. The metal industry's business activities in the district consist of metal working and casting to manufacture automotive parts and jewellery accessories (Nugroho, 2017).**

The metal industry in Tegal Regency is worth researching because the metal SMEs play an important role in the economy of Tegal district, in terms of numbers of business units, employment and contribution to regional income. The number of business units increased at a decreasing rate from about 2930 units in 2011 to 2995 units in 2018 and

became stagnant during the last three years. The industries absorbed about 32,000 labour, in spite of its stagnancy during the period. The contribution to the regional income in the form of local tax increased steadily from about 22 billion IDR to 107 billion IDR (BPS, 2019). Despite the significant increase in the contribution to regional income, the number of business units and employment are relatively sluggish. It should be noted that SMEs play a significant role in economic development (Bloch & Bhattacharya, 2016). As the SMEs are the backbone of the economy both at a local, regional and national level, there is a need to continue to grow in order to absorb the labour force and support other industries that use the products.

Wang & Ahmed (2007) suggested the importance of companies to have dynamic capabilities. To realize the dynamic capabilities, companies must have three capabilities, namely adaptive capability, absorptive capability and innovative capacity. Adaptive capability is the ability to identify and capitalize on any opportunities arising from the market. The adaptive capability is measured from the ability to respond to opportunities, monitor markets, customers and competitors, and allocate resources for marketing activities. Absorptive capability is the ability to evaluate and utilize knowledge from outside the organization. Absorptive capability is indicated by the intensity of research and development activities. Innovative capability is the ability to develop new products or markets. Innovative capability is measured by the number of product or service innovations, process innovations, and solutions to new problems. Dynamic capability is the ability to form, reshape, configure, and reconfigure company capabilities so that they can respond to changes in the environment well (Teece, *et al.*, 1997). Dynamic capabilities that lead to innovation are absolutely necessary if the company wants to be consistent in pursuing revenue.

The dynamic capability process within a company consists of three things, namely the ability to interpret, to integrate, and to carry out operations (Teece, 2007). Chen & Geraldine (2007) argued that two important factors determine the dynamic capabilities, namely people who are able

(capable people) and systems that are unified (agile process). M.Hess & Rothaermel (2007) mentioned three factors, namely people, organizations and organizational networks. These two studies differ in the context of the research. The former has a homogeneous environment, and limited actors and the later has a heterogeneous and multi-actor environment. The dynamic capabilities of the company enable the company to do the sensing stage faster than the existing company. The company can also do the seizing stage effectively and support the transformation phase needed to remain competitive (Schoemaker & George, 2016). In practice, there are similarities in the sensing process in all types of industries. Therefore, managers should not merely adjust internal strategies to respond to environmental changes, but must also need to be capable of developing unique capabilities that are not possessed by competitors (Helfat & Peteraf, 2003).

Based on the three dynamic capability components mentioned above, the recognising stage is the initial stage that must be well understood by the company. That is because the sensing process is a process for developing valid and accurate hypotheses about what is happening in the business environment. This is a process where the company tries to look back at the opportunities in front of the organization. Teece (2009) argues that the opportunity can occur through two things: first, because the organization gets the same information from the perspective of different sources; secondly because organizations gain new knowledge and information. The dynamic lens capability enables companies to feel opportunities faster than other companies, seize their markets more effectively and support the organizational transformation needed to stay ahead. Dynamic capabilities can be broadly classified into first-order or operational levels and second-order or dynamic capabilities. Basic level activities are the company's operational capability in carrying out daily activities while dynamic capability is the ability to develop and arrange configurations so that these daily activities can have a certain order. Like in a music orchestra, the dynamic capability is the ability to manage musicians consisting of individuals with a variety of musical instruments.

The problem in this study stems from the existence of a research gap on the results of a product innovation research on marketing performance. Studies Hua & Wemmerlöv (2006) who studied 55 US companies in the personal computer (PC) industry, found that firm's product change frequency were confirmed to increase market share and market growth performance. Sharma & Davcik (2017) research which examines the types of small and medium sized retail companies (SMEs), and multinational companies (MNC) using signaling theory and dynamic marketing capability (DMC) perspective from resource based theory (RBT) found that product innovation enables companies to not only develop new market segments but also expand its current market segments and product portfolios. Study Hanfan & Setiawan (2018) which examined 118 Brebes salted egg SMEs stated regiosentric product innovation increased sales growth, sales volume and sales profit.

Otherwise Baker & Sinkula (1999) states that product innovation has no effect on organizational performance, but market oriented organizations will formally carry out activities that produce market intelligence and disseminate intelligence results to all departments and are responsive to follow up on what consumers need and expect. Han, *et al.*, (1998) who examined the banking industry found a missing link between the relationship between market orientation and organizational performance. The missing link is the absence of a relationship between product innovation and organizational performance. Canh, *et al.*, (2019) who examined Vietnamese manufacturing companies during 2011-2013, showed that process and product innovation were beneficial for company performance in terms of market share, but not return on total assets. This implies that investing in innovative activities takes time to create positive change in profitability, but may help win customer loyalty. They also found evidence suggested that innovation can make companies more blurred, especially when there are external parties involved.

The second problem is the number of business units and labour working for metal industries in the region is sluggish (BPS, 2019). There is a need to study this particular

sub sector of SMEs to assist in addressing the mentioned problems. This study aims to test empirically the effect of product innovation on product configuration capability, the influence of the ability to respond customers to product configuration capability, the influence of market competence on product configuration capability and the influence of product configuration capability on marketing performance. This study also aims to bridge the research gap between product innovation and marketing performance through the mediating variable product configuration capability. The research is exploring product configuration capabilities to improve marketing performance. This study is expected to provide a contribution to fill the gap and address the local problem.

### *Dynamic Capability*

Resource-based view theory assumes that companies can be conceptualized as a set of resources heterogeneously distributed to companies and that these resources persist over time (Eisenhardt & Martin, 2000). Based on this assumption the researchers have a theory postulating that when a company has valuable, scarce, unduplicable and irreplaceable resources, the company can gain competitive advantage by implementing new value creation strategies that are not easily reproduced by competitors.

In the perspective of RBV, the free movement of capital, goods, labour and knowledge in the global economic system has reduced barriers and obstacles to competition. Against the backdrop of increasing environmental instability, the growing importance of intangible organizational resources, the impact of hidden knowledge in the decision-making process, the development of informal relationships with stakeholders. The strategic selection focuses more on the interrelationships between strategy and the organization's internal environment. The organization's long-term advantages are not only based on manufacturing excellence and the high risk borne by the imitating party. Accepting this assumption means competitive advantage is not the same as manufacturing advantage. Product price and quality advantages can be quickly eroded by competitors and may fail to provide benefits

(Krzakiewicz & Cyfert, 2017). The concept of dynamic capability has three basic elements, namely sensing, seizing and transforming (Teece, *et al.*, 1997). The three main elements turned out to have many variations, depending on the type of industry character of the business environment (Teece & Leih, 2016). Schoemaker & George (2016) describe dynamic capabilities as having six elements, namely peripheral vision, vigilant learning, problem and learning, flexible investing, organizational redesign, and external shaping. Of the six elements, each industry has a different emphasis.

### ***Marketing Mixture***

Kotler & Keller (2016) define the marketing mixture as a set of controlled marketing variables that are used by companies to produce company-controlled responses, from the target market, the marketing mix consists of everything that a company can do to influence the demand for its products, known as product, price, place and promotion. Product is an important element in a marketing program. Product strategies can influence other marketing strategies. Purchasing a product is not just to own the product but also to meet the needs and desires of consumers. Product is anything that can be offered to the market to be noticed, obtained, used, or consumed that can fulfil wants or needs (Kotler & Armstrong, 2014).

### ***Product Configuration Capability Concepts***

Based on the concept of dynamic capability and marketing mixture approaches, product configuration capability propositions can be arranged as a novelty in this research. Product configuration capability is the company's ability to configure products with visibility/clarity of product origin, products that are different from competitors and products that are difficult to replicate, so the products produced by the company are efficient and of high quality. Product configuration capability is expected to create sustainable competitive advantage and eventually to improve marketing performance.

Based on the description above, the following hypothesis can be proposed:

*H<sub>1</sub>*: The better the product innovation, the better the product configuration capability.

Innovation is the company's mechanism to adapt in a dynamic environment; therefore, companies are required to be able to create new thoughts, new ideas, and offer innovative products and service improvements that satisfy customers (Hurley & Hult, 1998). There are six indicators of product innovation including new products for the world, new product lines, additions to existing product lines, improvements and revisions to existing products, redefining and reducing costs (Kotler & Armstrong, 2014).

The results of the study by Su, *et al.*, (2018) show that budget slack, information system quality, innovation process and product all innovations are significantly related to configuration capability innovation, where high-quality information and low budget slack levels are key factors that support innovation capacity. In addition, configuration capability has a full mediating effect, that is, the perception of innovation needs positively influences the capability of configuration, which, in turn, improves organizational performance. Supported by the research results above, it is hoped that the better the innovation carried out by metal SMEs the better the product configuration capability.

*H<sub>2</sub>*: The higher the ability to respond costumers, the better the product configuration capability.

Research models on the impact of market orientation and dynamic capabilities on firm performance are proposed and described. With the conceptual model developed, the authors show how market orientation can be transformed into dynamic capabilities and said to be market-oriented competitive values positively mediated by dynamic capabilities (Hou, 2008). The effectiveness of strategic orientation depends on market dynamics. Specifically, when market demand becomes increasingly uncertain, customer orientation has a weaker impact, while technology orientation has a stronger effect on adaptive ability. As competition increases, competitor orientation and technology build adaptive capabilities more effectively (Zhou & Li, 2010).

Corporate customers need digital transformation through the development of dynamic capabilities that focus on customer value and operating models. Customer value reflects market orientation, while the operating model is related to the company's ability to formulate innovations. The study of digital leadership in the relationship between dynamic capabilities and digital leadership, market orientation and dynamic, able innovation has not been explored; therefore, this study aims to assess the effective pathway in developing dynamic capabilities, both directly and indirectly through market orientation or innovation capabilities driven by leadership digits. The results explain that digital leadership has a significant influence both directly and indirectly through market orientation on developing dynamic capabilities (Mihardjo & Rukmana, 2019). Based on the research results, it is expected that the higher the ability to respond to costumers, the better the product configuration capability.

*H<sub>3</sub>*: The higher the market competence, the better the product configuration capability.

Market knowledge has become a significant asset of modern businesses and the key to maintaining their competitiveness. Research by Hou (2008) attempts to explore the impact of market knowledge management competencies on performance through a dynamic capability perspective. Empirical findings support the relationship between market knowledge management competencies and dynamic capabilities to have a positive influence on business performance.

Small and medium businesses (SMEs) face challenges in an increasingly challenging environment. To overcome this problem, this paper draws on dynamic capability theory and develops dynamic capability research models that enable information systems to test the role of information systems competencies to enhance the dynamic capabilities of SMEs in the

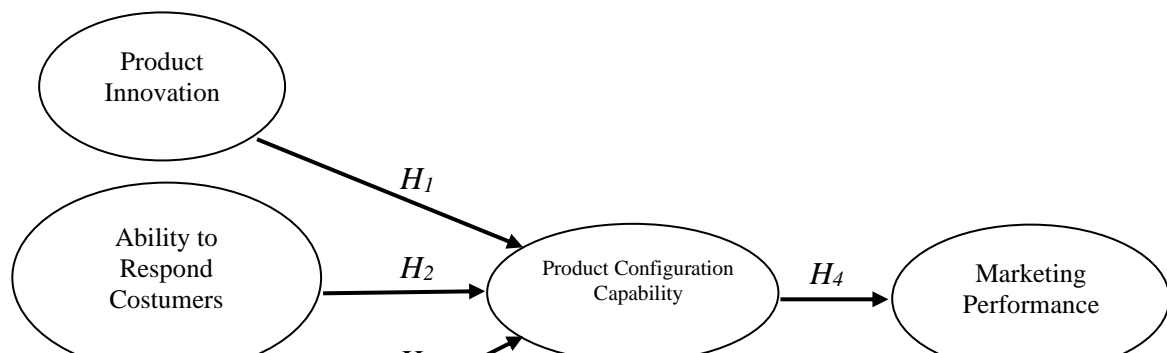
environment. Competitive business analytic results support the research model and emphasize that information system competencies contribute significantly to the dynamic ability of SMEs to gain competitive advantage (Wang & Shi, 2011). Based on the research results, it is expected that the higher the market competence, the better the product configuration capability will be.

*H<sub>4</sub>*: The better the product configuration capability, the higher the marketing performance.

Dynamic capabilities are widely considered to incorporate processes that enable organizations to maintain superior performance over time. Wilden, *et al.*, (2013) argue that this effect depends on organizational structure and competitive intensity in the market. Analysis of the results of structural equation modelling, shows that organic organizational structure facilitates the impact of dynamic capabilities on organizational performance.

The current conventional strategic management model is not able to handle various questions about organizational management in dynamically disconnected environments. Therefore, how a company can effectively apply management knowledge capabilities and develop unique dynamic capabilities to provide rapid response to dynamic environments has become urgent needs. A study conducted by Tseng & Lee (2014) shows that knowledge management capabilities enhance dynamic organisational capabilities. While dynamic capabilities, in turn, enhance organizational performance and provide a competitive advantage. From the research results above, it is expected that the better the product configuration capability, the higher the marketing performance of metal SMEs

Based on the hypothesis developed above and the literature review conducted, an empirical research model is presented, as shown in Figure 2.





**Figure 2: Empirical model of study  
Research Methods**

*Data Types and Sources*

This study uses primary data, namely data obtained by interview based on a list of questions to a number of respondents selected for this study. Data collection was carried out by survey method through a structured questionnaire with a ten point rating scale. The questionnaire was processed and analysed by structural equation modelling (SEM) using AMOS ver. 22 analysis tools. This study was conducted with a population of 4000 SMEs metal entrepreneurs in Tegal Regency, Central Java Province, Indonesia. The number of samples used was 108 respondents. This number met the criteria minimum standard samples suggested by Hair, *et. al.*, (2018), which states that the sample size is five times the number of indicators. This study has 15 indicators, so the number of samples used in this study is  $5 \times 15 = 75$  samples. Then the recommended number of samples is between 100 and 200 companies. By using a sample of 108 owners of metal industry SMEs, the sample size requirements can be met.

The sampling technique is based on random sampling because the sampling is carried out on random members of the population regardless of the strata in the population. Sampling is carried out in such a

way as to ensure that the selection of elements to be studied is based on objectivity, not subjectivity. This study uses primary data obtained from questionnaires distributed directly to 108 respondents. The data was collected through a survey, which was conducted by asking respondents. The survey method in this study was carried out using research instruments such as a questionnaire with open questions consisting of items representing the independent variable and the dependent variable. Questionnaires are distributed to respondents directly, so that respondents can provide scores and short answers to the available open questions.

*Operational Measurement and Indicators*

The definition of each variable needs to be explained in a more operational measure. Each variable has a meaning that is very relevant to the context of the variable in the research model. Explanations from various experts regarding the meaning, antecedents and consequences of a variable are transformed in the core definition to sharpen the explanation of the variable. A variable has generally described what is to be studied, but the measurement of that variable needs to be concrete through operational measurements which then become a reflective indicator of a variable (Table 1).

**Table 1**  
**Operational Definition and Indicator**

<b>Variabel</b>	<b>Operational Definitions</b>	<b>Indicator</b>
Product Innovation	The company's mechanism to adapt in a dynamic environment, therefore the company is required to be able to create	$X_1$ : The ability to make new products

	new thoughts, new ideas, and offer innovative products and improved services that satisfy customers	$X_2$ : The ability to create additions to existing products $X_3$ : Ability to repair and revise existing products $X_4$ : Ability to enter new markets
Ability to Respond Costumers	The company's ability to respond to customer desires	$X_5$ : Ability to meet market demands $X_6$ : Ability to search for market information $X_7$ : Ability to meet customer demands.
Market Competence	The ability of the company to see opportunities in the market	$X_8$ : The ability to respond to customers $X_9$ : Ability to meet customer tastes
Product Configuration Capability	The company's ability to configure products with visibility/clarity of origin of products, products that are different from competitors and products that are difficult to imitate, so the products produced by the company are more efficient in terms of cost and quality	$X_{10}$ : Ability to have a level of visibility/clarity of origin of the product $X_{11}$ : Ability to make different products $X_{12}$ : The ability to make products that are difficult to imitate
Marketing Performance	The concept for measuring the market performance of a product	$X_{13}$ : Product success $X_{14}$ : Growth in product marketing reach $X_{15}$ : Market share

### Results and Discussion

The results of estimation using AMOS ver 22 can be seen in Figure 3. The values and interpretations of goodness of fit is as follows. Chi-Square=92.402; CMIN/DF=1.113; probability=0.225; RMSEA=0.033; GFI=0.908; AGFI=0.866; TLI=0.986; CFI=0.989. Furthermore, the last goodness of fit statistic is critical N developed by Hoelter (Hair, *et. al.*,(2018).Critical N analysis is intended to estimate the size of a

sample size sufficient to produce a fit model. The model is said to be able to produce the goodness of fit, if and only if, it has a sample lower than the value of tested Hoelter with a probability of 0.05 or 0.01. The following are the results of the critical analysis of N Hoelter 0.05 and Hoelter 0.01, namely Hoelter 0.05 is 122 and Hoelter 0.01 is 135 which all meet the fit criteria because the total sample size of 108 is below the recommended Hoelter value Hair, *et. al.*,(2018). The model fit test results in a good level of acceptance.

**Table 2**  
**Goodness of Fit for Full Model**

Goodness of Fit Index	Cut-off Value	Analysis Result	Model Evaluation
Chi-Square	Expected to be low	92.402	Good
CMIN/DF	$\leq 2.00$	1.113	Good
Probability	$\geq 0.05$	0.225	Good
RMSEA	$\leq 0.08$	0.033	Good
GFI	$\geq 0.90$	0.908	Good
AGFI	$\geq 0.90$	0.866	Marginal
TLI	$\geq 0.95$	0.986	Good
CFI	$\geq 0.95$	0.989	Good
Hoelter's 0,05	$\leq 122$	108	Good
Hoelter's 0,01	$\leq 135$	108	Good

### Significance Test for Loading Factors

The loading factor significance test aims to evaluate whether an indicator used

confirms that the indicator can, together with other indicators, explain a variable. The loading factor value required is must reach  $\lambda \geq 0.50$  (Hair, *et. al.*, 2018).

**Table 3**  
Loading Factor Values of Indicator

Variabel	Value
Product Innovation	X <sub>1</sub> : 0.673
	X <sub>2</sub> : 0.833
	X <sub>3</sub> : 0.752
	X <sub>4</sub> : 0.857
Ability to Respond Customers	X <sub>5</sub> : 0.856
	X <sub>6</sub> : 0.836
	X <sub>7</sub> : 0.876
Market Competence	X <sub>8</sub> : 0.849
	X <sub>9</sub> : 0.843
	X <sub>10</sub> : 0.890
Product Configuration Capability	X <sub>11</sub> : 0.903
	X <sub>12</sub> : 0.819
	X <sub>13</sub> : 0.855
Marketing Performance	X <sub>14</sub> : 0.833
	X <sub>15</sub> : 0.747

Table 3 shows that the value of the  $\lambda$  coefficient or loading factors have values above 0.5, by mean that all the criteria meet the requirements and the model is good.

### Validity and Reliability Testing

The extent of the accuracy and validity of a measuring instrument in research is needed while knowing the reliability of research measuring instrument requires a high level of reliability. Testing the validity and

reliability of the next variable is to calculate the value of construct reliability and minimum extracted variance to state that the accuracy and reliability have been reached is 0.50.

The results of the calculation of construct reliability values presented in Table 4 show that construct reliability and variance extracted have values above 0.5. This shows that the indicators used in this study have good validity and reliability to explain the variables. The proposed hypothesis is tested using the AMOS ver. 22.0 analysis tool as follows.

**Table 4**  
Construct reliability and extracted variance of full model

Indicator	Estimates	Squared loading	Error	Construct reliability	Variance Extract
X <sub>1</sub>	0.6730	0.4529	0.5471		
X <sub>2</sub>	0.8330	0.6939	0.3061		
X <sub>3</sub>	0.7520	0.5655	0.4345		
Total	2.2580	1.7123	1.2877	0.7984	0.5708
X <sub>4</sub>	0.8570	0.7344	0.2656		
X <sub>5</sub>	0.8560	0.7327	0.2673		
X <sub>6</sub>	0.8360	0.6989	0.3011		
Total	2.5490	2.1661	0.8339	0.8863	0.7220
X <sub>7</sub>	0.8760	0.7674	0.2326		
X <sub>8</sub>	0.8490	0.7208	0.2792		
X <sub>9</sub>	0.8430	0.7106	0.2894		
Total	2.5680	2.1988	0.8012	0.8917	0.7329
X <sub>10</sub>	0.8900	0.7921	0.2079		
X <sub>11</sub>	0.9030	0.8154	0.1846		

X <sub>12</sub>	0.8190	0.6708	0.3292		
Total	2.6120	2.2783	0.7217	0.9043	0.7594
X <sub>13</sub>	0.8550	0.7310	0.2690		
X <sub>14</sub>	0.8330	0.6939	0.3061		
X <sub>15</sub>	0.7470	0.5580	0.4420		
Total	2.4350	1.9829	1.0171	0.8536	0.6610

From testing the hypotheses as listed in Table 5, it can be concluded that  $H_1$  test showed insignificant results with the value of  $CR=2.935 \geq 1.96$  with probability of 0.003, the probability of testing fulfils the requirements below 0.05. Thus,  $H_1$  in this study can be accepted. This finding supports the findings of Miller (2015) and Sajilan & Tehseen (2019) that entrepreneurial innovativeness leads to high business performance.  $H_2$  test showed significant results with  $CR=4.059 \geq 1.96$  with probability of  $< 0.001$  the test probability meets the requirements below 0.05. Thus,  $H_2$  was accepted in this study. This is an important outcome. The SMEs' capability to become proactive and aggressive in responding to the customers' requirements has the advantage of firms facilitate in improving the company's performance. This characteristic is necessary for assisting firms to challenge the rapidly changing business environment and fulfil the varying emerging customers' requirements (Eggers, F., *et al.*, 2013).  $H_3$  test showed significant results with  $CR=2.777 \geq 1.96$  with probability of 0.005, then the probability of testing fulfilled the requirements below 0.05. Thus,  $H_3$  in this study can be accepted. This finding is not in line with (Radzi, *et al.*, 2017) stating that marketing competence shows an insignificant effect on business success. However Mariyono, *et al.*, (2019) found that in terms of choosing a marketing channel, marketing competence has the potential to improve business performance.

$H_4$  test showed significant results with  $CR=3.711 \geq 1.96$  with probability of  $< 0.001$ . The test probability meets the requirements of lower than 0.05, and conclude that  $H_4$  in this study is acceptable. Here, product configuration capability plays a mediating role of abilities of product innovation, customers' response and marketing competence. This means that all strategic capabilities work together in escalating marketing performance. This particular finding powerfully relevant to a study of Hareebin, *et al.*, (2018) that highlights strategic organisational capabilities consisting of resource-based capabilities, knowledge-based capabilities, network-based capabilities play significant roles in shaping dynamic organisational strategies. This role is linked to the development of a dynamic, process-oriented strategy that seeks to maintain a higher profit and to focus on new markets. As the capabilities of SME players is crucial, it is urgently recommended that the SME players need to improve their capability. Afzal, *et al.*, (2018) suggested that the capability of entrepreneurs is strongly dependent on personal characteristics and the business environment. Thus, further studies related to the factors determining SMEs' capabilities need to be formulated. In the context of SMEs' innovation capability, providing soft loan is one alternative as suggested by Mariyono (2019) that micro-credit serves as catalyst in the process of technology and innovation adoption by the SMEs' players.

**Table 5**  
**Result of Test for The Full Model**

Variable relation	Estimates	S.E.	C.R	P	Decision
Product Configuration Capability ← Product Innovation	0.432	0.147	2.935	0.003	Fail to reject $H_1$
Product Configuration Capability ← Ability to Respond Customers	0.415	0.102	4.059	0.000	Fail to reject $H_2$

Product Configuration Capability	←	Market Competence	0.289	0.104	2.777	0.005	Fail to reject $H_3$
Marketing Performance	←	Product Configuration Capability	0.367	0.099	3.711	0.000	Fail to reject $H_4$

### Conclusion and Implications

The metal industry in Tegal Regency, which produces automotive parts and jewellery accessories, plays an important role in the economy of the local community. It has a multiplier effect since the metal industry supports the automotive industry sector. There is a problem related to the stagnancy of the industry. The number of business units and labour absorbed by the industry are sluggish. This study was conducted to explore and examine the capabilities of business players as the determinants of marketing performance. By using SEM based on the surveyed business players, this study shows significant findings that can be used to improve the performance. The industry capability in configuring product transformation led to marketing performance. This capability served as mediating factors of abilities of the industry to respond to customers' needs, to innovate the product, and to increase market competence.

The managerial implication of this research is that metal SMEs that produce automotive parts and jewelry accessories must be able to create new products, add to existing products, improve and revise existing products that need to be maintained. The ability to enter new markets, meet market demands and find market information for automotive parts and jewelry accessories products must be improved, as well as the ability to meet customer demands, respond to customers and meet customer perceptions. By increasing product innovation, customer response and market opportunities will improve product configuration capabilities

when producing automotive parts and jewelry accessories. Thus the Tegal metal SME products will become top of mind, embedded more deeply in the minds of consumers. Furthermore, increasing all the capabilities of the metal SMEs will result in an increase in their marketing performance.

The theoretical implication provides an overview of the references used in this study, be it a reference to problems, modeling, results and previous research agendas. The theoretical implication is a reflection for any research. From the results of the full model analysis, a theoretical implication is obtained, namely when metal SMEs have the goal of improving marketing performance, metal SMEs need to consider how to improve product configuration capability. Based on the research results, the increase in product configuration capability has an effect on increasing marketing performance. The full model test results show that product configuration capability has an important role in improving the marketing performance of metal SMEs (0.39). Product configuration capability is influenced by product innovation (0.32), ability to respond to costumers (0.37) and market competence (0.28). In order to achieve the company can maximally enhance that product configuration capability, it must pay attention to product innovation, ability to respond costumers and market competence. Marketing performance can increase to the maximum if metal SMEs attention to product configuration capability, product innovation, ability to respond costumers and market competence.

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# PRODUCT CONFIGURATION CAPABILITY FOR IMPROVING MARKETING PERFORMANCE OF SMALL AND MEDIUM METAL INDUSTRY IN CENTRAL JAVA - INDONESIA

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## ***Abstract***

*This study explores and examines the role of product configuration capabilities to improve marketing performance. Product configuration capability represents the company's ability to configure products with visibility/clarity of product origin, products that are different from competitors and products that are difficult to imitate. This capability indicates that the products produced by the company are more efficient and quality than that of others. The results found that product configuration capabilities can improve product success, growth in product marketing reach and market share product. This study is expected to provide a contribution to both theoretical and practical knowledge of strategic management. Business players had focussed on developing dynamic capabilities to address the constantly changing business environment.*

**Keywords:** Dynamic capability, marketing mixture, product configuration capability, ability to respond to costumers, market competence

## **Introduction**

Business opportunities in a local environment are always open to both new and old companies. To be able to capture these opportunities, companies require to have the ability to provide timely and fast responses. Capabilities must be possessed by the companies in terms of shaping, reshaping, configuring, and reconfiguring company capabilities. They can respond to changes in the environment well by making flexible product innovations, combined with management capabilities for effective coordination and placing internal competencies as well as externally appropriately (Teece *et al.*, 1997).

Small and medium sized-enterprises (SMEs) of the metal industry in Tegal region have the potential to be developed into the metal industry, which produces accessories and modification products enthusiasts for end consumers. The quality of the products produced by these SMEs is not underestimated, as evidenced by several well-known companies entrusting some of the engine components constructed by the industry. The Industrial and Labor District Service of Tegal recorded that there were nearly 4000 SMEs in the district. Metal SMEs in the district has a variety of products, including automotive parts and jewelry

accessories (Gumilang, 2018). In order to survive, the metal processing industries require dynamic capabilities to face the challenge of globalization which causes rapid changes. The development of the metal industries was supposed to be Japan's Indonesia because the Tegal metal casting and craft industry, which was built in 1940, was intended to meet the need for war equipment for the Japanese army.

The community began to acquire the skills to work on metal so that the expertise was used to build simple workshops in the aftermath. The production processes are conducted at home workshops. Besides being known for having high creativity, the Tegal community is also known for being reliable in the metal industry. All of that can be created from the cool and creative hands of the community. The metal industry's business activities in the district consist of metal working and casting to manufacture automotive parts and jewelry accessories (Nugroho, 2017).

The metal industry in Tegal Regency is worth researching because the metal SMEs play an important role in the economy of Tegal district in terms of numbers of business units, employment and contribution to regional income. The number of business units increased at a decreasing rate from about 2930 units in 2011 to 2995 units in 2018 and



became stagnant during the last three years. The industries absorbed about 32,000 labour, in spite of its stagnancy during the period. The contribution to the regional income in the form of local tax increased steadily from about 22 billion IDR to 107 billion IDR (BPS, 2019). Despite the significant increase in the contribution to regional income, the number of business units and employment are relatively sluggish. It should be noted that SMEs play a significant role in economic development (Bloch & Bhattacharya, 2016). As SMEs are the backbone of the economy both at a local, regional and national level, there is a need to continue to grow in order to absorb the labour force and support other industries that use the products.

Wang & Ahmed (2007) suggested the importance of companies having dynamic capabilities. To realize the dynamic capabilities, companies must have three capabilities, namely adaptive capability, absorptive capability and innovative capacity. Adaptive capability is the ability to identify and capitalize on any opportunities arising from the market. The adaptive capability is measured from the ability to respond to opportunities, monitor markets, customers and competitors, and allocate resources for marketing activities. Absorptive capability is the ability to evaluate and utilize knowledge from outside the organization. Absorptive capability is indicated by the intensity of research and development activities. Innovative capability is the ability to develop new products or markets. Innovative capability is measured by the number of product or service innovations, process innovations, and solutions to new problems. Dynamic capability is the ability to form, reshape, configure, and reconfigure company capabilities so that they can respond to changes in the environment well (Teece *et al.*, 1997). Dynamic capabilities that lead to innovation are absolutely necessary if the company wants to be consistent in pursuing revenue.

The dynamic capability process within a company consists of three things, namely the ability to interpret, to integrate, and carry out operations (Teece, 2007). Chen & Geraldine (2007) argued that two important factors determine the dynamic capabilities, namely people who are able (capable people)

and systems that are unified (agile process). M.Hess & Rothaermel (2007) mentioned three factors, namely people, organizations and organizational networks. These two studies differ in the context of the research. The former has a homogeneous environment, and limited actors and the latter has a heterogeneous and multi-actor environment. The dynamic capabilities of the company enable the company to do the sensing stage faster than the existing company. The company can also do the seizing stage effectively and support the transformation phase needed to remain competitive (Schoemaker & George, 2016). In practice, there are similarities in the sensing process in all types of industries. Therefore, managers should not merely adjust internal strategies to respond to environmental changes, but must also need to be capable of developing unique capabilities that are not possessed by competitors (Helfat & Peteraf, 2003).

Based on the three dynamic capability components mentioned above, the recognizing stage is the initial stage that must be well understood by the company. That is because the sensing process is a process for developing valid and accurate hypotheses about what is happening in the business environment. This is a process where the company tries to look back at the opportunities in front of the organization. Teece (2009) argues that the opportunity can occur through two things: first, because the organization gets the same information from the perspective of different sources; secondly, because organizations gain new knowledge and information. The dynamic lens capability enables companies to feel opportunities faster than other companies, seize their markets more effectively and support the organizational transformation needed to stay ahead. Dynamic capabilities can be broadly classified into first-order or operational levels and second-order or dynamic capabilities. Basic level activities are the company's operational capability in carrying out daily activities, while dynamic capability is the ability to develop and arrange configurations so that these daily activities can have a certain order. Like in a music orchestra, the dynamic capability is the ability to manage musicians consisting of individuals with a variety of musical instruments.

The problem in this study stems from the existence of a research gap on the results of product innovation research on marketing performance. Studies Hua & Wemmerlöv (2006), who studied 55 US companies in the personal computer (PC) industry, found that firm's product change frequency were confirmed to increase market share and market growth performance. Sharma & Davcik (2017) research which examines the types of small and medium-sized retail companies (SMEs), and multinational companies (MNC) using signalling theory and dynamic marketing capability (DMC) perspective from resource-based theory (RBT) found that product innovation enables companies to not only develop new market segments but also expand its current market segments and product portfolios. Study Hanfan & Setiawan (2018) which examined 118 Brebes salted egg SMEs stated regiosentric product innovation increased sales growth, sales volume and sales profit.

Otherwise, Baker & Sinkula (1999) states that product innovation has no effect on organizational performance, but market-oriented organizations will formally carry out activities that produce market intelligence and disseminate intelligence results to all departments and are responsive to follow up on what consumers need and expect. Han *et al.*, (1998) who examined the banking industry, found a missing link between the relationship between market orientation and organizational performance. The missing link in the absence of a relationship between product innovation and organizational performance. Canh *et al.*, (2019), who examined Vietnamese manufacturing companies during 2011-2013, showed that process and product innovation were beneficial for company performance in terms of market share, but not return on total assets. This implies that investing in innovative activities takes time to create positive change in profitability but may help win customer loyalty. They also found evidence suggested that innovation can make companies more blurred, especially when there are external parties involved.

The second problem is the number of business units and labour working for metal industries in the region is sluggish (BPS, 2019). There is a need to study this particular

sub-sector of SMEs to assist in addressing the mentioned problems. This study aims to test the effect of product innovation product on product configuration capability empirically, the influence of the ability to respond to costumers on product configuration capability, the influence of market competence on product configuration capability and the influence of product configuration capability on marketing performance. This study also aims to bridge the research gap between product innovation and marketing performance through the mediating variable product configuration capability. The research is exploring product configuration capabilities to improve marketing performance. This study is expected to provide a contribution to fill the gap and address the local problem.

### ***Dynamic Capability***

Resource-based view theory assumes that companies can be conceptualized as a set of resources heterogeneously distributed to companies and that these resources persist over time (Eisenhardt & Martin, 2000). Based on this assumption, the researchers have a theory postulating that when a company has valuable, scarce, unduplicable and irreplaceable resources, the company can gain a competitive advantage by implementing new value creation strategies that are not easily reproduced by competitors.

In the perspective of RBV, the free movement of capital, goods, labour and knowledge in the global economic system has reduced barriers and obstacles to competition. Against the backdrop of increasing environmental instability, the growing importance of intangible organizational resources, the impact of hidden knowledge in the decision-making process, the development of informal relationships with stakeholders. Strategic selection focuses more on the interrelationships between strategy and the organization's internal environment. The organization's long-term advantages are not only based on manufacturing excellence and the high risk borne by the imitating party. Accepting this assumption means competitive advantage is not the same as manufacturing advantage. Product price and quality advantages can be quickly eroded by

competitors and may fail to provide benefits (Krzakiewicz & Cyfert, 2017). The concept of dynamic capability has three basic elements, namely sensing, seizing and transforming (Teece *et al.*, 1997). The three main elements turned out to have many variations, depending on the type of industry character of the business environment (Teece & Leih, 2016). Schoemaker & George (2016) describe dynamic capabilities as having six elements, namely peripheral vision, vigilant learning, problem and learning, flexible investing, organizational redesign, and external shaping. Of the six elements, each industry has a different emphasis.

### ***Marketing Mixture***

Kotler & Keller (2016) define the marketing mixture as a set of controlled marketing variables that are used by companies to produce company-controlled responses; from the target market, the marketing mix consists of everything that a company can do to influence the demand for its products, known as product, price, place and promotion. Product is an important element in a marketing program. Product strategies can influence other marketing strategies. Purchasing a product is not just to own the product but also to meet the needs and desires of consumers. Product is anything that can be offered to the market to be noticed, obtained, used, or consumed that can fulfil wants or needs (Kotler & Armstrong, 2014).

### ***Product Configuration Capability Concepts***

Based on the concept of dynamic capability and marketing mixture approaches, product configuration capability propositions can be arranged as a novelty in this research. Product configuration capability is the company's ability to configure products with visibility/clarity of product origin, products that are different from competitors and products that are difficult to replicate, so the products produced by the company are efficient and of high quality. Product configuration capability is expected to create a sustainable competitive advantage and eventually improve marketing performance.

Based on the description above, the following hypothesis can be proposed:

*H<sub>1</sub>*: The better the product innovation, the better the product configuration capability.

Innovation is the company's mechanism to adapt in a dynamic environment; therefore, companies are required to be able to create new thoughts, new ideas and offer innovative products and service improvements that satisfy customers (Hurley & Hult, 1998). There are six indicators of product innovation, including new products for the world, new product lines, additions to existing product lines, improvements and revisions to existing products, redefining and reducing costs (Kotler & Armstrong, 2014).

The results of the study by Su *et al.*, (2018) show that budget slack, information system quality, innovation process and product all innovations are significantly related to configuration capability innovation, where high-quality information and low budget slack levels are key factors that support innovation capacity. In addition, configuration capability has a full mediating effect; that is, the perception of innovation needs positively influences the capability of configuration, which, in turn, improves organizational performance. Supported by the research results above, it is hoped that the better the innovation carried out by metal SMEs the better the product configuration capability.

*H<sub>2</sub>*: The higher the ability to respond to costumers, the better the product configuration capability.

Research models on the impact of market orientation and dynamic capabilities on firm performance are proposed and described. With the conceptual model developed, the authors show how market orientation can be transformed into dynamic capabilities and said to be market-oriented competitive values positively mediated by dynamic capabilities (Hou, 2008). The effectiveness of strategic orientation depends on market dynamics. Specifically, when market demand becomes increasingly uncertain, customer orientation has a weaker impact, while technology orientation has a stronger effect on adaptive ability. As competition increases, competitor orientation and technology build adaptive capabilities more effectively (Zhou & Li, 2010).

Corporate customers need digital transformation through the development of dynamic capabilities that focus on customer value and operating models. Customer value reflects market orientation, while the operating model is related to the company's ability to formulate innovations. The study of digital leadership in the relationship between dynamic capabilities and digital leadership, market orientation and dynamic, able innovation has not been explored; therefore, this study aims to assess the effective pathway in developing dynamic capabilities, both directly and indirectly through market orientation or innovation capabilities driven by leadership digits. The results explain that digital leadership has a significant influence both directly and indirectly through market orientation on developing dynamic capabilities (Mihardjo & Rukmana, 2019). Based on the research results, it is expected that the higher the ability to respond to customers, the better the product configuration capability.

*H<sub>3</sub>*: The higher the market competence, the better the product configuration capability.

Market knowledge has become a significant asset of modern businesses and the key to maintaining their competitiveness. Research by Hou (2008) attempts to explore the impact of market knowledge management competencies on performance through a dynamic capability perspective. Empirical findings support the relationship between market knowledge management competencies and dynamic capabilities to have a positive influence on business performance.

Small and medium businesses (SMEs) face challenges in an increasingly challenging environment. To overcome these issues, this paper draws on dynamic capability theory and develops dynamic capability research models that enable information systems to test information systems competencies to enhance the dynamic capabilities of SMEs in the environment.

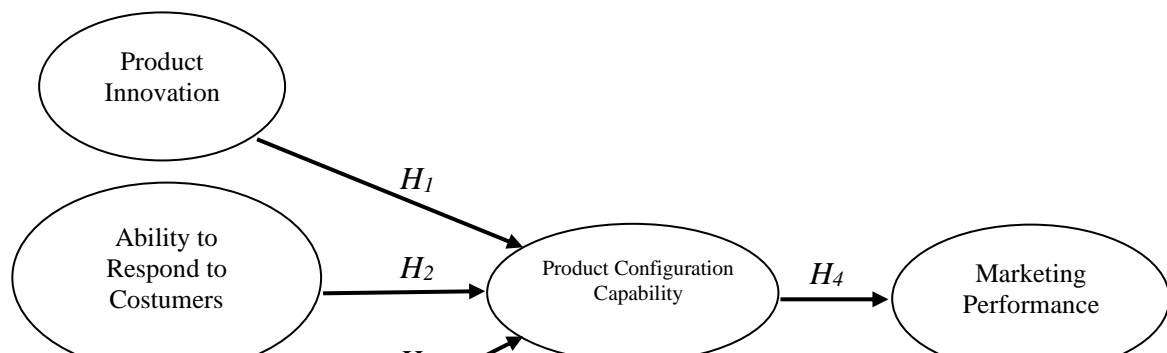
Competitive business analytic results support the research model and emphasize that information system competencies contribute significantly to the dynamic ability of SMEs to gain competitive advantage (Wang & Shi, 2011). Based on the research results, it is expected that the higher the market competence, the better the product configuration capability will be.

*H<sub>4</sub>*: The better the product configuration capability, the higher the marketing performance.

Dynamic capabilities are widely considered to incorporate processes that enable organizations to maintain superior performance over time. Wilden *et al.*, (2013) argue that this effect depends on organizational structure and competitive intensity in the market. Analysis of the results of structural equation modelling shows that organic organizational structure facilitates the impact of dynamic capabilities on organizational performance.

The current conventional strategic management model is not able to handle various questions about organizational management in dynamically disconnected environments. Therefore, how a company can effectively apply management knowledge capabilities and develop unique dynamic capabilities to provide rapid response to dynamic environments has become urgent needs. A study conducted by Tseng & Lee (2014) shows that knowledge management capabilities enhance dynamic organizational capabilities. While dynamic capabilities, in turn, enhance organizational performance and provide a competitive advantage. From the research results above, it is expected that the better the product configuration capability, the higher the marketing performance of metal SMEs

Based on the hypothesis developed above and the literature review conducted, an empirical research model is presented, as shown in Figure 2.



**Figure 2: Empirical model of study  
Research Methods**

***Data Types and Sources***

This study uses primary data, namely data obtained by interview based on a list of questions to a number of respondents selected for this study. Data collection was carried out by survey method through a structured questionnaire with a ten point rating scale. The questionnaire was processed and analyzed by structural equation modelling (SEM) using AMOS ver. 22 analysis tools. This study was conducted with a population of 4000 SMEs metal entrepreneurs in Tegal Regency, Central Java Province, Indonesia. The number of samples used was 108 respondents. This number met the criteria minimum standard samples suggested by Hair *et. al.*, (2018), which states that the sample size is five times the number of indicators. This study has 15 indicators, so the number of samples used in this study is  $5 \times 15 = 75$  samples. Then the recommended number of samples is between 100 and 200 companies. By using a sample of 108 owners of metal industry SMEs, the sample size requirements can be met.

The sampling technique is based on random sampling because the sampling is carried out on random members of the population regardless of the strata in the population. Sampling is carried out in such a

way as to ensure that the selection of elements to be studied is based on objectivity, not subjectivity. This study uses primary data obtained from questionnaires distributed directly to 108 respondents. The data was collected through a survey, which was conducted by asking respondents. The survey method in this study was carried out using research instruments such as a questionnaire with open questions consisting of items representing the independent variable and the dependent variable. Questionnaires are distributed to respondents directly so that respondents can provide scores and short answers to the available open questions.

***Operational Measurement and Indicators***

The definition of each variable needs to be explained in a more operational measure. Each variable has a meaning that is very relevant to the context of the variable in the research model. Explanations from various experts regarding the meaning, antecedents and consequences of a variable are transformed in the core definition to sharpen the explanation of the variable. A variable has generally described what is to be studied, but the measurement of that variable needs to be concrete through operational measurements, which then become a reflective indicator of a variable (Table 1).

**Table 1  
Operational Definition and Indicator**

<b>Variabel</b>	<b>Operational Definitions</b>	<b>Indicator</b>
Product Innovation	The company's mechanism to adapt in a dynamic environment, therefore the	$X_1$ : The ability to make new products

Ability to Respond to Costumers	company is required to be able to create new thoughts, new ideas, and offer innovative products and improved services that satisfy customers The company's ability to respond to customer desires	X <sub>2</sub> : The ability to create additions to existing products X <sub>3</sub> : Ability to repair and revise existing products X <sub>4</sub> : Ability to enter new markets X <sub>5</sub> : Ability to meet market demands X <sub>6</sub> : Ability to search for market information X <sub>7</sub> : Ability to meet customer demands.
Market Competence	The ability of the company to see opportunities in the market	X <sub>8</sub> : The ability to respond to customers X <sub>9</sub> : Ability to meet customer tastes
Product Configuration Capability	The company's ability to configure products with visibility/clarity of origin of products, products that are different from competitors and products that are difficult to imitate, so the products produced by the company are more efficient in terms of cost and quality	X <sub>10</sub> : Ability to have a level of visibility/clarity of origin of the product X <sub>11</sub> : Ability to make different products X <sub>12</sub> : The ability to make products that are difficult to imitate
Marketing Performance	The concept for measuring the market performance of a product	X <sub>13</sub> : Product success X <sub>14</sub> : Growth in product marketing reach X <sub>15</sub> : Market share

### Results and Discussion

The results of estimation using AMOS ver 22 can be seen in Figure 3. The values and interpretations of goodness of fit is as follows. Chi-Square=92.402; CMIN/DF=1.113; probability=0.225; RMSEA=0.033; GFI=0.908; AGFI=0.866; TLI=0.986; CFI=0.989. Furthermore, the last goodness of fit statistic is critical N developed by Hoelter (Hair *et. al.*, (2018).Critical N analysis is intended to estimate the size of a

sample size sufficient to produce a fit model. The model is said to be able to produce the goodness of fit, if and only if, it has a sample lower than the value of tested Hoelter with a probability of 0.05 or 0.01. The following are the results of the critical analysis of N Hoelter 0.05 and Hoelter 0.01, namely Hoelter 0.05 is 122 and Hoelter 0.01 is 135 which all meet the fit criteria because the total sample size of 108 is below the recommended Hoelter value Hair *et. al.*,(2018). The model fit test results in a good level of acceptance.

**Table 2**

**Goodness of Fit for Full Model**

Goodness of Fit Index	Cut-off Value	Analysis Result	Model Evaluation
Chi-Square	Expected to be low	92.402	Good
CMIN/DF	≤2.00	1.113	Good
Probability	≥0.05	0.225	Good
RMSEA	≤0.08	0.033	Good
GFI	≥0.90	0.908	Good
AGFI	≥0.90	0.866	Marginal
TLI	≥0.95	0.986	Good
CFI	≥0.95	0.989	Good
Hoelter's 0,05	≤122	108	Good
Hoelter's 0,01	≤135	108	Good

### Significance Test for Loading Factors

The loading factor significance test aims to evaluate whether an indicator used

confirms that the indicator can, together with other indicators, explain a variable. The loading factor value required is must reach  $\lambda \geq 0.50$  (Hair *et. al.*, 2018).

**Table 3**  
**Loading Factor Values of Indicator**

Variabel	Value
Product Innovation	X <sub>1</sub> : 0.673
	X <sub>2</sub> : 0.833
	X <sub>3</sub> : 0.752
	X <sub>4</sub> : 0.857
Ability to Respond to Customers	X <sub>5</sub> : 0.856
	X <sub>6</sub> : 0.836
	X <sub>7</sub> : 0.876
Market Competence	X <sub>8</sub> : 0.849
	X <sub>9</sub> : 0.843
	X <sub>10</sub> : 0.890
Product Configuration Capability	X <sub>11</sub> : 0.903
	X <sub>12</sub> : 0.819
	X <sub>13</sub> : 0.855
Marketing Performance	X <sub>14</sub> : 0.833
	X <sub>15</sub> : 0.747

Table 3 shows that the value of the  $\lambda$  coefficient or loading factors have values above 0.5, by mean that all the criteria meet the requirements and the model is good.

### Validity and Reliability Testing

The extent of the accuracy and validity of a measuring instrument in research is needed while knowing the reliability of research measuring instrument requires a high level of reliability. Testing the validity and

reliability of the next variable is to calculate the value of construct reliability and minimum extracted variance to state that the accuracy and reliability have been reached is 0.50.

The results of the calculation of construct reliability values presented in Table 4 show that construct reliability and variance extracted have values above 0.5. This shows that the indicators used in this study have good validity and reliability to explain the variables. The proposed hypothesis is tested using the AMOS ver. 22.0 analysis tool as follows.

**Table 4**  
**Construct reliability and extracted variance of full model**

Indicator	Estimates	Squared loading	Error	Construct reliability	Variance Extract
X <sub>1</sub>	0.6730	0.4529	0.5471		
X <sub>2</sub>	0.8330	0.6939	0.3061		
X <sub>3</sub>	0.7520	0.5655	0.4345		
Total	2.2580	1.7123	1.2877	0.7984	0.5708
X <sub>4</sub>	0.8570	0.7344	0.2656		
X <sub>5</sub>	0.8560	0.7327	0.2673		
X <sub>6</sub>	0.8360	0.6989	0.3011		
Total	2.5490	2.1661	0.8339	0.8863	0.7220
X <sub>7</sub>	0.8760	0.7674	0.2326		
X <sub>8</sub>	0.8490	0.7208	0.2792		
X <sub>9</sub>	0.8430	0.7106	0.2894		
Total	2.5680	2.1988	0.8012	0.8917	0.7329
X <sub>10</sub>	0.8900	0.7921	0.2079		
X <sub>11</sub>	0.9030	0.8154	0.1846		

X <sub>12</sub>	0.8190	0.6708	0.3292		
Total	2.6120	2.2783	0.7217	0.9043	0.7594
X <sub>13</sub>	0.8550	0.7310	0.2690		
X <sub>14</sub>	0.8330	0.6939	0.3061		
X <sub>15</sub>	0.7470	0.5580	0.4420		
Total	2.4350	1.9829	1.0171	0.8536	0.6610

From testing the hypotheses as listed in Table 5, it can be concluded that  $H_1$  test showed a significant results with the value of  $CR=2.935 \geq 1.96$  with probability of 0.003, the probability of testing fulfils the requirements below 0.05. Thus,  $H_1$  in this study can be accepted. This finding supports the findings of Miller (2015) and Sajilan & Tehseen (2019) that entrepreneurial innovativeness leads to high business performance.  $H_2$  test showed significant results with  $CR=4.059 \geq 1.96$  with the probability of  $< 0.001$ ; the test probability meets the requirements below 0.05. Thus,  $H_2$  was accepted in this study. This is an important outcome. The SMEs' capability to become proactive and aggressive in responding to the customers' requirements has the advantage of firms facilitate in improving the company's performance. This characteristic is necessary for assisting firms to challenge the rapidly changing business environment and fulfil the varying emerging customers' requirements (Eggers, F. *et al.*, 2013).  $H_3$  test showed significant results with  $CR=2.777 \geq 1.96$  with the probability of 0.005, then the probability of testing fulfilled the requirements below 0.05. Thus,  $H_3$  in this study can be accepted. This finding is not in line with (Radzi *et al.*, 2017), stating that marketing competence shows an insignificant effect on business success. However, Mariyono *et al.*, (2019) found that in terms of choosing a marketing channel, marketing competence has the potential to improve business performance.

$H_4$  test showed significant results with  $CR=3.711 \geq 1.96$  with probability of  $< 0.001$ . The test probability meets the requirements of lower than 0.05, and conclude that  $H_4$  in this study is acceptable. Here, product configuration capability plays a mediating role of abilities of product innovation, customers' response and marketing competence. This means that all strategic capabilities work together in escalating marketing performance. This particular finding powerfully relevant to a study of Hareebin *et al.*, (2018) that highlights strategic organizational capabilities consisting of resource-based capabilities, knowledge-based capabilities, network-based capabilities play significant roles in shaping dynamic organizational strategies. This role is linked to the development of a dynamic, process-oriented strategy that seeks to maintain a higher profit and to focus on new markets. As the capabilities of SME players is crucial, it is urgently recommended that the SME players need to improve their capability. Afzal *et al.*, (2018) suggested that the capability of entrepreneurs is strongly dependent on personal characteristics and the business environment. Thus, further studies related to the factors determining SMEs' capabilities need to be formulated. In the context of SMEs' innovation capability, providing the soft loan is one alternative as suggested by Mariyono (2019) that micro-credit serves as a catalyst in the process of technology and innovation adoption by the SMEs' players.

**Table 5**  
**Result of Test for TheFull Model**

Variable relation		Estimates	S.E.	C.R	P	Decision
Product Configuration Capability	← Product Innovation	0.432	0.147	2.935	0.003	Fail to reject $H_1$
Product Configuration Capability	← Ability to Respond to Customers	0.415	0.102	4.059	0.000	Fail to reject $H_2$



Product Configuration Capability	←	Market Competence	0.289	0.104	2.777	0.005	Fail to reject $H_3$
Marketing Performance	←	Product Configuration Capability	0.367	0.099	3.711	0.000	Fail to reject $H_4$

### Conclusion and Implications

The metal industry in Tegal Regency, which produces automotive parts and jewellery accessories, plays an important role in the economy of the local community. It has a multiplier effect since the metal industry supports the automotive industry sector. There is a problem related to the stagnancy of the industry. The number of business units and labour absorbed by the industry are sluggish. This study was conducted to explore and examine the capabilities of business players as the determinants of marketing performance. By using SEM based on the surveyed business players, this study shows significant findings that can be used to improve performance. The industry capability in configuring product transformation led to marketing performance. This capability served as mediating factors of the abilities of the industry to respond to customers' needs, to innovate the product, and increase market competence.

The managerial implication of this research is that metal SMEs that produce automotive parts and jewelry accessories must be able to create new products, add to existing products, improve and revise existing products that need to be maintained. The ability to enter new markets, meet market demands and find market information for automotive parts and jewelry accessories products must be improved, as well as the ability to meet customer demands, respond to customers and meet customer perceptions. By increasing product innovation, customer response, and market opportunities will improve product configuration capabilities

when producing automotive parts and jewelry accessories. Thus the Tegal metal SME products will become top of mind, embedded more deeply in the minds of consumers. Furthermore, increasing all the capabilities of the metal SMEs will result in an increase in their marketing performance.

The theoretical implication provides an overview of the references used in this study, be it a reference to problems, modeling, results and previous research agendas. The theoretical implication is a reflection for any research. From the results of the full model analysis, a theoretical implication is obtained, namely when metal SMEs have the goal of improving marketing performance, metal SMEs need to consider how to improve product configuration capability. Based on the research results, the increase in product configuration capability has an effect on increasing marketing performance. The full model test results show that product configuration capability has an important role in improving the marketing performance of metal SMEs (0.39). Product configuration capability is influenced by product innovation (0.32), ability to respond to costumers (0.37) and market competence (0.28). In order to achieve the company can maximally enhance that product configuration capability, it must pay attention to product innovation, ability to respond costumers and market competence. Marketing performance can increase to the maximum if metal SMEs attention to product configuration capability, product innovation, ability to respond to costumers and market competence.

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