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# SMEs' marketing performance: the mediating role of market entry capability

SMEs  
marketing  
performance

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## Abstract

**Purpose** – This study aims to examine an empirical evidence of the relationship between relational capital, network competence and market entry capabilities on marketing performance in small- and medium-sized enterprises' (SMEs') furniture export orientation in Central Java, Indonesia.

**Design/methodology/approach** – This study uses a quantitative research approach to investigate the relationship between relational capital, network competence, market entry capabilities and marketing performance. To achieve the research objectives, data were collected from managers or owners of furniture export orientation in Central Java, Indonesia. Using structural equation modeling, and after a series of exploratory and confirmatory factor analyzed, the authors tested an integrated model of the relationship between relational capital, network competence, market entry capabilities and marketing performance.

**Findings** – The result of this study indicates that relational capital has a positive significant effect on marketing performance. Relational capital has an insignificant effect on market entry capabilities. Network competence has a positive effect on market entry capabilities. Market entry capabilities have a positive effect on marketing performance. Other results also show that market entry capabilities can mediate the influence of network competence and marketing performance.

**Research limitations/implications** – The limitation of this research indicates that respondents in this research are very varied, if it is seen from their background into furniture business development, whereas many respondents do not have enough understanding of the questionnaire distributed. This research is only developed at the SMEs' furniture area, so it cannot be generalized at the other organizational area. The influencing of relational capital result in market entry capability has not suitable with theory built. It is because inaccurate dimension market entry capability has been applied in this research. For future research, it is suggested to look for alternative dimension of market entry capability.

**Practical implications** – Based on the analysis results and discussion, it can be formulated that managerial implication explains the following steps: first, a company should focus on long-period relationship development. Focus on long-period relationship development will increase customer loyalty and company performance. Moreover, the customer has long-term relationship with organization, although instability condition because of the belief in long-period relationship and strong commitment to each other. The evidence from this study suggests that's the organization needs to develop the long-term relationship with customer. Second, networking competency is important in market entry capability. Relationship can change anytime; therefore, the company has to have a strong competency of network developing. This competency helps company to enhance strong relationship. The strong network relationship helps company face easier ways in market entry capability.

**Originality/value** – The results of this research indicate that the role played by relational capital to increase market entry capability is not as good as the role played by network capability on market entry capability. In the international market context, the role of resource-based view is better than that of



transaction cost economy in influencing market entry capability. Other results also show that market entry capabilities can mediate the influence of network competence and marketing performance.

**Keywords** Relational capital, Market entry capability, Network competence, SMEs marketing performance

**Paper type** Research paper

## Introduction

Globalization takes an important role in business activity. Globalization influences organization goal significantly to enter the international market (Miocevic, 2016). Moreover, Miocevic (2016) argued that globalization emphasizes organization to use its business networking and change its operating ways. The effort made by organization in reducing risk of international market entry is collaboration interlacing with importer abroad. Without networking and strength relational, company cannot enhance business performance (Jordan and Martos, 2009). Furthermore, Sharabati *et al.* (2010) stated that human capital, social capital and relational capital give a positive relationship on marketing performance. Smirnova *et al.* (2011) examined relational capability development and marketing performance and concluded that relational capability influences market performance.

Researchers explained about the important of market entry strategy as an important part into managerial decision (Filatotchev *et al.*, 2007; Meyer *et al.*, 2009). Company exchanges from global market competition (Aulakh, 2005). Other studies explained the factors that influence managerial decisions to enter the international market, among others: specific location (Anand and Delios, 1997; Burpitt and Rondinelli, 2004; Yeoh, 2011), entry mode (Baena and Cervino, 2015; Brouthers, 2002; Burgel and Murray, 2000; Quer *et al.*, 2007; Randøy and Dibrell, 2002), timing of market entry (Sapienza *et al.*, 2006) and strategy determination, such as acuitition strategy (Meyer and Tran, 2006) and product strategy (Aulakh, 2005). This study focuses on the market entry capability emphasizing company's ability in international market entry. This ability finally affects enhancing of marketing performance.

The previous study focus in an importance a role of an inter organization relationship and business networking (Achrol, 1997). Moreover, Ritter *et al.* (2002) argued that company's ability in developing and managing relationship with supplier, customer and other organization for interaction becomes an important part of network competency. These competency help company to connect with customers, competitors and others (Gulati *et al.*, 2000), and coordination activity competency is an organizational resource which helps in reaching organization goal (Johnson *et al.*, 1999).

There is an empirical investigation on the relationship between relational capital, network competence, market entry capabilities on marketing performance and organization characteristics of the SMEs' furniture export orientation, such as age as a control variable. The sales value of Indonesia's furniture export is ranked 18th, far below that of Malaysia and Vietnam (Dhany, 2014). According to the data taken from UN Comtrade, the export value of Indonesia's furniture in 2013 was \$1.8bn and ranked 18th in the world. Moreover, the market segmenting in the area of Europe has big potential, as much as 42 per cent. In Asia, it is amounted to 40 per cent, 9 per cent in America, 7 per cent in Australia and 2 per cent in Africa.

This study examines and analyzes construction SMEs' marketing performance using the theories of resource-based view (RBV) at the firm level and the theory of transaction cost economics. The RBV theory focuses on the set of internal capability for an SME, which includes the firm's internal capacity that can be mobilized through various business

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activities with customers, suppliers, partners and so forth. The transaction cost economics identification of opportunistic behavior by their partners are likely to lead to high transaction costs and it has been suggested that firms can adopt appropriate contractual agreements to address these concerns. In this study, we explain that transaction cost economics can be shown in business to business partnership with buyers in international market.

The purpose of this study is to examine an empirical evidence of the relationship between relational capital, network competence on market entry capability and marketing performance in SMEs' furniture export orientation in Central Java, Indonesia. We continue by presenting the details of the empirical study, including the results, followed by a discussion of the study's implications, its limitations and the future research opportunities.

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## Theoretical background

### *Transaction cost economy*

Transaction cost theory treats companies as a governance structure aiming at saving transaction cost (Coase, 1937). Williamson (1981) suggested that there is an exchange cost in market and organization. In Williamson's (1979) view, market has failed to arrange economic exchange efficiently. This is due to individual characteristics in transaction (limited rationality and opportunism) and environmental characteristics of uncertainty/complexity and small amounts of bargaining). This failure surfaces a governance mechanism. The term *governance* refers to the way of arranging transaction (Williamson and Ouchi, 1981). Palay (1979) defined governance as a brief expression for institutional framework where the contract is commenced, negotiated, monitored, adjusted and ended. Heide (1994) used the term governance in explaining the form of arrangement of relationship among organizations. Inter-company arrangement is defined in broader sense in terms of certain initiation, termination and maintenance process of relations (Heide, 1994). Relational capital requires the strength of relation built from time to time and it is associated with the not-so-little needs for administrative types of governance.

### *Relational capital*

Relational capital refers to the amount of actual and potential resources embedded in it, available through and derived from a network of relations among organizations (Nahapiet and Ghoshal, 1998). Relational capital means the relationship that an organization has with its clients/customers and environment (Steward, 1997). Relational capital emphasizes on the values inherent in the company's relationship with its customers, suppliers and other important constituents to maintain the company's performance (Mubarik *et al.*, 2016). Kale *et al.* (2000) explained that relational capital is formed through trust, respect and friendship, which develop close interaction among partners. Relational capital is reflected with attributes such as commitment (Wasko and Faraj, 2005), trust (Carey *et al.*, 2001; Liu *et al.*, 2000), partnership interaction (Liu *et al.*, 2000) and reciprocity (Mathwick *et al.*, 2008).

Companies should pay attention to the portfolio of their relationship and differentiate between international partners (Solberg, 2008), as not all forms of relationship are deemed to create relational capital (Dyer and Singh, 1998a). Relational capital tends to make the parties that have relationships become more trusting, have close interaction, mutual respect and friendship (Kale *et al.*, 2000).

### *Resources-based view*

SMEs must combine resources and corporate competencies in ways superior to those of competitors to enhance superior performance. There are two theories used as the basis.

There are generally two polarized approaches or theories on RBV theory and transaction cost economics theory to explain the marketing performance. In the RBV perspective, resource in an organization can be defined as a durable competitive advantage (Lee *et al.*, 2001). RBV can be identified as financial resources, physical resources, human relational, organizational and technological (Man, 2001).

Day (1994) explained that RBV can be explained in two ways, namely, asset and capability. The theory of resource excellence begins when a company has superior resources. Resources-based theory is an important part of the theory of resource excellence. At its beginning, corporate resources-based theory (Penrose, 1959; Wernerfelt, 1984, 1995) views a company as a collection of resources and capabilities. The differences in resources and capabilities of a company from its competitors will deliver a competitive advantage to the company. RBV assumption is how the company can compete with other companies to obtain competitive excellence in managing the resources they have according to the company's capability.

Resources in business organizations in the form of management capabilities and competencies only provide an explanation of how the management builds its competitive advantage, yet these capabilities and competencies fail to explain the superiority of business organizations and dynamic market situations. Management should be able to create a mechanism and process to make the management and business organization *fit* the changes to external relationships (Eisenhardt and Martin, 2000). Capability is a set of skills and knowledge accumulation that enables companies to coordinate their activities and use their assets (Day, 1994). The concept of capability relates to a company's ability to distribute its resources and present coordinated tasks in its efforts of achieving its predetermined objectives. In essence, competence is the ability to maintain the distribution of assets in order for the company to achieve its objectives (Sanchez *et al.*, 1996). Competence can also be described as the accumulation of experiences and relations in the company (Pate *et al.*, 2003).

#### *Network competence*

The concept of competence and networking capability is derived (at least in part) from the RBV of a company, the main pillar of strategic management literature (Barney, 1991). In literature, we have the term a company's core competence (Prahalad and Hamel, 1990). Core competence is one of the company's capabilities to achieve competitive advantage (Prahalad and Hamel, 1990). The term competence is used by several individuals to describe resources and prerequisite, namely, qualification, skills or knowledge, required to perform certain tasks regardless of the real implementation of the task (Ritter and Gemunden, 2003). One of the core competences any company should possess is network competence. A company's capability to develop and manage its relationship with its main suppliers, customers and other organizations and to handle effectively the interaction between these relationships is the company's core competence – which has direct influence on the company's competitive strengths, and performance, which refers to network competence (Joan and Wang, 2013).

Interorganizational network is discussed in strategic management (Miles *et al.*, 1978) and marketing (Chiu, 2009). Ritter and Gemunden (2003) explained that network competence is analyzed using the organization level for business-to-business (B2B) relationships. Network competence is defined as the company's capability to develop and manage relationships with key partners, such as suppliers, customers and other organizations, and to effectively deal with the interactions between these relationships (Ritter *et al.*, 2002). Jian and Wang (2013) also suggested that network competence is defined as organizational capability to develop and manage the relationship of suppliers, customers and other organizations, and to handle interaction within those networks. The network competence involves both having

the necessary knowledge, skills and qualifications and using them effectively (Ritter and Gemunden, 2003). Network competence can also represent inter-company communications (Chiu, 2009).

Ritter *et al.* (2002) explained that network competence consists of capability levels in the execution of management tasks and of qualification levels that the people involved in network relationships have. This means, first, that network competence as a constructor includes the company's capability to develop and maintain both dyadic partnerships (relationship-specific tasks) and partnership networks (cross-relational tasks) (Tokkeli, 2013). Second, the actors involved in the relationship form the actor bond structure, activity links and resource bond where additional third parties are also integrated (Håkansson and Snehota, 1995). Third, there must be trust and commitment in building relationships (Morgan and Hunt, 1994).

#### *Market entry capabilities*

Narver and Slater (1990) explained that market orientation was one aspect of organizational culture. They measured market orientation to the level of behavior based on customer dimension, competitor orientation and inter-functional coordination. Two different approaches were combined within a framework of market knowledge competence related to the focus of customer and competitor information process. Both, Li-Hua and Lu (2013) stated that the dynamic market was important for the company to develop continuous competitive excellence to win the competition by using technology.

Hou and Chien (2010) mentioned that market knowledge has become the dominant asset and serves as the key to maintain competitiveness. To effectively compete, a company had to provide knowledge and develop new positive market knowledge for the position of the organization. Moreover, Hou and Chien (2010) also explained that to reach new market, a company is required to develop market absorption capability that is the capability to use the knowledge to assess the value of new market and assimilate and apply it to develop its knowledge. The process of internationalization of a company requires a support through experience and knowledge (Blomstermo *et al.*, 2006). The company's effort to enter the international market requires the process to improve the experiences, the knowledge of the accumulation of business partnership, human and other technical matters, as well as resources and administration.

Market entry has more tendency to have some relations to a company's capability to penetrate a market. The context of market entry is usually related to the entry of companies into foreign markets (Burgel and Murray, 2000; Ekeledo and Sivakumar, 1998). For a company to successfully enter a new market, it must maximize its superiorities and minimize any existing obstacle (Matthing *et al.*, 2006; Sundgren and Styhre, 2003). SMEs should start planning whether to enter the international market themselves or use their connections from abroad (Chetty *et al.*, 2015). SMEs should also address issues such as lack of information (Aharoni, 1966), lack of market knowledge (Johnson and Vahlne, 1977), uncertainties on internationalization process (Figueira-de-Lemos *et al.*, 2011) and cultural distance (Blomstermo and Sharma, 2005). Therefore, SMEs must have one of the important capabilities, i.e. market entry capability.

#### *SMEs' marketing performance*

Venkatraman and Ramanujam (1986) suggested that company performance is a multidimensional construct. In this case, company's performance consists of financial performance, corporate performance, organizational performance and marketing performance. Financial performance is at the center of organizational effectiveness area.

This performance measurement is considered as something of extreme importance; however, it is not enough to define overall effectiveness. Accounting-based standards such as return on assets, return on sales and return on equity measure financial success. These indicators illustrate current profitability. The company's performance measurement is related to markets such as market share, growth, diversification and product development. There are two dimensions to this performance:

- (1) the indicators related to growth in the existing business; and
- (2) the indicators related to future corporate position (new and diversified product developments).

The measurements of organizational effectiveness are closely related to stakeholders. Examples of such measurements are customer satisfaction, quality and social responsibility. There are two dimensions:

- (1) the indicators related to quality (product quality and employee satisfaction) and
- (2) the indicators related to social responsibility (environment and community).

The final performance measurement is marketing performance. Some experts explain that this so-called performance is important in the measurement of a company's success (Clark, 1999; Mossman *et al.*, 1974; O'Sullivan *et al.*, 2009). Clark (1999) described the dimensions of marketing performance including single financial output measurement (cash flow, sales revenue and profit), on financial measurement (customer satisfaction, quality of service, adaptability, customer satisfaction, loyalty and brand equity), input measures (market orientation, marketing implementation, marketing assets and marketing audit) and multiple measurement (efficiency and effectiveness).

## Hypothesis

### *Relational capital and marketing performance*

Tayles *et al.* (2007) investigated the relationship of human intellectual capital, structural intellectual capital and relational intellectual capital on marketing performance. The research indicated that human intellectual capital, structural intellectual capital and relational intellectual capital have a positive impact on marketing performance as measured by sales value. Moreover, Capello and Milano (2001) mentioned that relational capital would appear on organization, in which homogeneity sector of the company led to the high rate of interaction between local supplier and customer, or between local economic agent within the labor market. Moreover, Tjahjono (2011) mentioned that social capital was significant for organization. Furthermore, Tjahjono (2011) in his study found that social capital was significant in increasing individual satisfaction, which eventually led to the achievement of organization performance.

Study by Zohdi *et al.* (2013) found that customer relational capital, the network with other company and partnership between organization have a positive significant effect on the increase of customers and marketing performance. Other study suggested a significant result on the influence of relational capital toward business performance. Abiola and Emmanuel (2013) mentioned that customer relational capital, supplier capital and employee network capital have a significant effect on marketing performance. Wang *et al.* (2014b) explained that human capital, structural capital and relational capital have a positive and significant influence toward performance, as measured by marketing performance and operational performance.

Relational capital is one of the advantages of a company that is difficult to replicate; hence, companies should understand the complexity of social capital management. [Steward \(1997\)](#) explained that relational capital means the relationship an organization has with their clients/customers and environment. One way to reduce the risks related to entering overseas markets is to build relationships with others. [Miocevic \(2016\)](#) suggested that building collaboration with importers is a good step to enter the international market. Collaboration with importers is not an easy task as contracting, adapting business behavior, frequent asymmetry of information and geographical distance need to be considered ([Freeman et al., 2006](#)). Another problem is cross-cultural ([Barry et al., 2008](#)). A well-managed relational capital can build company's competitive advantage ([Kohtamaki et al., 2013](#)) and expand market share ([Mubarik et al., 2016](#)). Several uses of relational capital from organizational perspective associate relational capital quality and company's performance ([Mubarik et al., 2016](#); [Zohdi et al., 2013](#)). We argue that the higher the relational capital, the higher the marketing performance would be. Thus, we hypothesize that:

*H1.* Relational capital has a positive effect on marketing performance.

#### *Relational capital and market entry capability*

According to [Gulati et al. \(2002\)](#), relational capital is defined as organizational value toward business network; from its relation with its customer, supplier, partnership alliance and employee. Moreover, [Gulati et al. \(2002\)](#) explained the significance of improving business performance by focusing on superior power, developing company's capability to run a long-term trust-based business association with mutual benefit. Other study conducted by [Sulait \(2012\)](#) explained the significance of relational capital for organization as the embodiment of the value of an asset, especially those closely linked to the supplier companies. The concept of socialization developed in the study was a concept closely related to buyer and supplier partnerships.

The organizational partnership with its network has also often been analyzed in various contexts, such as in the research done by [Liu et al. \(2000\)](#), which divided relational capital into two dimensions: those were trust toward organization's competence and trust toward organization's value. [Adecco \(2007\)](#) defined relational capital as intangible assets based on the effort to develop, preserve and maintain and build a high qualified relationship among organization, individuals or groups, which influence the business, such as customers, suppliers, employee, government, partners, stakeholders and even competitors. [Roy \(2012\)](#) argued that the cooperative aspect in business network could provide many benefits for organization. The members of organization within business association and certain industry trade are company's strength, which prompt business to be involved in promoting business. Moreover, [Roy \(2012\)](#) explained that business association in industry trade in the form of membership has an influence toward business to achieve sales value. Based on literature review and previous study, we hypothesize:

*H2.* Relational capital has a positive effect on market entry capabilities.

#### *Networking competence and marketing performance*

Study on B2B relationship was characterized by the existence of inter-organizational relationship and network collaborative effort to manage a company within a highly complex business environment ([Human and Naude, 2009](#)). The key factors in handling company's network were competence and capability, which were necessary at the level of organization to be involved in a network and further led to enhance performance. Adopting the theory of



RBV proposed by Barney (1991), company's effort to validate its network competence and its capability to build business network was necessary.

Conceptualization and operationalization of network competence by Ritter (1999) indicate the need for a company to develop routines and practices in response to multi-firm embedding networks. Joint venture along with certain market potential is closely related to company performance (Brouthers, 2002). Business relationships within a network allow the parties to access rich information and transfer knowledge, as well as control the resources effectively and efficiently (Uzzi, 1996), and in turn it will improve the company's performance. Companies can opt to work together for overseas markets as a tool to grow and become more successful (Antell, 2012). Human and Naude (2009) found positive relation between network competence and network capability, and between network capability and organization performance. We argue that the higher the networking competence, the higher the SMEs' marketing performance would be.

Gomes *et al.* (2009), in his study, explained that the global change happening recently forced companies to rebuild their business strategic model. The strategic structure of a company determined the behavior that could impact the profitability of the company. The theory of competitive advantage explained that managers need to define strategies to survive and win the competition in the global market (Porter, 1980, 1985). If the company had the ability to maintain and promote intra-industry competition, the company must also have the capability of achieving superior business performance. Study by Zhou *et al.* (2007) evaluated the role of social network in the performance of SMEs in the international market. The result showed that industrial network has a positive effect toward export performance and financial performance. Carvalho and Reis (2012) evaluated the role of information technology in analyzing manager's view on the application of creativity techniques, which showed that the use of information technology has an effect toward the success of company in marketing its innovative products. Based on literature review and previous study, we hypothesize:

H3. Network competence has a positive effect on marketing performance.

#### *Networking competence and market entry capability*

Study by Hormiga *et al.* (2011) analyzed the customer relationship interaction, supplier relationship, business informal network relationship and company's reputation on business performance. The result of this study showed that customer relationship and supplier relationship were significantly correlated with the success of market achievement. Moreover, the study by Borchert and Bruhn (2010) concluded that human capital, relational capital, team performance and the size of the team has an effect toward company's objective as measured by business performance. This study also concluded that intellectual capital and relational capital gave significant influence toward the achieved market value of a company. Moreover, Human and Naude (2009) found positive relation between network competence and network capability, and between network capability and organization performance. Other study results indicated that a trade between buyer and seller in relationship marketing is often based on social relationship (Eisingerich and Bell, 2008).

Within the context of a company's entry into certain market, many literature works relate it to resources and competence (Anand and Delios, 1997; Barney, 1991). One of the must-have competences is networking competence. Studies indicate that any company entering international market will be involved in a network of relationships with buyers and suppliers (Johanson and Mattsson, 1988). It is never easy to enter overseas markets. Collaboration is easier for companies because they do not have to have the same amount of

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resources and capabilities as compared to when they enter the overseas markets independently (Madhok, 1998). Another researcher also suggests that a joint venture in a network is a better entry mode as compared to wholly owned modes of entry (Brouthers, 2002). Companies also need experience in building networks to get into new markets (Bridgewater, 1999). In this study, we argue that the better the networking competence, the higher the market entry capability would be. Based on literature review and previous study, we hypothesize:

H4. Network competence has a positive effect on market entry capability.

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#### *Market entry capability and marketing performance*

In literature on resources, it is stated that capability can improve performance (Day and Wensley, 1988). It is even truer when the core capabilities are owned by the company (Prahalad and Hamel, 1990) and become their competitiveness (Barney, 1991). One of these capabilities is market entry capability. The capability to enter overseas markets will greatly affect the company's growth (Greening *et al.*, 1996). Companies must determine the appropriate market entry mode to enter the market. The choice for market entry becomes the determinant of marketing performance (Brouthers, 2002). Many evidences have proven that any company applying global strategy and desiring its own internationalization can obtain other competitive and financial benefits (Yip and Hult, 2012).

Nandakumar *et al.* (2010) asserted that the dynamics of environment and competition were the effects of business strategy and competitive performance level. In a highly dynamics environment, financial leadership strategy and dynamic environment and differentiation strategy were more useful in improving financial performance. Meanwhile, a research conducted by Chew *et al.* (2008) concluded that the core capability and competitive strategy influenced performance. Based on the previous studies, the hypothesis was stipulated as follows:

H5. Market entry capabilities has a positive effect on marketing performance.

#### *Market entry capability can mediate the influence between network competence and marketing performance*

In this study, we propose that market entry capability is an important capability to mediate both network competence and marketing performance. Basically, good network quality will have direct impact on performance (Ardyan *et al.*, 2016; Lamprinopoulou and Tregear, 2011). In this research, we see an important factor that mediates the direct influence of network competence and marketing performance, namely, market entry capability. Network competence is defined as the company's ability to initiate, develop and use relationships between internal and external organizations (Zacca *et al.*, 2015). When there are many networks in which there is a good relationship with outsiders, it will allow SMEs to enter the targeted markets (Elg *et al.*, 2008). One of the requirements for international market entry capabilities is that SMEs should have many choices of strategies to enter the market (Arasa and Gideon, 2015; Ekeledo and Sivakumar, 1998; Quer *et al.*, 2007). Any SME capable of entering international markets will make its performance financial performance (Arasa and Gideon, 2015), market share (Miller *et al.*, 1989), satisfaction performance (Rodriguez-Pinto *et al.*, 2008) and overall performance (Ritter *et al.*, 2002). Hence, it can be concluded that market entry capability can mediate the influence between network competence and marketing performance. Thus, we hypothesize:

*H6.* Market entry capability can mediate the influence between network competence and marketing performance.

### Control variable

The relationship between relational capital, network competence and market entry capability on marketing performance should be examined, while controlling for firm characteristics such as size. Firm size is among the most determinant predictors of performance. Some empirical evidence supports the claim that SMEs' firm size is among the most determinant predictors of performance (Acedo and Casillas, 2007; Barnes *et al.*, 2006; Becherer *et al.*, 2003; Etemad, 2005; Laforet, 2009). We include firm size as control variable and explore this relationship in the light of empirical data.

Based on the previous studies, a research framework is described in Figure 1.

Based on literature review, the framework in of this research explains the importance of relational capital and network competence to create market entry capabilities. Relational capital and network competence will enhance market entry capabilities, which then lead to achieve marketing performance.

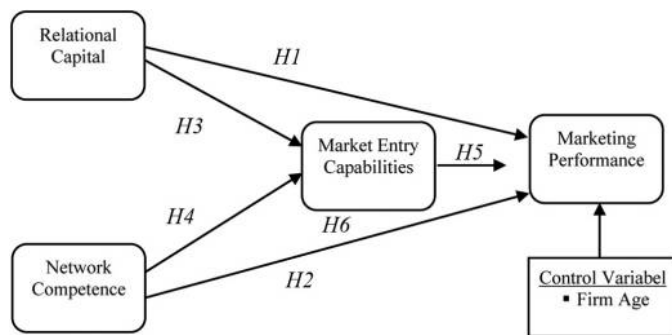
### Material and method

#### *Sample and data collection*

The data in this research were collected from SMEs on groups of furniture exporter within Central Java region. This group of respondents was located on three regencies that were Jepara Regency, Sukoharjo Regency and Klaten Regency. The three regencies were quantitatively the most dominant SME exporters of furniture in Indonesia, especially of Central Java (data reprocessed from Indonesia Meuble Association, 2014).

The respondents in this research were export-oriented furniture managers of SMEs' owners. They filled in the questionnaire and were interviewed. There are 164 questionnaires returned to the researcher. The researcher applied purposive sampling technique in collecting the data based on the experience of the furniture SMEs (both manager and owner) in managing their business. Of the initial cohort of 164 respondents, there were 3 respondents who did not fill in the questionnaire completely and 19 respondents which information contained outlier during the data validation. The initial sample consisted of 142 respondents representative with the research sample.

This research adopted the definition of SMEs based on Law No. 20/2008 on the criteria of SMEs, which are (but not limited to):



**Figure 1.**  
Research framework

- own a net worth of more than Rp 50m and at most Rp 500m excluding the land and the building of the business;
- own a sales revenue more than Rp 300m to Rp 2.5bn;
- own a net worth of more than Rp 500m and at most Rp 10m excluding the land and the building of the business; and
- own sales revenue of more than Rp 2.5-50bn.

### Constructs measurements

This research used primary data which were collected through survey conducted by the researcher. The questionnaire was designed to measure the constructs using 1-10 rating scale on the respondents' answers (Sekaran, 2010). The score was possible to move from 1 as the lowest score to 10 as the highest score to measure the four variables that were relational capital, network competence, market entry capability and marketing performance. Score 1 represented the most disagreed answer and Score 10 represented the most agreed answer. Ten-item rating scale was used to measure this construct (Table I). Most items were drawn from available literature with some modifications to suit research context. Scales used to measure the research constructs were drawn from available literature on relational capital, network competence, market entry capabilities and marketing performance.

### Analysis and research result

Structural Equation Modeling (SEM) with AMOS Program was used to test the model and hypothesis in this research. The analysis was conducted using measurement model to test the unidimensionality. The indicators formed the constructs to assess the parameters resulted from the goodness of fit. Measurement model used convergent validity that was to test the indicators whether they were valid to test what needs to be tested. Moreover, the indicator significance had to be tested to assess whether the indicators provided similar dimensions to form latent variables. The next analysis was SEM, which applied similar step

Construct	Indicator/item	Author(s)
Relational capital	Closed personal interaction (RC1) Mutual relationship (RC2) High commitment (RC3) Reciprocity (RC4)	Dyer and Singh (1998b), Kale <i>et al.</i> (2000) and Gulati <i>et al.</i> (2000)
Network competence	Using internet to sources information of market demand (NC1) Build various channel (NC2) Integrating network quality (NC3) Create new network (NC4) Speeding to fit the need (ME1)	Savolainen (2001) and (Mort and Weerawardena, 2006)
Market entry capability	Speeding to offer variety of products (ME2) Be able to obtain information about the needs in the new market (ME3) The capability to create a new demand (ME4)	Rodriguez <i>et al.</i> (2013)
Marketing performance	Sales growth (MP1) Increasing of products offering (MP2) Increasing of products values (MP4) Market coverage (MP4)	Rodriguez <i>et al.</i> (2013), Chew <i>et al.</i> (2008) and Sin <i>et al.</i> (2002)

**Table I.**  
The research  
constructs  
measurement and  
items

that was testing the parameters resulting from goodness of fit and the research hypothesis on the causality relationship developed in the model.

Maximum likelihood estimation (MLE) technique was applied in the research. A total of 164 samples were used, as this quantity had fulfilled the need of samples recommended in applying MLE and the average variance extracted (AVE) criteria of which minimum number of sample was 150 under requirements: the value of standardized loading estimated was less than 0.7 and the communalities score was 0.5 (Hair *et al.*, 1998).

Therefore, we tested the questionnaire items by applying confirmatory factor analysis to test the constructs relationship with the indicators (questionnaire validity). Following Anderson and Gerbing (1988), a CFA model was first conducted to examine convergent validity. We also used composite reliabilities (CR) and average variance extracted (AVE) to identify convergent validity. The results of measures (Table II) showed that all of standardized factor loadings were statistically significant on their respective constructs with fit statistics indicating appropriate fit indices to the data.

Table II explains the information about the difference of each construct and the question item used; the loading value of each construct should be more than 0.6 cut-off point (Hair *et al.*, 1998). The value of variance extracted (VE) is more than the determined critical value, which is 0.5. The test result of construct validity value, variance extract and discriminant validity (DV) in Table II shows that the result that the construct of relational capital, network competence, market entry capabilities and marketing performance. DVs are based on the determined statistics cut-off value, that is, construct reliability (CR) was more than 0.7, the AVE was more than 0.5 and DV was more than 0.7.

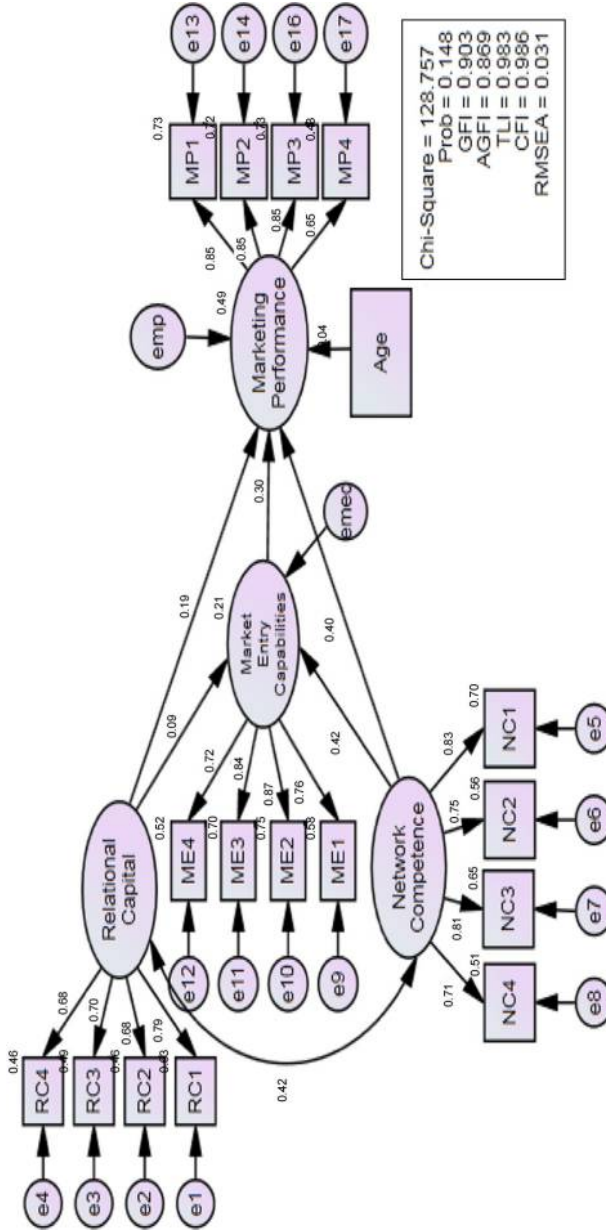
## Results

The hypothesis testing in this research was conducted with SEM with AMOS program. The analysis result of the SEM in the full model can be seen in Figure 2. Table IV, on the other hand, explained the result of hypothesis test in developing SEM. The result of full model confirmatory test showed good result that was the fulfillment of goodness-of-fit criteria. Structural model was used to describe the causality models of the research with tiered

Construct	Items	Standardized factor loading	CR	AVE	DV
Relational capital	RC1	0.764	0.854	0.583	0.764
	RC2	0.692			
	RC3	0.712			
	RC4	0.682			
Network competence	NC1	0.841	0.874	0.562	0.750
	NC2	0.720			
	NC3	0.825			
	NC4	0.712			
Market entry capability	ME1	0.752	0.879	0.555	0.745
	ME2	0.869			
	ME3	0.845			
	ME4	0.715			
Marketing performance	MP1	0.867	0.881	0.552	0.743
	MP2	0.849			
	MP3	0.851			
	MP4	0.634			

**Table II.**  
Scale item for  
measures

**Notes:** AVE = average variance extracted; CR = construct reliability; DV = discriminant validity



**Figure 2.**  
Full model of the relationship between relational capital, network competence and market entry capabilities on marketing performance

relationship. The result showed that the goodness-of-fit criteria fulfilled the  $\chi^2$  for 128.757 with the probability score was 0.148. Both of the assumptions had been fulfilled. The highest TLI score was 0.983, GFI score was 0.903, AGFI score was 0.869 and RMSEA score was 0.031. These scores indicated that they had fulfilled the required cut off. This indicated that the research model was accepted and had met the required criteria (standard). The mean, matrix correlation among the constructs of relational capital, network competence, market entry capabilities and the marketing performance is presented in [Table III](#).

The correlations among the indicator of relational capital, network competence, market entry capability and marketing performance variables exceeded positive significant. To demonstrate, value (presented on the diagonal in [Table II](#)) must exceed the corresponding latent variable correlations in the same row and column. If this condition is met, then evidence exists that the variance is shared between relational capital, network competence, market entry capability and marketing performance constructs represented by the correlation by the items within the scale.

[Table IV](#) indicates the standardized path coefficients of the relationship between relational capital, network competence, the market entry capability and marketing performance. The result of this research is also seen in [Table IV](#), which formed the five hypotheses. These hypotheses developed in this research were the relationship between relational capital on marketing performance, the relationship of relational capital on market entry capability and the relationship of network competence on market entry capabilities and marketing performance.

[Table IV](#) describes the relationship between relational capital, network competence, market entry capability and marketing performance. The *t-values* and probability showed the positive relationship and significance from each construct. Therefore, the discussion of each variable is explained as follows:

- *H1*: Relational capital has a positive effect on marketing performance. [Table IV](#) shows the structural path model which explains the relation between relational capital on marketing performance. The review of the goodness-of-fit measures indicates that they well exceed the cut-off values. The structural path findings indicate that there is a significant and positive relationship between relational capital on marketing performance of SMEs ( $t = 2.129 > 1.96$ ) of which significance score is  $0.031 < 0.05$ . Therefore, *H1* is accepted.
- *H2*: Relational capital has no significant effect on market entry capability. [Table IV](#) shows the structural path model between relational capital and market entry capability. The structural path findings indicate that there is no significant relationship between relational capital on market entry capabilities of SMEs ( $t = 0.878 > 1.96$ ) of which significant score is  $0.380 > 0.05$ . Therefore, *H2* is rejected.
- *H3*: Network competence has a positive effect on marketing performance. [Table IV](#) shows the structural path model between network competence and marketing performance. The structural path findings indicate that there is a significant relationship between network competence on marketing performance of SMEs ( $t = 4.116 > 1.96$ ) of which significant score is  $0.000 < 0.05$ . Therefore, *H3* is accepted.
- *H4*: Network competence has a positive effect on market entry capabilities. [Table IV](#) shows the structural path model between network competence and market entry capabilities. The structural path findings indicate that there is a significant relationship between the network competence on market entry capabilities ( $t = 3.902 > 1.96$ ) of which significant score is  $0.000 < 0.05$ . Therefore, *H4* is accepted.

Variable	Mean	SD	AGE	RC1	RC2	RC3	RC4	NC1	NC2	NC3	NC4	ME1	ME2	ME3	ME4	MP1	MP2	MP3	MP4
AGE	9.028	4.424	1.000																
RC1	7.729	0.728	0.046	1.000															
RC2	7.567	0.788	0.077	0.562	1.000														
RC3	7.684	0.820	-0.013	0.504	0.472	1.000													
RC4	7.692	0.755	0.032	0.283	0.500	0.482	1.000												
NC1	7.567	0.973	-0.024	0.322	0.170	0.156	0.202	1.000											
NC2	7.873	0.866	-0.016	0.332	0.215	0.223	0.254	0.603	1.000										
NC3	7.736	1.050	0.018	0.290	0.148	0.199	0.241	0.696	0.579	1.000									
NC4	7.394	0.996	-0.062	0.201	0.196	0.224	0.230	0.598	0.519	0.599	1.000								
ME1	7.500	0.958	-0.043	0.245	0.162	0.140	0.206	0.283	0.368	0.234	0.156	1.000							
ME2	7.570	0.933	-0.061	0.184	0.198	0.099	0.071	0.325	0.318	0.336	0.191	0.654	1.000						
ME3	7.542	0.813	0.023	0.143	0.231	0.121	0.068	0.267	0.310	0.269	0.268	0.623	0.739	1.000					
ME4	7.595	0.982	-0.150	0.358	0.097	0.095	0.073	0.401	0.323	0.296	0.277	0.560	0.610	0.606	1.000				
MP1	7.183	1.008	0.004	0.336	0.172	0.174	0.234	0.436	0.498	0.341	0.323	0.330	0.356	0.285	0.312	1.000			
MP2	7.106	0.987	0.042	0.364	0.223	0.199	0.196	0.398	0.505	0.390	0.318	0.401	0.419	0.343	0.330	0.722	1.000		
MP3	7.282	1.013	0.050	0.364	0.252	0.253	0.282	0.409	0.510	0.314	0.318	0.438	0.399	0.373	0.361	0.741	0.736	1.000	
MP4	7.183	0.920	-0.071	0.281	0.164	0.143	0.307	0.458	0.475	0.458	0.470	0.338	0.315	0.293	0.330	0.583	0.549	0.492	1.000

**Notes:** *Variable correlation matrix:* The mean, standard deviations and correlation coefficients among all variables used in the analyses are reported in [Table III](#) and it shows that most of the variables are not highly correlated with one another; \*correlation is significant at the  $p < 0.1$  level (two-tailed); correlation is significant at the  $p < 0.05$  level (two-tailed), correlation is significant at the  $p < 0.01$  level (two-tailed)

**Table III.**  
Descriptive statistics  
and correlation  
matrix

SMEs  
marketing  
performance



Hypothesis		Standardized path coefficients	t-value	Prob.	Result
<i>H1</i>	Relational capital → Marketing performance	0.282	2.129	0.031	Significant
<i>H2</i>	Relational capital → Market entry capabilities	0.115	0.878	0.380	Not significant
<i>H3</i>	Network competence → Marketing performance	0.427	4.116	0.000	Significant
<i>H4</i>	Network competence → Market entry capabilities	0.374	3.902	0.000	Significant
<i>H5</i>	Market entry capabilities → Marketing performance	0.355	3.369	0.000	Significant
<i>H6</i>	Network competence → Market entry capabilities → Marketing Performance	–	2.607	0.009	Significant
Control variable	Firm age → Marketing performance	0.008	0.595	0.552	Not significant

**Note:** \*Significant at  $p \leq 0.05$ ; if  $(t) \geq 1.96$

**Table IV.**  
Result and path analysis model

- *H5*: Market entry capabilities have a positive effect on marketing performance. **Table IV** shows the structural path model between market entry capabilities on marketing performance. The structural path findings indicate that there is a significant relationship between market entry capabilities on marketing performance of SMEs ( $t = 3.369 > 1.96$ ) of which significance score is  $0.000 < 0.05$ . Therefore, *H5* is accepted.
- *H6*: Sobel test is used to test the effect of mediation. This research explains that market entry capability is able to mediate the influence of network competence and marketing performance. This result can be shown on the result of the test where the  $t$ -statistic is 2.607 and the  $p$ -value is 0.009. Therefore, *H6* is accepted.
- *Control variable*: Firm age has a positive insignificant effect on marketing performance. The structural path findings indicate that there is an insignificant relationship between age firm on marketing performance ( $t = 0.595 < 1.96$ ) of which significance score is  $0.552 > 0.05$ .

### Result discussion

The design of this study is to examine the influence of relational capital, network competency, market entry capability and marketing performance on the context of SMEs' research furniture oriented to the export market in Central Java area.

The result gives improvement about relational capital impact significantly to the marketing performance. This result supports that of previous study that states about relational capital giving positive impact to the performance (Abiola and Emmanuel, 2013; Wang *et al.*, 2014a; Zohdi *et al.*, 2013). Moreover, Zohdi *et al.* (2013) stated that relational capital has a positive influence on the customer growth and market performance. This result is also similar to the research by Abiola and Emmanuel (2013), who found that relational capital has a positive influence on market performance.

There are a lot of causes why relational capital is able to enhance marketing performance. First, relational capital is based on trust of high risk and uncertain condition. [Luo et al. \(2004\)](#) observed customer relationship as a customer trust and commitment to the company. In the B2B context, when the customer has a high trust and has been creating good relationship with customers then they will be loyalty to this company [Rauyruen and Miller \(2007\)](#), finally reach the increasing of marketing performance. Basically, relational capital consists of two sides ([Duparc, 2012](#)). Moreover, [Duparc \(2012\)](#) followed internal (employee relationship) and external (stakeholder relationship). The trust awareness into good relationship both of employee or other stakeholder will increase performance. Second, customer engagement, long-period relations oriented and mutual relationship strongly with customers are dimensions of relational capital. They become one of power that should be owned by company. The good relationship is not only through transactional activity but also through transactional concept (exchange) oriented to the short period, while relational orientation to the value lifetime relationship ([Gronroos, 1996](#); [Ibrahim and Najjar, 2008](#)).

Market entry capability is one of the central factors in this research. This study finding shows that relational capital affects insignificantly the market entry capability. The result is not similar to previous research by [Liu et al. \(2000\)](#), who explained company grows trusting for organization competency and trusting to the organization values. The research result does not support the study by [Roy \(2012\)](#), who found cooperative aspect into business network able to carry a lot of benefit for company.

There is a reason why relational capital does not increase market entry capability. It is because the right organization relationship cannot increase its capability. Relational capital is determined as psychology traits ([Ibrahim and Najjar, 2008](#)), which is able to produce certain behavior, such as loyalty. Moreover, [Ibrahim and Najjar \(2008\)](#) stated that outcome capability is competency. One of these is network competency.

The main factor influencing market entry capability is network competency. This research finds that network competency affects market entry capability. The result is suitable with previous result of [Hou and Chien \(2010\)](#) who stated that an effort into reaching new market, company needs to develop an absorbing market capacity such as ability in applying knowledge of value identity from new market information. While [Blomstermo et al. \(2006\)](#) explained a process of international company need stimulating through experience and knowledge. [Sin et al.'s result \(2006\)](#) also supports this research, which found relationship orientation impact on marketing performance positively.

Market entry capability has a positive impact on marketing performance. This result is similar to study of [Singh and Garg \(2008\)](#), who found company needs to develop business strategy for reaching market target. Moreover, the company need to preserve its competitiveness, process and performance relates to the product competitiveness in their industry ([Gurau, 2004](#)). All the more superior capability owned by company will create this company has a superior advantage and impact to its performance ([Day and Wensley, 1988](#)).

This result implication indicates the important of relational capital for company in increasing marketing performance. While, this finding also shows that relational capital affects market entry capability insignificantly. It means that the SMEs has orientation to the export activity aiming for trust and their partnership closeness with buyers as their customers. [Morgan and Hunt \(1994\)](#) stated that in cooperation, company has to be proactive and take a role actively into effort of company product introducing built on the basic commitment and trust.

### Implication

Based on the analysis result and discussion, it can be formulated that managerial implication in this research explains the following steps: first, company has to focus on the

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long-period relationship development. This will help in creating loyal customers to the company. Moreover, the customer has long-term relationship with organization although instability condition because of the belief in long-period relationship and strong commitment to each other. The evidence from this study suggests that's the organization needs to develop the long-term relationship with customer. Second, networking competency is important in market entry capability. Relationship can change anytime; therefore, the company has to have a strong competency of network developing. Taken together, these findings suggest that the important of business network and helps of customers to remain and changing relationship. The strong network relationship helps company face easier ways in market entry capability.

### **Contribution to knowledge**

In this research, there are two important variables that become the driver of market entry capability and marketing performance, namely, relational capital and network competence. These two variables are seen from two different approaches. Relational capital uses transaction cost economy approach, whereas network competence uses RBV approach. The results of this research indicate that the role played by relational capital to increase market entry capability is not as good as the role played by network capability on market entry capability. In the international market context, the role of RBV is better than the role of transaction cost economy in influencing market entry capability. Other results also show that market entry capabilities can mediate the influence of network competence and marketing performance.

### **Limitations and future research**

Market entry capability has an important role to enhance marketing performance, especially for SMEs' export orientation. To increase market entry capability, supporting factors are needed. These findings provide the ability of business to supporting factors for market entry capability by international network competency is not relational capital. These findings provide the ability of business to supporting factors for market entry capability by international network competency is not relational capital. An implication of this study is the possibility to enhancing marketing performance relational capital is needed where this relational role can advantage marketing performance.

The limitation of this research indicates that respondents in this research are very varied, if it is seen from their background into furniture business development, whereas many respondents do not have enough understanding of the questionnaire distributed. This research is only developed at the SMEs' furniture area, so it cannot be generalized at the other organizational area.

In contrast to earlier findings, however, no evidence the influencing of relational capital on market entry capability has not suitable with theory built. It is because inaccurate dimension market entry capability has been applied in this research. For future research, it is suggested to look for alternative dimension of market entry capability.

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