

# The Effect of Entrepreneurial Orientation on Marketing Performance Mediated by Absorptive Capability and Networking Capability

Reni Rupianti<sup>1</sup>, Ananda Sabil Hussein<sup>2</sup>, Ferry Firdaus<sup>3</sup>

<sup>1,2,3</sup>Brawijaya University, Malang, Indonesia

Email: [renirupianti29@gmail.com](mailto:renirupianti29@gmail.com)

## Abstract

This research aimed to analyze the effect of entrepreneurial orientation, absorptive capability, and networking capability on marketing performance; examine the effect of entrepreneurial orientation on marketing performance mediated by absorptive capability and networking capability. The sample in this research was 140 SME owners of tempeh chips in the Sanan Industrial Center, Malang. The sampling technique in this research used purposive sampling. The data analysis technique used Partial Least Squares (PLS). The results showed that entrepreneurial orientation had a direct positive effect on marketing performance; entrepreneurial orientation had a direct positive effect on absorptive capability; entrepreneurial orientation had a direct positive effect on networking capability; absorptive capability had a direct positive relationship to marketing performance; networking capability had a direct positive impact on marketing performance; entrepreneurial orientation had a positive effect on marketing performance through absorptive capability; entrepreneurial orientation had a positive effect on marketing performance through networking capability. Absorptive capability and networking capability acted as partial mediating variables.

**Keywords:** *Marketing Performance, Entrepreneurial Orientation, Absorptive Capability, Networking Capability.*



## A. INTRODUCTION

The presence of a creative economy is hope for Indonesia's economic growth. The contribution of the creative economy sub-sector to the national Gross Domestic Product (GDP) reached IDR 1,211 trillion with exports reaching US\$20 billion and presenting 18.1 million job opportunities in 2019 (Kemenkraf, 2019). The creative economy in Indonesia is moved by SMEs which continue to fight against the biggest disruption; the Covid-19 pandemic. This factor has changed many people's lives and has become a serious problem for traditional entrepreneurs who have limitations in science and information technology (Setiawan, 2018). Plans to grow and expand market segmentation by leveraging local demand have to be halted as sales continued to decline during the pandemic (Engidaw, 2022). SMEs must immediately realize the importance of having the right marketing strategy so they will be able to quickly adapt to a dynamic environment and reach stabilization in their marketing performance (Hussein, 2019).

One factor that affects marketing performance is Human Resources. Without human resources who are able to manage well, even large technology and capital

will not be used effectively and efficiently (Siswanto et al., 2020). The concept of entrepreneurial orientation which is in accordance with RA theory states that human resources are unique entities for the company which can produce market offerings efficiently and effectively with value for several market segments through entrepreneurial aspects (Khouroh et al., 2019; Hunt et al., 1995). It can be assumed that entrepreneurial orientation has a relationship to improving marketing performance (Dahana et al., 2021; Solano et al., 2018).

In addition to paying attention to human resources, a strategy to improve marketing performance is to restore the competitive advantage it has (Puspaningrum, 2020). Restoring competitive advantage in the digitalization era is conducted by improving the limitations possessed, especially knowledge, skills, and creativity (Setiawan, 2018). Absorptive capability is a component of dynamic capability which is the key to accessing new information and knowledge about various opportunities owned by small and medium enterprises (Makhloufi et al., 2021). Businesses that prioritize entrepreneurial orientation will involve a knowledge creation process, especially in exploring new opportunities for customers or product development that is able to expand market segments (Tzokas et al., 2015; Jiménez-Barrionuevo et al., 2019). So, it can be concluded that absorptive capability affects marketing performance (Cui et al., 2018; Liu et al., 2018).

This process will be maximized if it is balanced with strengthening the network by utilizing inter-organizational relationships and gaining access to various resources owned by others (Asemokha et al., 2019). Networking capability is the ability to communicate with partners making it easier to obtain information that will be used to identify markets that will be useful in developing the marketing network that has been built (Dhameria et al., 2021; Sadiku-Dushi et al., 2019; Srećković, 2018). This is very necessary for small businesses to boost back in improving their marketing performance, both businesses that have local markets and businesses that are pursuing international market expansion (Karami & Tang, 2019).

The Sanan Industrial Center is one of the centers for the tempeh chips industry which is a priority for the development of the creative economy in the culinary sector in Malang. SMEs in this center have also become victims of the COVID-19 pandemic. Many SMEs experienced a decline in sales due to the decline in tourists who came due to the restrictions on community mobility implemented by the government. And many of them have not been able to maximize the role of technology in their marketing process, thus making them late to adapt to their business environment.

These two capabilities will be useful in overcoming the problems of tempeh chip producers in the digitalization era. Increasing dynamic capabilities act as a mediator between company resources and performance (Burvill et al., 2018). Through absorptive capability and networking capability, it will be easier for them to respond to market changes, especially those caused by the emergence of new technologies (Medase & Barasa, 2019; Nuryakin, 2020). Having a high entrepreneurial orientation will be able to help Tempeh Sanan Chips SMEs in terms

of increasing digital literacy through multiple sources and ownership of a broad and strong network structure to improve the marketing performance of these SMEs. Thus, this research aimed to contribute to the discussion of the effect of entrepreneurial orientation on marketing performance mediated by absorptive capability and networking capability.

## **B. LITERATURE REVIEW**

### **1. RBV, RA Theory, and KBV Theory**

The resource-based approach (Resource-Based View) concept is a concept that is able to assist entrepreneurs in achieving a sustainable competitive advantage (Barney, 1991). RBV focuses on the potential of organizational resources and capabilities that divide 2 types of resources; Tangible and intangible which must now be changed from ordinary to rare processes that are difficult to imitate (Robbins & Coulter, 2012; Kabue & Kilika, 2016).

The importance of integrating various important aspects of today's global economy, such as competition, cooperation, and innovation makes the theory of internal resource advantage explained more broadly (Kapoor & Aggarwal, 2020). RA theory explains that successful organizations have the advantage of sharing knowledge and strong intellectual capital and must be increased from time to time in the form of innovations that are difficult to imitate (Wang et al., 2014). KBV theory or Knowledge-Based View is also the development of the company's RBV theory which puts knowledge as a determinant of superior company performance and gains competitive advantage (Wu & Chen, 2014; Kapoor & Aggarwal, 2020). However, this theory is still considered static because it only looks at internal resources, so it is advisable to incorporate external elements in the concept of dynamic capabilities theory (Teece, 2010).

### **2. Marketing Performance**

Marketing performance is also inseparable from a definite marketing competitive advantage (Pisicchio & Toaldo, 2021). Marketing performance is a construct that can be used to measure the impact of the company's strategy since marketing performance is a measure of the achievement of products marketed by the company (Handayani & Handoyo, 2020). Marketing performance has several indicators; The success of new products, sales growth, and customer growth (Sari, 2013).

### **3. Entrepreneurial Orientation**

Entrepreneurial Orientation is the behavior needed by entrepreneurs in managing their businesses to prosper and develop in a competitive environment (Sumiati & Indrawati, 2017). Lumpkin & Dess (1996) suggested indicators to measure entrepreneurial orientation, including, based on the above understanding, it is concluded that the indicators in entrepreneurial orientation are innovativeness, risk-taking, and proactiveness.

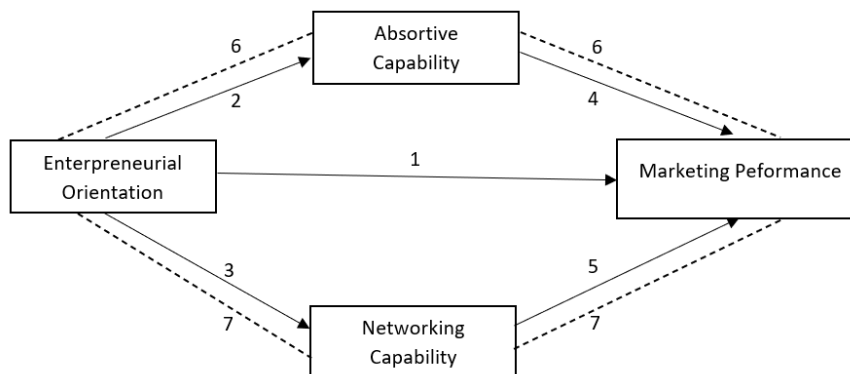
#### 4. Absorptive Capability

According to Grandinetti (2016) states that absorptive capability is a process of monitoring, evaluating, and obtaining or committing to remember external knowledge. Liu et al. (2018) suggest that absorptive capability is the ability to acquire, assimilate and then exploit external information for commercial purposes that has become an important capability for companies to create competitive advantage by developing new products or increasing flexibility. Zahra & George (2002) suggests that there are 4 dimensions of absorptive capability; Acquisition, Assimilation, Transformation, and Exploitation.

#### 5. Networking Capability

Networking capability according to Mitrega et al. (2012) is the capability of the company in identifying and taking advantage of market opportunities so the company is able to work together, solve problems, and facilitates the company productsdevelopment. Networking capability is a network capability that can make it easier for companies to obtain information, the resources needed by the company, market share, and the latest technology used (Miller et al., 2010). for business sustainability especially small businesses that can use the network to find vendors, consumers, dealers, and other resources in the global market (Sanyal et al., 2020). Networking Capability according to Anser et al. (2021) consists of 4 (four) dimensions; Coordination, Relational skills, Partner knowledge, and Internal communication.

#### 6. Conceptual Model and Hypothesis



The hypotheses in this research are:

- a. H<sub>1</sub>: Entrepreneurial Orientation has a significant effect on marketing performance
- b. H<sub>2</sub>: Entrepreneurial Orientation has a significant effect on absorptive capability performance
- c. H<sub>3</sub>: Entrepreneurial Orientation has a significant effect on networking capability
- d. H<sub>4</sub>: Absorptive capability has a significant effect on marketing performance
- e. H<sub>5</sub>: Networking capability has a significant effect on marketing performance

- f. H<sub>6</sub>: Entrepreneurial Orientation has a significant effect on marketing performance mediated by absorptive capability
- g. H<sub>7</sub>: Entrepreneurial Orientation has a significant effect on marketing performance mediated by networking capability.

### C. METHOD

This type of research was explanatory research. The research location was in the Sanan Industrial Center with the research subject was the owners of Tempe Chips SME business. The number of the population was not known with certainty so the researcher used non-probability sampling and purposive sampling techniques. The use of purposive sampling technique was used with the assistance of criteria such as SMEs that have been operating at least for 2 years, the status is not acquisition SMEs, at least have 2 product variants and carry out production to marketing activities. The number of eligible samples in the research was 30 to 500 or analyzed by multivariate (correlation or regression) with a minimum number of sample members 10 times the variables studied (Sugiyono, 2018). Thus, the number of samples needed in this research was 140 respondents (14 indicators  $\times$  10 = 140 respondents). With indicator variables using sources from (Anser et al., 2021; Lumpkin & Dess, 1996; Sari, 2013; Zahra & George, 2002). Analysis of the data used to test the hypothesis in this research using Partial Least Square (PLS).

### D. RESULT AND DISCUSSION

#### 1. Convergent Validity

Convergent validity has a meaning that refers to a set of indicators that represent one latent variable and which underlies the latent variable. The results of the convergent validity test are presented in the following table:

**Table 1. Convergent Validity Result**

	<b>Outer Loading</b>	<b>Description</b>
AC1	0.776	<b>Valid</b>
AC2	0.824	<b>Valid</b>
AC3	0.883	<b>Valid</b>
AC4	0.814	<b>Valid</b>
EO1	0.888	<b>Valid</b>
EO2	0.897	<b>Valid</b>
EO3	0.867	<b>Valid</b>
MP1	0.766	<b>Valid</b>
MP2	0.835	<b>Valid</b>
MP3	0.841	<b>Valid</b>
NC1	0.854	<b>Valid</b>
NC2	0.866	<b>Valid</b>
NC3	0.876	<b>Valid</b>
NC4	0.888	<b>Valid</b>

Source: Data Proceed

Based on the table above, it is known that each research variable indicator has an outer loading value  $> 0.7$ . This shows that there is no indicator variable whose outer loading value is below 0.5 so all indicators are declared feasible or valid for research use and can be used for further analysis.

## 2. Discriminant Validity

Discriminant validity can be used to measure what should be measured, as well as to ensure that each concept of each latent model is different from other variables. The results of the discriminant validity test are presented in the following table:

**Table 2. Discriminant Validity Result**

	<b>Absortive Capability</b>	<b>Enterpreneurial Orientation</b>	<b>Marketing Performance</b>	<b>Networking Capability</b>
<b>AC1</b>	<b>0.776</b>	0.481	0.559	0.449
<b>AC2</b>	<b>0.824</b>	0.425	0.510	0.302
<b>AC3</b>	<b>0.883</b>	0.600	0.548	0.373
<b>AC4</b>	<b>0.814</b>	0.483	0.487	0.408
<b>EO1</b>	0.565	<b>0.888</b>	0.506	0.478
<b>EO2</b>	0.527	<b>0.897</b>	0.506	0.409
<b>EO3</b>	0.519	<b>0.867</b>	0.567	0.425
<b>MP1</b>	0.431	0.486	<b>0.766</b>	0.397
<b>MP2</b>	0.592	0.512	<b>0.835</b>	0.465
<b>MP3</b>	0.526	0.459	<b>0.841</b>	0.452
<b>NC1</b>	0.348	0.371	0.434	<b>0.854</b>
<b>NC2</b>	0.378	0.530	0.485	<b>0.866</b>
<b>NC3</b>	0.432	0.403	0.507	<b>0.876</b>
<b>NC4</b>	0.465	0.402	0.445	<b>0.888</b>

Source: Data Proceed

Based on the results obtained, it can be stated that the indicators used in this research have good discriminant validity in compiling their respective variables.

## 3. Reliability

Reliability can be used to measure the extent to which the measurement of a test remains consistent after repeated tests on the subject and under the same conditions. The results of reliability testing in this study are presented in the following table:

**Table 3. Reliability Test Result**

<b>Variable</b>	<b>AVE</b>	<b>Cut Off</b>	<b>Cronbach Alpha</b>	<b>Cut Off</b>	<b>Composite Reliability</b>	<b>Cut Off</b>	<b>Description</b>
<b>Absortive Capability</b>	0.680	0.5	0.843	0.6	0.895	0.7	Reliable
<b>Enterpreneurial Orientation</b>	0.781	0.5	0.860	0.6	0.915	0.7	Reliable

<i>Marketing Performance</i>	0.664	0.5	0.746	0.6	0.855	0.7	Reliable
<i>Networking Capability</i>	0.759	0.5	0.894	0.6	0.926	0.7	Reliable

Source: Data Proceed

Based on the table above, it is known that the absorptive capability, entrepreneurial orientation, marketing performance, and networking capability variables of the AVE value have more than 0.5 value, the Cronbach Alpha value is more than 0.6 and the composite reliability value is more than 0.7. Thus, there is no problem of reliability/unidimensionality in the formed model, so this research has a high level of reliability.

#### 4. Hypothesis Testing

Hypothesis testing is one of the uses of inferential statistics to determine whether an assumption or opinion can be stated to be true or not. The results of hypothesis testing are presented in the following table:

**Table 4. The Results of Testing the Research Hypothesis**

<b>Direct Effect</b>				
	<b>Original Sample (O)</b>	<b>T Statistics ( O/STDEV )</b>	<b>P Values</b>	<b>Result</b>
<i>Absortive Capability -&gt; Marketing Performance</i>	0.376	4.530	0.000	<b>Significant</b>
<i>Enterpreneurial Orientation -&gt; Absortive Capability</i>	0.608	10.177	0.000	<b>Significant</b>
<i>Enterpreneurial Orientation -&gt; Marketing Performance</i>	0.248	2.874	0.004	<b>Significant</b>
<i>Enterpreneurial Orientation -&gt; Networking Capability</i>	0.495	7.227	0.000	<b>Significant</b>
<i>Networking Capability -&gt; Marketing Performance</i>	0.242	3.643	0.000	<b>Significant</b>
<b>Indirect effect</b>				
	<b>Original Sample (O)</b>	<b>T Statistics ( O/STDEV )</b>	<b>P Values</b>	<b>Result</b>
<i>Enterpreneurial Orientation -&gt; Absortive Capability -&gt; Marketing Performance</i>	0.229	4.408	0.000	<b>Significant</b>
<i>Enterpreneurial Orientation -&gt; Networking Capability -&gt; Marketing Performance</i>	0.120	3.390	0.001	<b>Significant</b>

Source: data proceed

The results of hypothesis testing in can be seen:

- a. Hypothesis 1 (There is an effect between Entrepreneurial Orientation on Marketing Performance)

The t-statistics value of entrepreneurial orientation on marketing performance was  $2.874 > 1.96$  or it can be seen from the p-value which was  $0.004 < 0.05$ . Thus, H1 was accepted, that entrepreneurial orientation affected marketing performance. This research supported (Jiménez-Barrionuevo et al., 2019) that a high entrepreneurial orientation played a role in maximizing the available resources as an effort to take advantage of opportunities and efforts to create products that were in accordance with market needs that would be able to increase customer loyalty (Covin & Miller, 2014) (Karami & Tang, 2019).

b. Hypothesis 2 (There is an effect between Entrepreneurial Orientation on Absorptive Capability)

The t-statistics value of entrepreneurial orientation on absorptive capability was  $10.177 > 1.96$  or it can be seen from the p-value which was  $0.000 < 0.05$ . Thus, H2 was accepted, that entrepreneurial orientation affected absorptive capability. (Makhloufi et al., 2021) states that higher ownership of entrepreneurial orientation allows business actors to continuously maximize market opportunities due to their activeness in accessing new information and knowledge.

c. Hypothesis 3 (There is an effect between Entrepreneurial Orientation on Networking Capability)

The t-statistics value of entrepreneurial orientation on networking capability was  $7,227 > 1.96$  or it can be seen from the p-value which was  $0.000 < 0.05$ . Thus, H3 was accepted, that entrepreneurial orientation affected networking capability. Business actors who have a high entrepreneurial orientation will tend to utilize network resources to fulfill their ambitions of improving their business performance (Jiang et al., 2016). In addition, high entrepreneurial orientation is more proactive in acting, continues to learn to explore, and engages in more network search activities to fulfill their ambitions in improving their business performance (Kollmann & Stöckmann, 2014).

d. Hypothesis 4 (There is an effect between Absorptive Capability on marketing performance)

The t-statistics value of absorptive capability on Marketing Performance was  $4,530 > 1.96$  or it can be seen from the p-value which was  $0.000 < 0.05$ . Thus, H4 was accepted, that absorptive capability affected marketing performance. Absorptive Capability played a role in overcoming market gaps and helped SMEs to be more responsive in aligning their resources with the market environment quickly and creating high-quality products to produce high marketing performance (Tzokas et al., 2015) (Cui et al., 2018; Liu et al., 2018).

e. Hypothesis 5 (There is an effect between Networking Capability on Marketing Performance)

The t-statistics value of networking capability on marketing performance was  $3.643 > 1.96$  or it can be seen from the p-value which was  $0.000 < 0.005$ . Thus, H5 was accepted, that networking capability affected Marketing Performance. The higher the level of network capability, the higher the marketing performance (Solano et al., 2018); (Dhameria et al., 2021). The networking capability will make it easier for



SMEs to build relationships with partners and the external environment to be utilized in the product innovation process and develop product marketing strategies (Srećković, 2018). Thus, network capabilities must be developed for sustainable SME marketing performance.

f. Hypothesis 6: Absorptive Capability mediates the effect of Entrepreneurial Orientation on Marketing Performance

If seen from the results of hypothesis testing, it was known that entrepreneurial orientation affected marketing performance mediated by absorptive capability as seen from the t-statistics value of  $4.408 > 1.96$ , p-value  $0.000 < 0.05$  and the VAF value of 51.2%. So, there was a significant influence between entrepreneurial orientation on marketing performance mediated by absorptive capability. Thus, H6 was accepted and supported by research from (Cui et al., 2018; Hernandez-perlines, 2018) and (Musung & Pooe, 2019) that the ability to absorb knowledge is the main thing in configuring the resources owned. With a proactive attitude and a dare to take risks, business actors dare to integrate new insights into product innovation to meet customer criteria and obtain high marketing performance.

g. Hypothesis 7: Networking Capability mediates the effect of Entrepreneurial Orientation on Marketing Performance

If seen from the table above, there is an influence between entrepreneurial orientation on marketing performance mediated by networking capability. It can be seen from the t-statistics value of  $3.390 > 1.96$  and p-value of  $0.001 < 0.05$ . With the results of the VAF value of 32.6%, H7 was accepted. The results of this research supported research by (Yoon et al., 2018) and (Karami & Tang, 2019) which prove that entrepreneurial orientation will affect marketing performance in an environment that tends to be dynamic. And the existence of networking capability can mediate the relationship between entrepreneurial orientation to marketing performance. This means that high entrepreneurial orientation can make them inclined to explore network partners by forming a collaboration in business with them to improve marketing performance.

## E. CONCLUSION

Based on the results of the study, the following conclusions can be drawn: Entrepreneurial orientation has a significant effect on marketing performance. With an entrepreneurial orientation, SMEs will be able to innovate so that they can create products with high creativity compared to their competitors. Entrepreneurial orientation has a significant effect on absorptive capability. Entrepreneurial orientation reflects a proactive attitude in seeking knowledge from the external environment that is useful in understanding the needs of customers or target markets and creating products that are in accordance with the wishes. Entrepreneurial orientation has a significant effect on networking capability. Entrepreneurial-oriented companies will tend to take advantage of their network to

obtain useful information for product development and expand market segmentation.

Absortive capability has a significant effect on marketing performance. The higher of absorption ability, the higher of marketing performance. Absortive capability can make it easier to identify their needs and requirements through the exploration of market knowledge needed in selecting the appropriate form of strategy to develop products and services for customers that will improve their marketing performance. Networking Capability has a significant effect on marketing performance. This capability makes it easier for companies to communicate with other individuals or organizations to obtain information. networking capability is mentioned as one of the established factors that lead to the success of internationalization.

The influence of entrepreneurial orientation on marketing performance can be mediated by absorptive capability because the total direct effect has a greater value than the indirect effect, so that the effect of entrepreneurial orientation on marketing performance will be greater if it is through competitive advantage. Entrepreneurial orientation will increase absorptive capability. Active companies continue to seek external information to continuously develop their products with something new in order to keep them in line with market demands. Entrepreneurial influence on marketing performance can be mediated by networking capability. So that through networking capability, entrepreneurial orientation can have a greater influence on marketing performance. Their entrepreneurial orientation will tend to make them build new network collaborations that will have an impact on marketing performance.

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