The Effect of Dynamic Capability and Market Orientation on MSME Marketing Performance in Malang City

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Abstract

The purpose of this study was to find out how dynamic capabilities and market orientation influence the marketing performance of MSMEs in Malang City. This research uses quantitative techniques. All MSMEs in Malang City are included in the population used. Sampling using a probability sample with stratified random sampling. There were 382 respondents as samples and questionnaires were used to collect data. Data analysis technique with multiple linear regression. This study found that dynamic capabilities and market orientation have a relationship that has a significant positive effect on the marketing performance of MSMEs. The need to concentrate on dynamic capabilities and market orientation because these two things play an important role in improving the marketing performance of MSMEs in Malang City.

Keywords: Dynamic capabilities, market orientation, marketing performance

Abstrak

Tujuan penelitian ini adalah untuk mengetahui bagaimana pengaruh kapabilitas dinamis dan orientasi pasar pada kinerja pemasaran UMKM di Kota Malang. Penelitian ini menggunakan teknik kuantitatif. Seluruh UMKM di Kota Malang termasuk dalam populasi yang digunakan. Pengambilan sampel menggunakan sampel probabilitas dengan *stratified random sampling*. Terdapat 382 responden sebagai sampel dan kuesioner digunakan untuk mengumpulkan data. Teknik analisis data dengan regresi linier berganda. Studi ini menemukan bahwa kapabilitas dinamis dan orientasi pasar memiliki hubungan yang berpengaruh secara positif signifikan terhadap kinerja pemasaran UMKM. Perlunya berkonsentrasu pada kapabilitas dinamis dan orientasi pasar dikarenakan dua hal tersebut berperan penting dalam meningkatkan kinerja pemasaran UMKM di Kota Malang.

**Kata kunci*: Kapabilitas dinamis, orientasi pasar, kinerja pemasaran

INTRODUCTION

Micro, small and medium enterprises or MSMEs are companies owned and operated by the private sector or productive business entities regulated by Law Number 20 of 2008 which explains that MSMEs are democratic and based on family principles where MSMEs have the same handling, the same empowerment, same financial resources, culture and geography in the same area.

According to Prassetyo et al. (2021) there is one factor that can boost the country's economy, namely an increase in the Gross Regional Domestic Product (GRDP). MSMEs in East Java have an important role in East Java's PDRB DISKOPUKM (2021), that MSMEs contribute 57.81% to GRDP. Based on these percentages, it shows that MSMEs play an important role in economic development in East Java. According to DISKOPUKM (2021) Malang City occupies the third position as the city with the highest number of MSMEs in East Java with a gross added value of Rp. 44 trillion after the City of Surabaya and the City of Kediri. According to DISKOPUKM (2021) Malang City has great potential in boosting the economy as supported by the existence of popular natural tourist destinations. With the potential it has, it shows that UMKM in Malang City can make a big contribution to the economy of East Java. Based on data from DISKOPUKM (2021) it shows that the marketing performance of MSMEs in Malang City has fluctuated which can be explained in the GRDP of Malang City in 2018-2021 indicating an erratic change, in 2018 it was Rp. 49,501 billion and experienced an increase of Rp. 2019 amounted to 52,335 billion which will decrease by IDR 51,155 billion in 2020 and increase by IDR 53,309 billion in 2021. In 2018, the gross added value of IDR 27,087 billion rose to IDR 28,695 billion in 2019, decreased by IDR 27,862 billion in 2020, and increase by IDR 30,655 billion in 2021 (DISKOPUKM, 2021).

Marketing performance as a concept carried out by the company to assess the extent to which the influence of the strategy used as a form of marketing activity. The bigger the economy in an area that is obtained, the greater the GRDP value which is a benchmark for MSME marketing performance (DISKOPUKM, 2021). In running a business, a company has marketing performance as a measure of success (Faerrosa et al., 2022). According to Prassetyo et al. (2021) argues that the marketing performance of MSMEs has an impact on the economy in an area. According to Laily & Kurniawan (2016) the marketing performance of MSMEs has a positive impact on regional economic growth or GRDP. There are factors underlying the marketing performance of MSMEs in a place, namely dynamic capabilities (Sulaeman, 2018). According to Ferreira *et al.* (2020) dynamic capability is defined as the ability of a company to rebuild its internal and external business so that it can survive in the face of rapid environmental changes. This condition can be seen in MSMEs in Malang City which experience fluctuations due to very fast environmental changes. Research conducted by Widiastuti *et al.* (2022), Najib *et al.* (2020) and Fitriati *et al.* (2020) said that dynamic capability has a significant positive effect on the marketing performance of an MSME. Unlike the research by Hernández-Linares *et al.* (2021) which says that there are dynamic capability indicators that have no significant effect on the marketing performance of MSMEs.

Market orientation is another factor that contributes to the marketing performance of MSMEs (Solikahan & Mohammad, 2019). According to Nuvriasari *et al.* (2018) market orientation is a culture within an organization that can influence behaviour towards customers to improve business performance. In this case, MSMEs need to be market-oriented to achieve their business quality objectives, namely marketing performance which includes short and long term aspects and also to be stable from year to year (Mustari et al., 2021). According to Ingsih *et al.* (2021), Suprapti & Suparmi (2022) and Meisya & Surjasa (2022) say that the marketing performance of MSMEs is significantly influenced by market orientation. Contrary to what Faerrosa *et al.* (Faerrosa et al., 2022) and Sucipto & Natsir (2021) which results that the marketing performance of MSMEs does not have a significant influence on market orientation.

The phenomenon that occurs shows that UMKM in Malang City fluctuates every year. According to Lucky & Rosmadi (2021) states that successful businesses or organizations always implement strategies that support the sustainability of MSMEs and can also strengthen marketing relationships so

that both have a positive impact on the growth and development of MSMEs going forward. Based on the phenomena that occur, this research is entitled the influence of dynamic capabilities and market orientation on the marketing performance of MSMEs in Malang City.

LITERATURE REVIEW

A business environment is seen from dynamics, complexity and hostility which results in a defensive or defensive environment (Simatupang, 2013). The defensive environment referred to Simatupang (2013) is dynamic capability which is defined as the ability of a company to rebuild its internal and external business so that it can survive in the face of rapid environmental changes (Ferreira et al., 2020). In theory, the market-based view shows that a company or business must be able to survive in low environmental dynamics and hostility by being more proactive, innovative and not afraid to take risks that will have a positive impact on the performance of an organization or a business (Porter, 1980). According to Barney (2001) said that capabilities must be able to have value, be rare, cannot be duplicated and cannot be replaced. The theory of market-based view and resource based view is used to explain marketing performance, dynamic capabilities and market orientation. Low costs, product uniqueness, and focus are some of the strategies that can be used to produce superior business performance (Porter, 1980). According to the MBV theory, the environment has a direct impact on the continuity of the organization by knowing the sources of information and resources. Market orientation, as defined by Slater and Naver (2000), is a business capability that drives performance to continuously innovate. The RBV theory explains the ability of an organization to continue running its business by not only depending on the resources it has, but also on the strategies it uses to build these resources and be ready to take advantage of opportunities and challenges in the future (Barney, 2001).

Voss & Voss (2000) says that marketing performance is a method used to determine the level of performance which includes customer growth, sales growth and profit growth. According to Suprapti & Suparmi (2022) customer growth, sales growth, and profit growth are three indicators of MSME marketing performance. Customer growth as defined by Ferdinand (2000) is an annual or periodic increase in the customer base of a business. Ferdinand (2000)defines sales growth as an increase in company sales from year to year or periodically. Profit growth is an increase in income or profits from business activities that are carried out periodically or year after year (Febriani & Sa'diyah, 2021). Rapid environmental changes have resulted in MSME activists dealing with conditions of uncertainty in the business environment, this motivates MSMEs to rebuild their business so that MSMEs can survive with uncertain environmental developments (Teece, 2007). According to Teece (2007) dynamic capabilities have indicators, namely sensing, learning, integrating and coordinating. According to Hernández-Linares et al. (2021) sensing is an ability that can sense threats and opportunities faced from outside the organization. While learning is a company's ability to obtain new information and apply updates to the organization. Integrating is an ability to implement new knowledge into business to create a shared understanding and coordinating is the ability to organize resources into new operational capabilities (Hernández-Linares et al., 2021) .

According to Slater and Naver (2000) argues that a market-oriented business or company must know consumer needs so that they can create customer value and create market strategies based on knowledge of the strengths and weaknesses of competitors and coordinate their resources appropriately. Customer orientation is knowledge of target customers that aims to create customer value for a company or business in a sustainable manner. Nevertheless, competitor orientation is a business's knowledge of competitors' weaknesses and strengths in the short term and strategies

implemented in the long term by competitors (Rahmawati et al., 2022). According to Slater and Naver (2000) coordination between functions in this case is the coordinated use of company or business resources in order to produce superior value for customers.

Eninggarini *et al.* (2022) states that dynamic capabilities can positively influence the marketing performance of MSMEs. Najib et al., (2020) argues that MSMEs should be encouraged to achieve good business performance by taking specific steps to rebuild the environment and enhance dynamic capabilities. Fitriati et al., (2020) also states that the marketing performance of MSMEs is positively influenced by dynamic capabilities. The results of the research by Widiastuti et al., (2022), Najib (2017) and Prambaudy *et al.* (2017) shows that market orientation has a significant influence on the marketing performance of MSMEs. The results of the previous research are also in line with research that has been conducted by Purnamasari & Wijaya (2020) which says that the orientation variable has a positive effect on the marketing performance variable of an MSMEs.

The competitive market requires a business to have proper preparation through a good market orientation supported by dynamic capabilities so that a business can survive in a changing environment (Aulia et al., 2021). According to Eninggarini et al. (2022), Najib (2017) and Wang et al (2022) market orientation and dynamic capabilities both affect the marketing performance of MSMEs. Therefore, the hypothesis is proposed as follows:

H1: Dynamic capabilities affect the marketing performance of MSMEs

H2: Market orientation affects the marketing performance of MSMEs

H3: Dynamic capabilities and market orientation affect the marketing performance of MSMEs
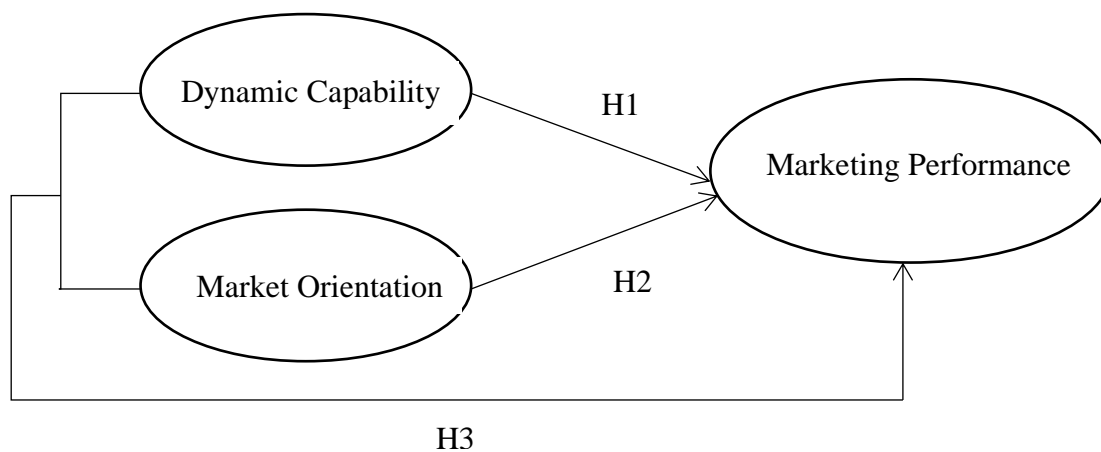

Figure 1. Conceptual framework

RESEARCH METHODS

This research uses quantitative methods. This research is classified as causality research because it looks at the relationship between free variables and bound variables that correspond to the formulation of the problem. Malang city is the location of this study. The population used is all MSMEs in Malang City with MSME activists as an analysis unit. The population of MSMEs in Malang City currently amounts to 275,972 (DISKOPUKM, 2021). A stratified random sampling method of probability sampling was used in this study. The sample of this study is 382 respondents. Primary data is a type of data. In this study, interviews, observations, and questionnaires/questions with a Likert scale of 1 to 5 in data collection.

In this study, the data were analyzed using the multiple linear regression method which was then processed using the SPSS application. According to Ghozali (2018), multiple linear regression is a method of data analysis with multiple independent variables. The validity and reliability of an instrument is verified through testing. Where the research instrument will be said to be valid if it gets a calculated r value that is greater than the table r value. According to Ghozali (2018), a variable is inferred reliable when its Cronbach Alpha value exceeds 0.70. As for the classical assumption test, it is very important to do it using the normality test. Not only that, the classical assumption test also generally uses the multicholinearity test, and the heteroskedasticity test. In this study, all hypotheses will be tested using statistical tests F and t with a significance level of 0.05. Adjusted R2 is used to determine the proportion of changes experienced by the dependent variable due to the influence of independent variables.

RESULTS AND DISCUSSION

In this study, the data were taken through a questionnaire which was distributed directly to respondents that is MSME activists in Malang City. The respondent's data profile, namely gender, business sector, business location, is used to find out in more detail the data from the respondent. Following are the details of the respondent's profile data:

Table 1. Respondent Demographic

	Detail Respondent	Total	Presentase (%)
Gender	Male	209	54,7%
	Female	173	45,3 %
Sector	Wholesale trade and retail	148	38,7%
	Agriculture, Forestry	9	2,4%
	Construction	51	13,4%
	Accommodation	85	22,3%
	Processing industry	89	23,2%
Location	Blimbing	71	18,6%
	Klojen	70	18,3%
	Lowokwaru	114	29,8%
	Sukun	76	19,9%
	Kedungkandang	51	13,4%

According to the data in table 1, there are 209 male MSME activists with a percentage of 54.7%, while female MSME activists are 173 people with a percentage of 45.3%. Based on the business sector, SMEs in Malang City have been divided evenly by stratified random sampling technique. Based on the table shows that the business sector in MSMEs in Malang City consists of the wholesale, retail, car and motorcycle repair sectors totaling 148 with a percentage of 38.7%. The Agriculture, Forestry and Fisheries sectors totaled 9 with a percentage of 2.4%. The construction sector totaled 51 with a percentage of 13.4%. The accommodation sector is 85 with a percentage of 22.3%. The processing industry sector totaled 89 with a percentage of 23.2%. Based on the table above, it shows that the number of Blimbing sub-districts is 71 with a percentage of 18.6%. There are 70 Klojen sub-districts with a percentage of 18.3%. Lowokwaru sub-districts numbered 114 with a percentage of 29.8%. Sukun sub-district is 76 with a percentage of 19.9%. Kedungkandang sub-district is 51 with a percentage of 13.4%. SPSS version 25 was used to perform validity tests by testing dynamic capability variables, market orientation and marketing performance using a 1-5 likert

scale questionnaire. Where if the r count is greater than the table r number then the research instrument is declared valid. In this study using 382 respondents with a table r value of 0.084 so that it was concluded that the instrument test was declared valid. Cronbach's alpha value is above the 0.70 limit, so the study is considered reliable. For the dynamic capability variable itself, it gets Cronbach's alpha value of 0.953 which means that this variable is considered reliable. As for the value of cronbach alpha on the market orientation variable is 0.926 and cronbach alpha the marketing performance variable is 0.943. This means that all variables have values above the predetermined limit so that all variables used are considered reliable.

Table 2. Validity Test Results and Reliability Tests

Variable	Item	r count	*Cronbach alpha*
Dynamic Capability (X1)	X1.1	0,832	0,953
	X1.2	0,862	
	X1.3	0,882	
	X1.4	0,871	
	X1.5	0,888	
	X1.6	0,868	
	X1.7	0,879	
	X1.8	0,853	
Market Orientation (X2	X2.1	0,851	0,926
	X2.2	0,878	
	X2.3	0,894	
	X2.4	0,888	
	X2.5	0,883	
Marketing Performance (Y)	Y1.1	0,838	0,943
	Y1.2	0,888	
	Y1.3	0,910	
	Y1.4	0,874	
	Y1.5	0,899	
	Y1.6	0,881	

Source: SPSS 25 output, processed

The Kolmogorov Smirnov test (K-S) was used to conduct a normality test. The results obtained in accordance with the normality test showed that the data used was distributed normally because it obtained a value of 0.200 where the value was higher than 0.05.

Table 3. *Kolmogorov Smirnov Test*

Test	Probabilitas (P value)	Information
Kolmogorov Smirnov	0,200	Normal distribution

Source: SPSS 25 output, processed

In the multicolinearity test, the tolerant value and the VIF (Variance Inflation Factor) value are two values that are used as a reference in making decisions. If the tolerant value is higher than 0.10 and the VIF value is less than 10.00 then there are no symptoms of multicholinearity. The regression model showed no signs of multicholinearity because the study showed tolerant values higher than 0.10 and VIF values that were less than 10.00 for all variables.

Table 4. Multicollinearity Test

Variabel	*Tolerance*	VIF
Dyanmic Capability	0,793	1,262
Market Orientation	0,793	1,262

Source: SPSS 25 output, processed

In the heteroskedasticity test in this study using the glejser test which resulted in a significant value of the market orientation variable of 0.065. The significance value for the dynamic capability variable is 0.160 which means that there is no evidence that the variable experiences heteroskedasticity in the regression model because the significance value is greater than 0.05.

Table 5. Heteroscedasticity Test

Variable	Probability (Sig)
Dyanamic Capability	0,160
Market Orientation	0,065

Source: SPSS 25 output, processed

The regression coefficient on the dynamic capability variable shows positive, which means that the higher the dynamic capability or the more the ability to perceive, learn, implement and coordinate new information on MSMEs, the marketing performance of MSMEs will also increase. The regression coefficient on the market orientation variable shows positive, which means that the higher the market orientation or the better understanding of customers, understanding competitors and utilizing well-coordinated resources between business functionalities, the marketing performance of MSMEs will also increase.

$$Y = 6{,}782 + 0{,}250\ X1 + 0{,}450\ X2 + e \qquad (1)$$

Table 6. Multiple linear regression

Model	B	Std. Error
(Constant)	6,782	1,068
Dynamic Capability	0,250	0,038
Market Orientation	0,450	0,059

Source: SPSS 25 output, processed

The F test showed a calculated F value of 93.553 and a significance of 0.000 or less than 0.05. This means that the independent variables of market orientation and dynamic capabilities simultaneously affect marketing performance.

Table 7. F test

	Model	Sum of Squares	Df	Mean Square	F	Sig.
	Regression	6244,870	2	3122,435	93,553	,000[b]
1	Residual	12649,528	379	33,376		
	Total	18894,398	381			

Source: SPSS 25 output, processed

The results of the t test explained that the test results obtained a significance value of 0.000

for the dynamic capability variable with a calculated t value of 6.592 which can be said that the dynamic capability variable has a significant positive effect on the marketing performance variable, so H1 is accepted and H0 is rejected. This is because the significance value of the t test gets a value lower than 0.05 and the calculated t is higher than the table t of 1.649. As for the significance value of the market orientation variable is 0.000 which means it is lower than 0.05. While t count is 7.668 and the table t value is 1.649 which means t count higher than t table. It can be said that the market orientation variable has a positive and significant influence on the market performance variable, so H2 is accepted and H0 is rejected.

Table 8. t test

Variabel	T	Sig.
Dynamic Capability	6,592	,000
Market Orientation	7,668	,000

Source: SPSS 25 output, processed

In this case, the dependent variables can be explained based on the diversity of independent variables, namely dynamic capability and market orientation shown by the coefficient of determination test by showing that the Adjusted R Square value is 32.7% of the dependent variable variation model, while the variables outside this study are 67.3%. According to Sulaeman (2018), Amrulloh (2017), Nursinggih & Farida (2019) and Novrianda et al (2022) independent variables outside this study that have the potential to affect dependent variables are entrepreneurial orientation and product innovation.

Table 9. R Square test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,575	0,331	0,327	5,777

Source: SPSS 25 output, processed

Dynamic capabilities have a significant positive effect on the marketing performance of MSMEs. The results of this study are in line with the hypothesis that dynamic capabilities affect marketing performance. It can be concluded that the higher the dynamic capability, the higher the resulting marketing performance. From the results of the analysis, it shows that MSME activists in Malang City have been well coordinated, but MSME activists need to ensure the allocation of resources that are in accordance with the business to be improved in order to produce superior marketing performance. Based on market based view (MBV) theory, it is explained that to produce a defensive or survivable environment is characterized by dynamics, complexity, and hostility (Simatupang, 2013). The results of this study are also in line with the findings of Widiastuti *et al.* (Widiastuti et al., 2022), Najib *et al.* (Najib et al., 2020) dan Fitriati *et al.* (Fitriati et al., 2020) which says that dynamic capabilities have a positive and significant influence on the marketing performance of MSMEs.

Market orientation has a significant positive effect on the marketing performance of MSMEs in Malang City. The results of this study are in line with the hypothesis that market orientation affects marketing performance and there is a positive relationship between market orientation and marketing performance. It can be seen that the higher the market orientation, the higher the marketing performance of MSMEs produced. From the results of the analysis, it can be seen that MSME activists in Malang City have tried to find out the advantages and disadvantages of competitors, but

still need to improve their customer-oriented strategies so that customer satisfaction can be improved to produce superior marketing performance. According to Simatupang (2013) market based view and resource based view theory states the existence of a competitive environment in part of the environment that has a direct influence on the continuation of the existence of organizations as a source of information and resources, this research is a finding that is consistent with this theory. This study is in line with the findings of Elvina (2020), Prambaudy *et al.* (Prambaudy et al., 2017), and Meisya & Surjasa (2022) said that the market orientation shows a positive relationship with the marketing performance of MSMEs.

Based on the results of the study, it was concluded that market orientation and dynamic capabilities have a significant influence on marketing performance. It can be known that dynamic capabilities and market orientation have a significant influence together, so the higher the dynamic capability and market orientation, the higher the resulting marketing performance. The results of this study are in line with the theory of market-based view and resource based view. The continuity of an organization in conducting business is based on available resources, as well as strategies implemented in order to strengthen resources and be able to respond to opportunities and challenges from the business environment it faces (Barney, 2001). The results of this study also agree with Eninggarini et al., (2022), Najib (2017) and Wang et al., (2022) say that market orientation and dynamic capabilities both affect the performance of an organization, one of which is the marketing performance of MSMEs.

CONCLUSION

This study concludes that dynamic capability has a significant positive effect on the marketing performance of MSMEs. Based on the respondents' answers, it can be seen that MSME actors in the city of Malang are able to coordinate their business well, but need to ensure that the allocation of resources is in accordance with their business so that their business can develop in a coordinated manner. At the same time, the market orientation of this study has a significant positive impact on the marketing performance of MSMEs. Based on the results of the description of the respondents' answers, it can be seen that MSME activists in Malang City are trying to find out the strengths and weaknesses of competitors, but a strategy is still needed in the right customer orientation in order to meet the level of customer satisfaction which will have an impact on improving the superior MSME marketing performance. This study also found that dynamic capabilities and market orientation together have a significant effect on the marketing performance of MSMEs. The next researcher can conduct the same research by expanding the scope of variables that are thought to influence the marketing performance of MSMEs in Malang City. In this case, the researcher suggests considering entrepreneurial orientation and product innovation as independent variables for further research.

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