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ABSORPTIVE CAPACITY IN FASHION PRODUCT MARKETING: A RATOC PERSPECTIVE

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KEYWORDS

market orientation, absorptive capacity, new product development, business performance, advantage theory of competition.

ABSTRACT

This research aims to bridge the research gap in the literature by developing a conceptual model consisting of the concepts of market orientation, absorption capacity, new product development, and business performance. In this study, the population is Micro, Small and Medium Enterprises (MSMEs) in Surabaya's fashion sector. This group was chosen because it plays an important role in the Indonesian economy and can prove its existence in the Indonesian economy. The analytical method used in this study is structural equation model analysis (SEM) with AMOS program. The data collection method used questionnaires distributed to a total population of 243 fashion SMEs in Surabaya. The test results show that market orientation has a positive and significant effect on acceptability, acceptability has a positive and significant effect on new product development, and acceptability has a positive and significant effect on business development. This shows that new product development has a positive and significant impact on business success. The implication in this study is that to manage small businesses in the fashion industry what needs to be prepared is that it is necessary to always collect information about competitors, have differentiation, and modify the products offered to customers to improve company performance and profits.

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INTRODUCTION

We often find business competition in Indonesia in the new business sector of small-scale businesses such as Micro, Small and Medium Enterprises (MSMEs). One way to cope with the competition is unceasingly improving their business process for better performance through various strategies. Marketing scholars recognize market orientation (MO) as essential in determining a company's strategy. The study (Wahyuni & Astawa, 2020) mentions that market-oriented firms have the solid market knowledge to win the competition and performance due to a well-implemented MO. Several studies demonstrate the essential role of market orientation as a significant driver for enhancing business performance in MSMEs (Lee et al., 2015); (Nakos et al., 2019); (Octavia et al., 2020). Those studies emphasize a market-oriented company's success in managing market based-information for differentiating products and services or finding ways for better market penetrating to enhance performance. However, on the other side, many studies (Bamfo & Kraa, 2019); (Acosta et al., 2018) indicated the opposite results of the incapability of influence of market orientation on business performance. Those studies resulted in the insignificant role of market orientation in enhancing performance. These inconsistent findings raise a research gap for further study as a research problem on managing market orientation for the potential to improve business performance.

The current study adopts the resource advantage theory of competition- RAToC (Davcik & Sharma, 2016) for several reasons. Firstly, a company's success is highly dependent on the presence or

absence of its distinctive capabilities that are better than its (Davcik & Sharma, 2016); (Hunt & Morgan, 1997). Hence, the unique ability (or comparative advantage capability) may become a strategic resource to manage business processes that have the potential to improve performance. Secondly, a market orientation, seen as a strategic information hub, plays a fundamental role (Narver & Slater, 1990) in improving performance if the information is used to strengthen the absorption of various effective strategies, such as product development (Rakthin et al., 2016). Therefore, to mediate the market orientation influence on business performance, we adopt the concept of absorptive capacity as a market information-based catalyst for strengthening business processes to enhance performance (Liu et al., 2018); (Zhang & Zhu, 2020). Therefore, the current study aims to bridge the research gap in the literature by developing a conceptual model comprising the concepts of market orientation, absorptive capacity, new product development, and business performance. To test the model, we select the fashion industry for several considerations. First, the fashion industry may be considered a unique business due to the changing dynamics of fashion, influenced by a designer and market demand, due to a unique capability (Hunt & Morgan, 1997). Second, Indonesian statistical data indicates that creative industries, such as fashion, contribute to the national gross domestic product- GDP 2020 around 17.26%.

METHOD

In this study, sampling will be used through the purposive sampling method. This method is based on the research objectives in certain conditions, so the study's respondents must meet the specified criteria. The criteria in the sampling of this research are described as follows: Respondents are owners or managers of fashion business units in Surabaya, and respondents have owned or managed business units for at least two years.

The sample collection in this study used non-probability sampling with a purposive sampling approach. Non-probability sampling is a method that only provides equal opportunities for some elements/members of the population to be selected as samples. At the same time, purposive sampling is determining the piece with specific considerations. The ideal sample size for the structural equation model (SEM) is 100-200. This study will use a part of 243 SMEs in the fashion industry in Surabaya.

Table 1. Overview of Respondents

Overview of Respondents	Total	Percentage
Gender		
1. Man	65	26,7%
2. Woman	178	73,3%
Total	243	100%
Age		
1. 20-29	194	79,8%
2. 30-39	42	17,3%
3. > 40	7	2,9%
Total	243	100%
Education		
1. Senior High School/Vocational School	40	16,5%
2. Diploma	7	2,9%
3. S1	182	74,9%
4. S2	14	5,8%
Total	243	100%
Business Experience		
1. < 2 Years	51	20,9 %
2. > 2 Years	192	79,1%

Overview of Respondents	Total	Percentage
Total	243	100%

Measurement

To carry out this study, we adapted the measurement strategies of several experts. Market orientation adapted from (Bamfo & Kraa 2019), there are four indicators consisting of monitoring competitors' marketing efforts, sharing market information within the organization, holding meetings to discuss market trends and developments, and all staff encouraging business growth. Absorptive capacity is adapted from (Rangus & Slavec, 2017); three indicators consist of adapting new knowledge, assimilating new knowledge, and combining new knowledge with existing knowledge. Product development is adapted from (Takata, 2016) (Zhang & Zhu, 2020). Three indicators consist of developing new products and services and developing products and services responsive to customer needs. Business performance adapted from (Bamfo & Kraa, 2019) has three indicators consisting of Sales Growth, Profitability, and Market Share.

Table 2 shows the scale items of the questionnaire. All items were measured with a scale. All items were measured using a numeric scale of 1 to 10, and anchoring techniques were used to obtain data tending to intervals.

Table 2. Measurement

Variables and Indicators	Reference	Standard Loading	Critical Ratio ≥ 1.96	AVE ≥ 0.50	CR ≥ 0.70
Market Orientation					
Competitor Orientation					
1. **MOPES1** (monitor our competitor's marketing efforts)	(Bamfo & Kraa, 2019)	0,732	13,061	0,637	0,761
Inter-Functional Coordination					
1. **MOIC1** (Market information is shared inside the organization)		0,788	14,518		
2. **MOIC2** (integrating the activities inside the organization)		0,842	12,118		
3. **MOIC3** (discuss market trends and developments)		0,826	15,623		
Absorptive Capacity					
1. **ACAP1** (adapt acquired new knowledge to fit the firm's development needs)	(Rangus & Slavec, 2017)	0,876	17,849	0,748	0,722
2. **ACAP2** (introduce product/service innovation based on acquired new knowledge)		0,869	17,592		
3. **ACAP3** (fuse assimilated new knowledge with existing knowledge)		0,849	17,518		
New Product Development					
1. **NPD1** (Ability to develop new products and services development)	(Takata, 2016); (Zhang & Zhu, 2020)	0,893	15,518	0,725	0,719
2. **NPD2** (Ensuring					
3. that product and		0,849	17,743		
4. service development)					
5. **NPD3** (capable		0,811	16,352		
6. of generating ideas for					

Variables and Indicators	Reference	Standard Loading	Critical Ratio ≥ 1.96	AVE ≥ 0.50	CR ≥ 0.70
7. other products)					
Business Performance					
1. **BP1** (Net profit)	(Bamfo & Kraa, 2019)	0,9	18,518	0,758	0,723
2. **BP2** (Revenue growth)		0,859	18,308		
3. **BP3** (market share)		0,853	18,073		

The validity test helps assess whether each indicator in the study measures the dimensions of the concept being tested. Validity can be estimated from the measurement model. A trial is used to determine the consistency of an indicator in defining a variable. Reliability is measuring the internal surface of the hands of a construct; this is important to show the extent to which an indicator can genuinely represent a variable. If the data from a study has a level of reliability, it means that the specific indicators used are consistent with the measurement. All items are valid because their load factor values are more significant than 0.5. All variables are helpful because the AVE value is more powerful than 0.5. All variables are reliable as the C.R. value is more important than 0.7. As the validity and reliability of all constructs met the minimum requirements and showed relevant data for model inference, we proceeded with a complete structural equation modelling procedure to test the proposed hypotheses.

RESULT AND DISCUSSION

Hypothesis testing

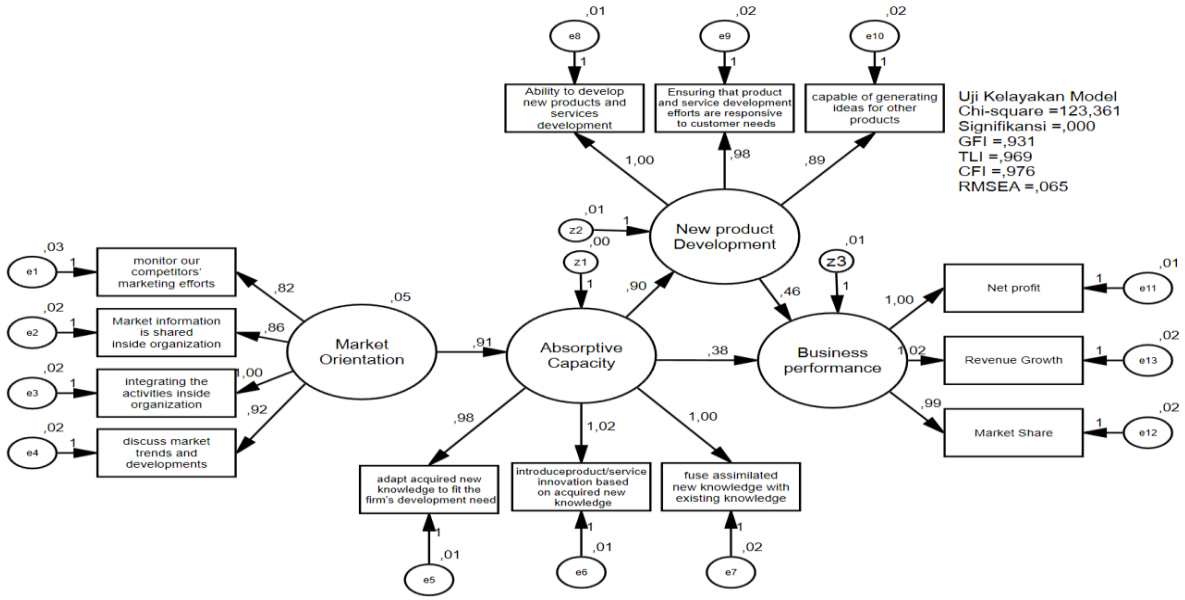

Figure 1. Hypothesis Testing

Table 3. Goodness of Fittest

The integrity of the Fit Index	*Cut-off Value*	Result	Conclusion
Chi-Square	80.232 (DF 61; 5%)	123,361	Marginal Fit
Probability	≥0.05	0,000	Marginal Fit
GFI	≥ 0,90	0,931	Fit
AGFI	≥ 0,90	0,897	Marginal Fit
TAG	≥ 0.90	0,969	Fit
CFI	≥ 0,90	0,976	Fit
RMSEA	≤ 0,08	0,065	Fit

The survey model goodness-of-fit test in the table above evaluates the statistical measure to achieve a significance chi-square level of 0.05. However, this study needed to meet that requirement. The chi-square value is larger than the DF 61 chi-square table, with a significance level of 0.05, or 123.361 > 80.232. Similarly, probability values are less than 0.05, and AGFI values are less than 0.90. However, results that fall into the Good Fit category are values. GFI = 0.931; TLI = 0.969; CFI = 0.976; RMSEA = 0.065.

Table 4. Hypothesis Test

	Hypothesis	*Std. Estimate*	*Estimate*	*C.R.*	*P*	Conclusion
H1	Market orientation → Absorptive capacity	0,061	0,911	15,013	***	received
H2	Absorptive capacity → business performance	0,117	0,381	3,241	0,001	received
H3	Absorptive capacity → New product development	0,061	0,900	14,772	***	received
H4	New product development → business performance	0,115	0,456	3,946	***	received
H5	Absorptive capacity remedies market orientation ke business performance	0,061	0,911	15,013	***	received
		0,117	0,381	3,241	0,001	received

The table above shows that hypotheses 1, 2, 3, and 4 meet the critical ratio (C.R.) and significance (P) criteria (>1.96 and <1.96). All hypotheses are accepted, with positive results and significant effects.

The study presents some key insights that explain how the market orientation of MSMEs in the fashion industry can increase their absorptive capacity through the dynamic capabilities of firms such as B. Emphasize assimilation and leverage knowledge so that external and internal ability are related. Our results indicate an essential role and are consistent with his study (Najafi-Tavani et al., 2016) that market orientation positively impacts acceptability. Hypothesis 2 shows positive and significant results, consistent with the research (Kale et al., 2019) showing that acceptability substantially affects performance.

In addition, a third hypothesis is that absorptive capacity is a new product for MSMEs. Applying external knowledge in absorptive capacity may lead to better appropriation and application of superficial expertise for new product development. It has the potential to increase product development. Our results indicate an essential role and are consistent with the study of (Stock et al., 2001) that absorbency has a significant positive impact on new product development. Determining product performance metrics is the first step in evaluating recent product development performance in MSMEs (Stock et al., 2001). The results of the fourth hypothesis test are positive and significant, consistent with the research (Turulja & Bajgoric, 2019) that new product development significantly impacts business performance. New product development is an essential indicator that a company must consider. This

indicator can be used to achieve good performance. A product is good when it offers a variety of benefits that can be solid reasons for consumers to buy it and when the opportunity to launch a new product poses a very high risk. All businesses must spend a lot of money at this stage.

In the fifth hypothesis, absorptive capacity mediates market-oriented effects on firm performance. These results are consistent with research findings (Kharabsheh et al., 2017). SMEs are market-oriented to gain market knowledge about their competitors and customers. The higher the absorptive capacity, the more significant the market-oriented impact on MSME performance. Market orientation influences a company's efforts to use its absorbed market knowledge (absorbing ability) to bring new products to the market. Market-oriented companies have high market absorption.

CONCLUSION

Our findings conclude that the importance of market-oriented quality in MSMEs influences athletic performance. This study shows that absorptive capacity significantly increases the market orientation of SMEs in the fashion industry. Market-oriented firms focus on better understanding the market and adapting to changing customer preferences. The market-oriented advantage is one of the powerful forces for improving company performance. A market-oriented implementation requires companies to search the market for different types of information to use as a reference base for their next steps or strategies. This study has several implications for managing small businesses in the fashion industry. First, small fashion businesses must always strive to gather information about their competitors. What products are selling well in the market, the price and distribution channel for each product. Second, fashion SMEs must differentiate, such as having trained personnel, to compete well with other textile SMEs. Third, it is expected that fashion SMEs will modify the products they offer to customers to increase the profits the company earns.

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