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The Influence of Marketing Ability, Innovation Ability and Learning Ability on the Performance of SMEs in the Province of DIY

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ABSTRACT

This study examines the influence of marketing capability, innovation capability and learning capability on the performance of SMEs in the DIY Province. The population of this study is SMEs in the DIY. The subjects of this study are employees, managers and/or owners of SMEs. The research sample of 176 respondents includes employees, managers and/or owners of SMEs in the City of Yogyakarta. The research data were then analyzed using multiple linear regression analysis. Based on the research results: First, marketing capability has a positive and significant effect on SME performance. Second, innovation capability has a positive and significant effect on SME performance. Third, learning capability has a positive and significant effect on SME performance. Fourth, marketing capability, innovation capability and learning capability have a positive and significant effect on SME performance in the DIY Province.

INTRODUCTION

Small and medium enterprises (SMEs) in many countries have proven to play a role as the backbone of the economy. SMEs are the largest group of economic actors in the Indonesian economy and have proven to be the key to securing the national economy during the economic crisis and have become dynamic causes of post-crisis economic growth. SMEs are the drivers of the local economy and have also proven to be resilient in facing crises, such as the one that occurred in 1997 (Arifin, Fauzi and Sukmapryandhika, 2025).

In Indonesia, SMEs are the largest group of economic actors that can create jobs, distribute income more evenly, and maintain economic stability. So increasing the competitiveness and performance of SMEs is an important part in supporting national economic development (Arifin, Fauzi and Sukmapryandhika, 2025).

For SMEs to continue to contribute to the economy, SME competitiveness needs to be developed. Given the importance of the role of SMEs in the country's economy, survival and competitiveness need to be maintained and pursued. There are many factors that affect SME performance, so to grow this competitiveness, SMEs are required to have marketing, innovation and learning capabilities (Sok, O'Cass and Sok, 2013). One way is to grow SME marketing capabilities. Marketing capabilities are the key to organizational success through determination and satisfaction of the needs, desires and aspirations of the target market. In addition, SMEs must also have superior marketing capabilities and competitiveness in order to bring their products to market faster and serve customers better (Vorhies and Morgan, 2005; O'Dwyer, Gilmore and Carson, 2009). Related to the relationship between marketing capabilities and SME performance conducted by Gaur, Vasudevan and Gaur (2011) in India showed that there is a positive and significant relationship between marketing capabilities and SME performance.

In addition to marketing capability, innovation capability is key to support SME competitiveness. Innovation capability is a key contributor to SME performance in developing superior product processes to meet customer needs and demands. Thus, promoting and maintaining innovation capability should be enhanced with the current approach as a practical guide for SMEs to innovate in order to help SMEs' ability to develop superior products to improve their performance (Saunila, 2014). However, both indicators cannot measure innovation in business services as well as in the software industry which forms the majority of SMEs in Malaysia, especially in Penang (Caloghirou, Kastelli and Tsakanikas, 2004). SMEs can benefit from performance measurement when improving their innovation capability which includes: leadership and management, motivational tasks and product quality and capability to meet customer needs (Franco and Bourne, 2003; Ukko, Tenhunen and Rantanen, 2008).

The results of research conducted by Saunila and Ukko (2012) showed that there is a positive relationship between innovation capability and SME performance. This explains that the contribution of different innovation capabilities will also affect the economic performance of the organization differently. In addition, the results of research conducted by Oke, Burke and Myers (2007) showed a positive relationship between innovation capabilities and SME performance. This means that innovation capabilities have been recognized in the structural framework of performance measurement and are considered as determinants of actual performance.

Furthermore, the ability to learn new knowledge to conduct business activities is very necessary as a significant index of SME competitiveness. Learning ability is a key ability for SMEs in an effort to achieve superior performance (Morgan, Vorhies and Mason, 2009; Vorhies, Morgan and Autry, 2009). The creation of superior customer value is directly related to superior performance, which is a prerequisite for competitive advantage and SME performance. These include leadership and management, motivational tasks, operational quality and product capabilities to meet employee customer needs (Caloghirou *et al.*, 2004). Related to SME learning ability, previous research shows that this variable has a positive effect on SME performance. For example, research conducted by Lin, Peng and Kao (2008) shows that the ability to improve learning for market-oriented companies that aim to maintain competitive advantage, improve organizational learning and put innovation strategies into practice significantly affects SME performance.

Based on the analysis of several previous studies, this study tries to close the research gap, especially related to implementing marketing, innovation and learning capabilities and their influence on SME performance in various fields or types of SMEs. The novelty of the research built in this study is incremental in the Indonesian context. This is in line with research conducted by Terziovski (2010) which proves that SME performance in the manufacturing sector usually increases significantly which is supported by innovation capabilities. While this study only uses marketing capability, innovation capability and learning capability variables to measure SME performance so the conclusion will not apply to other measuring instruments. This study extends the research conducted by Sok, O'Cass and Sok (2013) which will be tested on SMEs in the Special Region of Yogyakarta (DIY) Province. The focus of the research is on SMEs in DIY because DIY is known as the home of many SMEs in Indonesia.

LITERATURE REVIEW & DEVELOPMENT HYPOTHESIS

Small and Medium Enterprises (SMEs)

The Central Statistics Agency (BPS) in Yolanda (2024) defines SMEs based on the number of workers in each business unit. Small businesses have a workforce of 5 to 19 people. While medium businesses have a workforce of 20 to 99 people. Meanwhile, the definition of SMEs according to Law 20/2008 which discusses Micro, Small and Medium Enterprises sets limits on the criteria for micro-enterprise SMEs to have a maximum net worth of IDR 50,000,000.00 (fifty million rupiah) excluding land and buildings for business premises or have annual sales results of a maximum of IDR 300,000,000.00 (three hundred million rupiah). Meanwhile, the criteria for small businesses are having net assets of more than IDR 50,000,000.00 (fifty million rupiah) up to a maximum of IDR 500,000,000.00 (five hundred million rupiah) excluding land and buildings where the business is located or annual sales result of more than IDR 300,000,000.00 (three hundred million rupiah) up to a maximum of IDR 2,500,000,000.00 (two billion five hundred million rupiah) (Yudhoyono and Mattalatta, 2008).

Marketing Capabilities and Performance of SMEs

Marketing capability is defined as the organizational culture that creates the behaviors needed to create superior value for buyers so it can create sustainable superior performance (Narver and Slater, 1990). Related to marketing capability, previous research shows this variable has a positive effect on SME performance. For example, research conducted by Morgan, Vorhies and Mason (2009) states that marketing capability can be defined as a market-based knowledge asset that is key when a resource-based view is applied.

Innovation Capabilities and Performance of SMEs

Innovation capability is an aspect that influences an organization's ability to manage innovation (Saunila and Ukko, 2012). Saunila (2014) stated that innovation capability is defined as an aspect of a company's capability in influencing the organization's ability to achieve innovation. Thus, high innovation capability affects SME performance and encourages sustainable innovation. Innovation capability itself is not a separate identification building. This capability consists of strengthening practices and processes within the company. So the performance measurement approach for innovation capability in SMEs is a key mechanism to stimulate, measure and strengthen innovation. Product innovation is something that needs to get the main attention from the company, considering that this strategy is closely related to the marketing activities carried out by the company.

Learning Ability and Performance of SMEs

Organizational learning capability is defined as the ability to create, acquire, transfer, integrate knowledge and foster behavior to reflect new cognitive situations to improve organizational performance (Jerez-Gómez, Céspedes-Lorente and Valle-Cabrera, 2005). A similar definition of learning capability is also formulated by Hsu and Fang (2009), namely the ability of an organization to absorb and transform new knowledge and apply it to the development of new products with competitive advantages and high production speed.

Hypothesis Development

The Influence of Marketing Capabilities on The Performance of SMEs in The DIY Province

In measuring the marketing capability variable, this study refers to the dimensions of identification proposed by Sok, O'Cass and Sok (2013) which summarizes several issues such as product pricing, market testing, product distribution, advertising and promotion, new product marketing, new product launches, marketing strategies. Based on this, it can be explained that SMEs can place and become a major concern, can offer friendly services with predetermined product prices and meet superior products for achieving SME performance. These results are supported by the results of research by Kirca, Jayachandran and Bearden (2005) which concluded that marketing capability positively influences SME performance. In addition, the results of Pelham (2000) research define that high marketing capability affects the competitive advantage and survival of small SME performance. These results are also supported by research conducted by Vorhies and Morgan (2005) which examined marketing capability on SME performance that the company's marketing activities are much better compared to other companies on a scale of 7 points to 1.

H_1: *Marketing capabilities have a positive effect on SME performance.*

The Influence of Innovation Capability on The Performance of SMEs in The DIY Province

High innovation capability affects SME performance and encourages sustainable innovation. Innovation capability itself is not building identification separately. This capability includes strengthening practices and processes within the company. So the performance measurement approach for innovation capability in SMEs is a key mechanism to stimulate, measure and strengthen innovation. Product innovation needs to get the main attention from the company, considering this strategy is closely related to marketing activities carried out by the company. Empirical results conducted by O'Cass and Sok (2013) show that when the combination of intellectual resources, product innovation capabilities, reputation resources and high marketing capabilities, SME performance can be improved. The results of other studies conducted by Sulistyo and Siyamtinah (2016) prove that innovation capability significantly affects the performance of Troso weaving SMEs in Jepara. The results of this study are also in line with the results of research conducted by Ryiadi and Yasa (2016) which prove that innovation capability has a positive and significant effect on the performance of SMEs in the food industry sector in Denpasar City.

H_2: *Innovation capability has a positive effect on SME performance.*

The Influence of Learning Ability on The Performance of SMEs in The DIY Province

Organizational learning capability acts as a facilitator of the organizational learning process Goh and Richards (1997), organizations are understood as tangible and intangible resources, such as skills that act as a way to promote competitive advantage, and this enables the organizational learning process (Alegre and Chiva, 2008; Chiva and Alegre, 2008). Hsu and Fang (2009) explained that organizational learning capability is understood as the ability of an organization to absorb and transform new knowledge and apply it to the development of new products with competitive advantages and high production speed. Basically, organizational learning is the development of knowledge or insight with the potential to determine behavior. SME learning occurs when people in SMEs act as learning agents, that is by responding to changes in the environment around the company, detecting and correcting errors that occur in practice and sharpening SME functions. This is in line with research conducted by Sismanto (2006) which proves that learning orientation has a positive effect on SME performance, that the higher the learning orientation, the higher the products produced.

H_3: *Learning ability has a positive effect on SME performance.*

The Influence of Marketing Capabilities, Innovation Capabilities and Learning Capabilities Simultaneously on The Performance of SMEs in The DIY Province

Research conducted by Keskin (2006) stated that SMEs with innovative capabilities and learning capabilities can improve SME performance. According to Otero-Neira, Tapio Lindman and Fernández (2009) innovation capabilities, marketing capabilities and positive learning can affect company performance based on the types of innovations developed. SME marketing capabilities by serving the market, that is establishing close contact with its customers and this can be achieved if it has high SME performance by focusing on certain product groups (Gail and and Graham, 1993). This is in accordance with research conducted by Weinzimmer, Nystrom and Freeman (1998) which states that turnover (changes to either positive or negative) is believed to offer convenience but a reliable indicator of how well performance is to perform marketing capabilities, innovation capabilities and learning capabilities optimally. Turnover growth may be due to various reasons, that is higher prices charged to customers, increased market share or a larger portion of turnover or all of them together. According to Weinzimmer, Nystrom and Freeman (1998) that using turnover growth against the increase in the number of employees or company assets as an indicator of growth is highly recommended. The thing that needs to be emphasized related to SME performance is that SMEs can grow (in terms of sales) even though there may be no change in the number of employees or the number of assets but optimizing marketing capabilities, innovation capabilities and learning capabilities so that if SMEs increase prices, the number of employees and assets remains the same.

H_4: *The interaction between marketing capabilities, innovation capabilities and learning capabilities together has a positive effect on SME performance.*

RESEARCH METHODS

The population in this study is SMEs in DIY. In this study, the number of samples taken was based on the minimum calculation results according to Hair *et al.* (2014) that is:

(Number of Indicators + Number of Latent Variables) × (Estimated Parameters)

Based on this formulation, the minimum sample size for this study is:

$$(40 + 4) \times 4 = 176 \text{ respondents}$$

Based on the formula above, the minimum sample size in this study is 176 respondents to avoid unreturned questionnaires, so this study will take a sample of 180 respondents. This study will use research subjects with the criteria of employees, managers and/or owners of SMEs in the city of Yogyakarta. This study is a quantitative study with the data source used being primary data. Primary data is data obtained from sources who are directly related to the research and can provide information. The data obtained in this study are data obtained from distributing questionnaires to research subjects. Data collection in this study was carried out through two main methods, that is questionnaires and measurement scales. Questionnaires are used as the main tool to obtain data from respondents.

In this case, respondents are asked to fill in the questions that have been prepared and return them to the researcher after completion. Meanwhile, to measure the response to each question asked, a Likert scale is used. This scale is commonly used to assess attitudes, opinions, and perceptions of respondents towards an object or event. The answers are given in five levels of assessment, that is strongly disagree (score 1), disagree (score 2), neutral (score 3), agree (score 4), and strongly agree (score 5). This scale helps researchers in processing and analyzing data quantitatively so that the results can be interpreted more objectively.

DATA ANALYSIS RESULTS & DISCUSSION

Normality Test

The following table 1 below presents the results of the normality test:

Table 1. Results of Normality Test for Each Variable

Variables	KS Value	Sig.	Information
Marketing Skills	1.238	0.147	Normal
Innovation Ability	1.316	0.198	Normal
Learning Ability	0.994	0.277	Normal

Based on the results of the normality test, it was found that the asymp.sig value obtained by each variable was > 0.05, so it can be concluded that in the regression model, the interfering or residual variables meet the normality assumption.

Linearity Test

The following table 2 below presents the results of the linearity test:

Table 2. Linearity Test Results

Model	F-Count	Sig.	Information
X1 against Y	0.714	0.678	Linear
X2 against Y	1.117	0.359	Linear
X3 against Y	1.476	0.108	Linear

Based on the results of the linearity test, the model in this study has a sig value > 0.05 so it can be concluded that there is a linear relationship between the independent variables and the dependent variables.

Hypothesis Testing Results

The following comprehensively presents the results of the hypothesis testing:

Table 3. Partial Correlation Results

Independent Variables	t	p	r	N
Marketing Ability (X1)	2.210	0.029	0.138	176

Based on the test results above, it was found that the marketing capability variable has a t-value of 2.210 and a significance value of 0.029 <0.05. Thus, it can be concluded that marketing capability has a positive and significant effect on SME performance. So H1 in this study is supported.

Table 4. Partial Correlation Results

Independent Variables	t	p	r	N
Innovation Ability (X2)	2.134	0.035	0.172	176

Based on the test results above, it was found that the innovation capability variable has a t-value of 2.134 and a significance value of 0.035 <0.05. Thus, it can be concluded that innovation capability has a positive and significant effect on SME performance. So H2 in this study is supported.

Table 5. Partial Correlation Results

Independent Variables	t	p	r	N
Learning Ability (X3)	2.045	0.043	0.615	176

Based on the test results above, it was found that the learning ability variable has a t-value of 2.045 and a significance value of 0.043 <0.05. Thus, it can be concluded that learning ability has a positive and significant effect on SME performance. So H3 in this study is supported.

Table 6. Correlation and Determination Coefficients

	Mark
Correlation Coefficient (R)	0.409
Coefficient of Determination (R2)	0.167

Based on the results obtained on the correlation coefficient and determination shows that the R value is 0.409, meaning that the variables of marketing ability, innovation ability and learning ability have a weak relationship with SME performance. This is supported by the R square value of 0.167 which means that the ability of the variables of marketing ability, innovation ability and learning ability in influencing SME performance in the DIY Province is 16.7%. This shows that there are still other factors that influence SME performance outside the model in this study. The results of the F-test can be seen in the table below.

Table 7. F-Test Results

ANOVA

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	149.637	2	74,819	4.837	.010a
	Residual	1686.041	173	15,468		
	Total	1835.679	175			

a. Predictors: (Constant), marketing ability, innovation ability, learning ability
b. Dependent Variable: SME performance

Based on the results of the F test, it was found that the interaction between the variables of marketing ability, innovation ability and learning ability had a positive and significant influence on the performance of SMEs in the DIY Province, which was indicated by a sig value of 0.010 <0.05. So H4 in this study is supported.

Discussion

Based on the research results, marketing capability has a positive and significant effect on the performance of SMEs in the DIY Province. This is in line with research conducted by (Vorhies and Morgan, 2005). This can be interpreted that marketing capability and human resource input involving market information management and developing and implementing marketing strategies contribute greatly to creating value for customers and SMEs so that they can improve their performance. In addition, marketing capability factors that are considered to contribute to improving SME performance include: product development, pricing, marketing management, communication, sales, market information, marketing planning and implementation of human resource applications. These results are also supported by research conducted by Afzal (2009) which states that marketing capability significantly affects company performance in Pakistan. This can be explained that successful marketing capability is built based on pricing indicators, marketing management, promotions that are well managed in developing market research with low-cost strategies and using market opportunities so that product development is better than customer needs from competitors.

Innovation capability has a positive effect on the performance of SMEs in the DIY Province. The results of this study are in accordance with research conducted by (Terziovski, 2010). Innovation capability is based on Schumpeter's two-phase innovation theory in Narayanan (2001) which explains that innovation capability is the main driver of SME performance in the manufacturing sector. The strategy in the innovation capability phase of entrepreneurship is based on new product development and depends on the organization's commitment to improving innovation capabilities. Along with the development of the market and existing SMEs and the emergence of new SMEs, there is a shift in prices so that SMEs need to reduce costs to manage and maintain SMEs.

Learning ability has a positive effect on the performance of SMEs in the DIY Province. The results of this study are in line with research conducted by (Sok, O'Cass and Sok, 2013). The latest developments in knowledge in the field of SMEs and the authority of SMEs to implement this knowledge as an effort to build market excellence for SME development, especially for intellectual development and human personality whose main goal is the performance of the SME. The role of SME managers and/or owners is very important in determining daily, weekly, monthly, semester and annual work operations that can ensure that SMEs continuously offer new products, find new ways to bring products to market faster and more and serve customers better than other competitors and continue to pay attention to SME activities (especially those that are unsuccessful) so that important improvements are made to improve superior SME performance. In SME performance, SME managers and/or owners act as counselors who must have the ability to communicate with others, interact, build relationships and socialize so as to be able to create learning interactions in their performance, are expected to be someone who can motivate employees to develop SME learning abilities simultaneously and effectively. Thus, it is the basis for achieving SME performance, that is obtaining the right message from the market and delivering the right product to customers. These results are also supported by research conducted by (Gomes and Wojahn, 2017). Learning ability will be better obtained if it can integrate knowledge about SMEs that are manifested in product excellence or production processes so as to achieve better results in

developing new products. This is in line with the results of research conducted by Hsu and Fang (2009) which explains that SMEs with the ability to achieve new knowledge and integrate existing knowledge with different methods will improve SME performance, both in terms of innovation and process. In other words, the better the learning ability, the better the performance of the SME.

The results are supported by the question items perceived as agreed by the respondents. The assessment occurred on the item we can manage product sales better than competitors and on the item the manager (management) participates in ideas, creations and development for the progress of our SMEs. This can be explained that the participation of ideas and creations is the involvement of all managers in an SME to carry out activities in achieving the targets that have been set in its marketing. To prevent functional or dysfunctional impacts, management needs to involve lower-level management. With participation in management by lower-level management, it is expected to improve SME performance in accordance with previously set targets, by being responsible for each task they carry out so that the SME development targets that have been set can be achieved.

Statistically, the interaction between the variable capabilities of marketing capability, innovation capability and learning capability together have a positive and significant effect on the performance of SMEs in the DIY Province. This will be reflected in their compliance, commitment, and loyalty in developing human resource potential and advancing the SMEs concerned. If the marketing capability, innovation capability and learning capability in SMEs are in good condition, it will affect the performance of SMEs. The more the marketing capability, innovation capability and learning capability increase, the performance of SMEs will also increase. Conversely, the worse the marketing capability, innovation capability and learning capability, the performance of SMEs will also decrease. These results are in line with research conducted by (Sok, O'Cass and Sok, 2013). Learning capability for employees, managers and/or owners of SMEs are factors that influence SMEs, both directly in the form of marketing capability and innovation capability and indirectly in the performance of SMEs. This is important to anticipate errors and economic uncertainties that continue to change, such as the Covid-19 pandemic and encourage creative and innovative problem solving for SMEs by developing ideas, adapting to new markets and experiences to promote new products.

This study used respondents with diverse SMEs, while previous studies only focused on one type of SME. This can be explained that the higher the level of suitability between marketing capabilities, innovation capabilities and learning capabilities with the performance of people-oriented SMEs, the higher the performance of the SMEs. Thus, this suitability is the best suitability, that is the marketing capability factor meets the conditional or effective prerequisites of innovation capabilities supported by learning capabilities so that it can improve SME performance in accordance with the norms applicable in the SME. This study also proves that collectively, the performance of SMEs in the DIY Province is influenced by the interaction of marketing capabilities, innovation capabilities and learning capabilities. Although the influence is relatively small, which is only 16.7%. The remaining 83.3% is influenced by other factors outside this study.

CONCLUSION

The results of this study indicate that the three independent variables, that is marketing ability, innovation ability, and learning ability, each have a positive and significant influence on SME performance. In addition, simultaneously, the three also contribute positively to improving SME performance in the DIY Province. This finding strengthens the view that in order to achieve superior performance, SMEs need to have a good marketing strategy, continue to

innovate, and be able to learn and adapt to changes in the business environment. These three abilities are important foundations in building competitive advantage and sustainability of SME businesses amidst market challenges and dynamics.

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