



## The Mediating Role of Networking Competence in The Relationship Between Market Knowledge Capability on SMES Performance

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### Abstract

#### Purpose

This article investigated market knowledge capability' role in enhancing performance and the impact of networking competence on SMEs' performance.

Method: The samples studied were 162 export-oriented furniture SMEs from Sukoharjo. The purposive sampling technique collected the data. Only 142 samples were declared complete and feasible to continue hypothesis testing. Structural Equation Modeling (SEM) was implemented to check the hypothesis model.

Result: This study found that the market knowledge capability constructs positively and significantly affected SMEs' performance. Market knowledge positively influenced networking competence, while networking competence positively and significantly affected SMEs' performance.

## INTRODUCTION

Globalization encourages companies to utilize their marketing resources, capabilities, and expertise to face global market competition (Zhou et al., 2007). The right marketing strategy will create advantages for the company compared to its competitors and can directly guarantee its performance achievement (Nuryakin, 2021). One view of the marketing concept argues that businesses can succeed by determining and satisfying target market needs, wants, and aspirations. Taiwo (2010) found that companies have strategies for achieving organizational objectives through the concept, various strategies, and design. This strategy works for a company, business, or function. To achieve market access and global performance, companies can apply the marketing strategy as one of the functional strategies available (Nuryakin et al., 2021).

Kanagal (2002) tested marketing strategies for improving competitive advantage and business performance. Constantinescu (2012) revealed that companies could consolidate or build a strong image in the market through corporate networks in the global market. Marketing strategy through mastery of knowledge is an important factor, such as the commercialization of inventions and ideas in running a thriving business, which is the main key to the company's success (Jaakkola et al., 2010).

Several other studies also revealed that efforts to create business networks are competitive globally (Nuryakin et al., 2018; Nuryakin, 2021). Efforts to meet target markets and needs are crucial for the company's marketing success (Chang et al., 2012; Gama, 2011; Soliman, 2011). Meanwhile, Gomes et al. (2009) explained that the dynamics of the business environment and globalization influence competition, so companies need to develop technology to fulfill customer demands.

Similarly, Hoffman et al. (2005) showed that business interaction processes and knowledge of market aspects enhance superior performance and long-term sustainability. Several other research results also showed that business skills and knowledge affected organizational performance (Darroch, 2005; Kiessling et al., 2009; Lee et al., 2012).

This study contributed to the body of knowledge on the resource-based view (RBV) perspective. This study focuses on studying the performance of SMEs with an orientation to the global market. SMEs have an important contribution to the economic development of a country, so they are still an interesting topic for future research. This study also explains the impact of market knowledge capability in improving SMEs' performance and networking competence in mediating the relationship between market knowledge capability and SMEs' performance. In addition, the gap in research results on the influence of market knowledge capability on SMEs' performance will be fulfilled. This gap in research refers to the inconsistency of the relationship between market knowledge and customer orientation dimension, which hurts performance. Thus, networking competence is important in bridging the relationship between SMEs' performance and market knowledge capability.

The resource-based View (RBV) was a basic theory of strategic management explored by Barney (1991b). Internal capabilities are the main resources for achieving sustainable competitive advantage. Internal capabilities such as market knowledge, technology, innovation, network, and operational skills are difficult to imitate internal resources (Lee et al., 2001). Internal resources and technological capabilities are important organizational advantages (Moen et al., 2008), (Ismail & Mamat, 2012; Lin & Chen, 2007; Mohannak, 2007). Therefore, the based View consists of three important internal capabilities that significantly affect performance in technology, including entrepreneurial orientation, technological capabilities and financial resources that have been invested in the company.

Study Lawson-Body and O'Keefe (2006) found that internal capabilities such as inter-organizational information systems support the achievement of competitive advantages—the influence of internet utilization on inter-organizational relations to achieving customer loyalty, thereby increasing organizational competitiveness. Meanwhile, Zohdi et al. (2013) explained that customer demands on organizations are dynamic. Organizations must adapt to and know these changes to achieve competitive advantage and performance. Hunt and Morgan (1999) explain that resource advantage theory is an evolution and imbalance in the competition process, in which organizational innovation and learning, firms and customers information about markets, entrepreneurship, institutions, and organizational policies and performance.

### **SMEs Performance**

According to Lin and Peng (2008), performance results from organizational and operational activities, such as achieving internal and external goals. Achievement of organizational goals such as growth in sales, profits, and market share. Organizations always embrace specific strategies for achieving and leading the goals set (Nuryakin, 2021; Panigyrakis & Theodoridis, 2009). Meanwhile, Kaplan and Norton (1992) measured performance from financial, customer measures, internal business measures, and innovative learning perspectives. Performance can be described as financial and marketing (Nuryakin et al., 2021).

Olson and Slater (2002) explain performance to evaluate the company's effectiveness. Measurement of performance effects such as new product success is the volume of company acceptance of innovation and customers, market coverage (Nuryakin & Ardyan, 2018), learning and growth, market share, and characteristics of innovation such as innovation or growth perspectives.

### **Market Knowledge Capability**

The dynamics of the organizational environment require companies to know the market (Åkerman, 2014). Knowledge becomes organizational wealth so that it can gain a competitive advantage. Knowledge requires managers to build an organizational culture that encourages creating, disseminating, sharing, and utilizing knowledge for business improvement (Boumarafi &

Jabnoun, 2008). Various studies on process-related issues include creating, developing, codifying, storing, distributing, sharing, and utilizing knowledge (Zaim et al., 2013). To achieve a competitive advantage in the market and achieving superior company performance, companies must identify, seek, develop, maintain, and deliver the competencies they already have (Noor et al., 2020; Udayana et al., 2021).

### **Networking Competence**

Network competence originally came from the Resources Based View, an internal organizational resource, as the main pillar in the strategic management literature Jian and Wang (2013). Organizational resources are all company assets, capabilities, processes, and knowledge (Barney, 1991a). The resource-based view of competitive advantage assumes that, regarding their control over these strategic resources, heterogeneous firms are vital assets.

Network competence is the capacity to enhance relationships with business networks and handle certain network relationships (Jian and Wang (2013). Network competence is also an organization's ability to create and control relationships with customers, key suppliers, and other organizations and to deal effectively with interactions in those relationships, which is a core competency that directly influences the company's competitive performance and strength (Hindasah & Nuryakin, 2020).

### **Relationship of Market Knowledge Capability to SMEs' Performance**

Mort and Weerawardena (2006) said that network capabilities enable the exploitation and identification of market opportunities, facilitating the creation of product knowledge and the capabilities of businesses to reach global markets and performance in international market coverage. Hence, customer knowledge is important for the company's continuity. Chew et al. (2008) found that capability affected performance. There is a significant relationship between the ability of businesses to achieve a competitive strategy. The company's efforts are needed to align capabilities and competitive strategies in improving superior company performance. Clarke and Fuller (2011) revealed that cross-sectoral social partnership models affect organizational performance. At the same time, the horizontal relationship between SMEs and producers influences SMEs' performance (Lamprinopoulou & Tregear, 2011). Based on the various studies mentioned, the first hypothesis is proposed.

H1: Market knowledge capability affects SMEs' performance.

### **Relationship of Market Knowledge Capability to Networking competence**

Lu et al. (2012) discovered that trust and great business networks significantly contributed to relationship satisfaction in SMEs. Trust influences relationship satisfaction, transactions, specific investments, and ultimately binding the network together. Pinho (2011) emphasized the importance of social networks and dynamic abilities. To build dynamic new capabilities in uncertain market conditions, companies should enhance their networks through relationships that provide access to new sources of information. Meanwhile, Lee and Lee (2009) found that partnership forms and five management practices: information sharing, job security, investment in fair financial rewards, employee training, and worker participation in management, contributed to industrial relations positively. Based on the various studies mentioned, the second hypothesis is proposed.

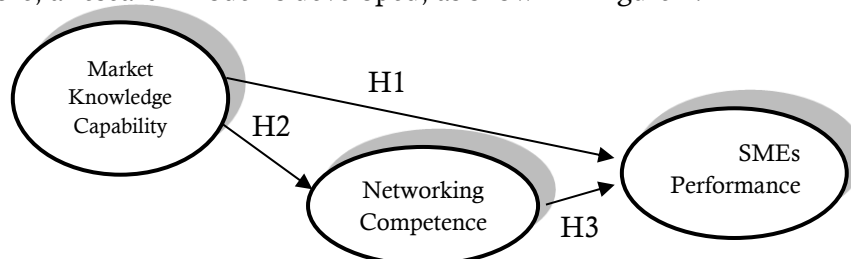
H2: Market knowledge capability affects networking competence.

### **Relationship of Networking Competence to SMEs' Performance**

Hormiga et al. (2011) said relational relationships with informal networks, customers, and suppliers affected performance. Furthermore, relational capital, team performance, human capital, and team size affected company goals as determined by company performance (Nuryakin, 2021). Other studies also discovered that the role of networks increased performance (Taghieh et al., 2013). In addition, intellectual and relational capital affected the company's financial performance. Meanwhile, GertHuman and Naude (2009) found a significantly positive relationship between

networking competence and network capabilities and between networking capabilities and company performance. Based on the various studies mentioned, the third hypothesis is proposed. H3: Networking competence affects SMEs' performance.

Therefore, a research model is developed, as shown in Figure 1.



**Figure 1. Empirical Research Model**

## RESEARCH METHOD

The research design in this study adopted a quantitative research approach. Several stages in this research include identification, problem formulation, hypothesis formulation, and its relation to theory and hypothesis testing. The causality relationship between the independent and dependent variables was also examined. The independent variable was market knowledge capability. Meanwhile, the intervening and dependent variables were networking competence and SME performance.

The sample was taken from furniture exporters' profiles in Central Java. The samples were from 162 export-oriented furniture SMEs from Sukoharjo, Central Java. The sampling technique implemented purposive sampling. Sampling considerations were based on SMEs' experience in managing the business. Only 142 samples were declared complete and feasible to continue hypothesis testing. Primary data was chosen for this research. Data were collected through questionnaire distribution. Respondents provided answers from the questionnaire list.

The exogenous construct in this study was market knowledge capability. The endogenous constructs were networking competency and SMEs' performance. Market knowledge competence is the organizational capability to access market and customer information internationally (Hou & Chien, 2010). Market knowledge capability was measured by three indicators: the ability to access the market, understand customers, and respond to competitors. Networking competence is the organization's ability to build business networks to increase sales volume (Nuryakin et al., 2018). Networking competence is measured by three indicators: competence in seeking product information, competence in marketing products abroad, and competence in finding new markets. Performance is an organizational evaluation of effectiveness and achievement of organizational vision. Performance measurements include increased sales and customer growth, the percentage of company revenue from new products, or new customer market development (Nuryakin & Ardyan, 2018). Meanwhile, SMEs' performance was measured by three indicators: sales growth, profit growth, and customer growth. The indicators for the three constructs were measured at intervals through the ten-point rating scale (1 to 10) approach (10).

Hypothesis testing chose Structural Equation Modeling (SEM)—the AMOS program to perform data processing. The first stage is a measurement model to test unidimensionality. The measurement model was generated from convergent validity values to test validity and reliability indicators, and the indicators' significance also explains the dimensions of forming latent variables. The Structural Equation Modeling test examined the parameters resulting in the goodness of fit and directly tested the hypotheses based on the causality relationship.

**RESULT AND DISCUSSION**

## Demographic profile of respondents

**Table 1.**  
**Respondent characteristic**

		Jumlah	Percentage (%)
Age	≤ 25	45	31.7
	26 – 30	24	16.9
	31 – 35	17	12
	36 – 40	25	17.6
	41 – 45	21	14.8
	> 45	10	7
Educational	Elementary school	41	28.9
	Junior high school	46	32.4
	Senior high school	48	33.8
	Diploma	3	2.1
	Bachelor	4	2.8
Gender	Male	137	96.5
	Female	5	3.5
SMEs scope	Personal business	138	97.2
	CV	3	2.1
	PT	1	0.7

**Confirmatory Factor Analysis**

The data processing results show that each construct's indicators have a critical ratio of  $c.r \geq 2.00$ . All indicators in the relationship between exogenous variables are accepted. The standardized estimate also implies that all indicators have a loading factor  $> 0.5$ . Meanwhile, this study's market knowledge capability construct was measured by indicators X1, X2, and X3, having a loading factor above 0.5. The networking competence construct is measured by indicators X4, X5, and X6 having a loading factor value above 0.5. The SMEs' performance construct was measured by indicators X7, X8, and X9, which also obtained a loading factor above 0.5. Thus, the indicator is feasible to measure the existing constructs.

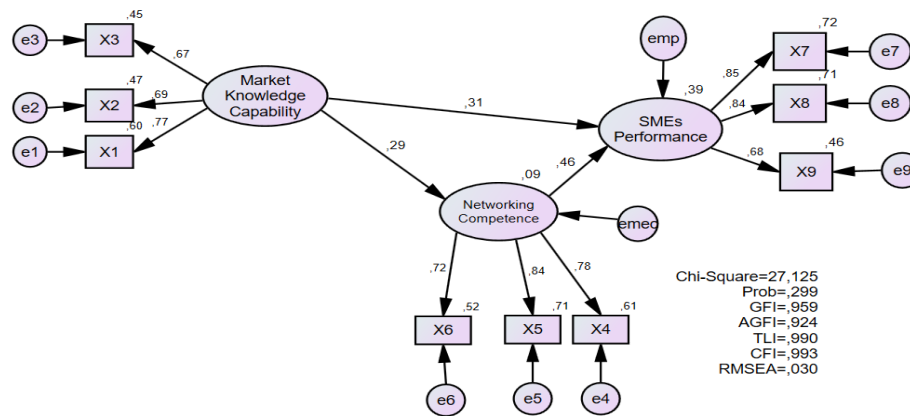
**Table 2.**  
**Scale Item for Measures**

Constructs	Items	Standardized Factor Loading	Cronbach alpha
Market Knowledge Competence	X1	0.773	0.757
	X2	0.689	
	X3	0.674	
Networking Competence	X4	0.781	0.822
	X5	0.841	
	X6	0.720	
SMEs' Performance	X7	0.848	0.830
	X8	0.845	
	X9	0.677	

**Full Model Structural of Equation Modelling (SEM) Analysis**

The full model's confirmatory value has met the goodness of fit criteria. It has shown several other goodness of fit criteria, such as a probability value of 0.299 and a Chi-Square of 27.125. Both assumptions have been fulfilled. While the GFI value = 0.959, TLI = 0.990, AGFI value = 0.924, RMSEA value = 0.030. These values indicate that the research model is accepted and meets the specified criteria (standards).

Figure 2 shows the full model test results.



**Figure 2. Empirical Research Model Testing**

Table 2 shows in detail the p-values and path coefficients between the variables in this study.

**Table 3.**  
**Hypothesis Testing Results**

Relationship Structure	Coef. Channel	CR Value	Prob.	Description
Market knowledge capability → SMEs performance	0.476	3.129	0.002	Significant
Market knowledge capability → networking competence	0.391	2.718	0.007	Significant
Networking competence → SMEs performance	0.525	4.632	0,000	Significant

Table 3 shows that the regression coefficient of market knowledge capability on SMEs' performance is 0.476, and the CR value = 3.129, meaning that the Market knowledge capability variable positively and significantly affects SMEs' performance. Testing the effect of market knowledge capability on networking competence shows a regression coefficient of 0.391 and a CR value = 2.718, meaning that the market knowledge capability variable positively and significantly affects networking competence. The impact of networking competence on SMEs' performance shows a regression coefficient of 0.525 and a CR value = 4.632, meaning that the variable of networking competence positively and significantly affects SMEs' performance.

Market knowledge capability positively and significantly impacts SMEs' performance. Chew et al. (2008) discovered that capability affected performance (Nuryakin et al., 2021). Clarke and Fuller (2011) revealed that the partnership model affected organizational performance. Lamprinopoulou and Tregear (2011) also strengthened the findings of this study by explaining that the horizontal relationship between SMEs affected marketing performance. Market knowledge capability positively and significantly affects networking competence. Pinho (2011) emphasized the importance of social networks and dynamic abilities. Similarly, Lee and Lee (2009) found that partnership forms positively affected business relationships.

Networking competence positively and significantly influences SMEs' performance. The previous research also revealed that business networks affected company goals as measured by company performance (Borchert & Bruhn, 2010). The findings of other studies also strengthened these findings, explaining the role of networks in driving increased performance (Taghieh et al., 2013). GertHuman and Naude (2009) found a significant relationship between networking competencies and network capabilities and between firm performance and networking capabilities.

This paper tests the mediating role of networking competence. This study's results indicate that networking competence is effective as a mediating variable to solve the research gap between market knowledge capability and performance. In the context of global market orientation, the role of the RVB is more important than the role of social capital to barrier market entry. This study also indicates that networking competence has a mediating role in enhancing the performance of SMEs.

## CONCLUSION

Market knowledge capability becomes an important part of business networks. Previous studies have centered on determining individual interactions and business networks' role in shaping business interactions and impacting performance improvement. The results have strengthened that the ability to market knowledge is an important organizational asset. Network competence can create high levels of trust at the business level and impact performance. This research proved that networking competence positively affected performance. The results aligned with previous studies. Business networking is important for organizations. Network competence could create trust between companies, and the results also contributed to the knowledge of relationship marketing theory as a key to enhancing business performance. Relationship marketing is the enhancement, establishment, maintenance, identification, modification, and termination of customer relationships to create customers' value and profits through exchange relationships.

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