Jurnal Manajemen
e-JM
E-ISSN: 2549-8797
ISSN: 1410-3583

Upgrading SME's Marketing Performance: Adaptive, Innovative Capability, and Isolating Mechanism

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Submitted *14-06-2024* ***Reviewed*** *18-11-2024* ***Revised*** *20-11-2024* ***Accepted*** *21-11-2024* ***Published*** *19-02-2025*

Abstract: Business competition requires companies always to behave adaptively, but not all adaptations carried out by companies can improve performance. Because of that, this research aims to examine the role of adaptive capability, isolating mechanism product advantage, and product innovation capability on marketing performance in a research model. This research was conducted using a sample of 271 owners of Batik Tulis business in Barlingmascakeb, Central Java. Sampling was done using a purposive sampling technique, and the research method used was SEM-AMOS. The research results show that adaptive capability, isolating mechanism product advantage, and product innovation capability have proven to improve marketing performance in Batik Tulis SMEs. However, the relationship between adaptive capability cannot be proven to influence product innovation capability. Adaptive capability also plays a key role in improving marketing performance because it has the most significant influence compared to other variables used in this research.
Keywords: Adaptive Capability; Isolating Mechanism; Marketing Performance; Product Innovation Capability; SME's.

Abstrak: Persaingan bisnis yang ketat mengharuskan perusahaan untuk selalu berperilaku adaptive, akan tetapi tidak semua adaptitasi yang dilakukan perusahaan dapat meningkatkan kinerja. Tujuan penelitian ini untuk menguji peran adaptive capability, isolating mechanism product advantage, and product innovation capability terhadap marketing performance dalam sebuah model penelitian. Penelitian ini dilakukan dengan menggunakan sampel sebanyak 271 pelaku bisnis Batik di Barlingmascakeb, Jawa tengah, Indonesia. Pengambilan sample dilakukan dengan menggunakan tehnik purposive sampling sedangkan metode penelitian yang digunakan adalah SEM-AMOS. Hasil penelitian menunjukan bahwa adaptive capability, isolating mechanism product advantage, dan product innovation capability terbukti signifikan meningkatkan kinerja pemasaran pada SME Batik Tulis. Meskipun demikian, hubungan antara adaptive capability tidak mampu terbukti berpengaruh terhadap product innovation capability. Selain itu, adaptive capability memegang peranan kunci dalam meningkatkan kinerja pemasaran karena memiliki pengaruh paling besar dibandingkan dengan variabel lain yang digunakan dalam penelitian ini.
Kata Kunci: Kemampuan Adaptif; Mekanisme Mengisolasi; Kinerja Pemasaran; Kemampuan Inovasi Produk; UKM.

INTRODUCTION

The business world has a strong affinity for uncertainty. A dynamic environment triggers changes in business strategy. A superior business strategy is generally based on superior resources (core resources) and superior competencies (core competencies). This can be achieved by having an adaptive strategy that creates harmony between the dynamic environment and the company's advantages so that it can improve marketing performance (C. Reimann et al., 2021; Phuong et al., 2022). This shows that a business's adaptive capabilities are important in achieving company targets. Companies must have adaptive

capabilities to help manage, interact, determine preferences and market opportunities, and solve problems (Algarni et al., 2022).

Business strategy determines direction and steps to achieve business goals (Jatmiko et al., 2021). Strategy alignment with the environment can create a safer environment in dynamic environmental situations (Saeed et al., 2023). Certain environmental conditions must be understood by companies in the heterogeneity and multidimensionality of specific markets to improve their performance (Barlow et al., 2019). Two forms of management can be used in unsafe situations. First, management control is a situation-specific model. Second, management control systems can be generalised or adapted to different companies. It is assumed that each company has a different environment.

Competitors will use various methods to outperform their opponents in business. Therefore, the company must prepare the company must prepare a strategy to survive and anticipate these attacks. To face these attacks, companies must build a value that becomes the basis of excellence. This advantage can be achieved through superior resources (core resources) and competencies (core competencies). However, to achieve this advantage, the company must adapt to align the competitive environment and the company's advantages (Wongsansukcharoen & Thaweepaiboonwong, 2023).

Micro, small and medium enterprises must also possess adaptation capabilities to run their business. This research is specifically on batik MSME businesses. This business faces the reality of relatively high competition. The market opening creates a highly competitive situation from within and outside the country, such as printed Batik, which offers relatively lower prices than Batik Tulis. Thus, Batik Tulis entrepreneurs must be able to adapt to very tight competitive conditions. This is important because a company's survival and success depend on its ability to monitor and adapt to its business environment (C. Reimann et al., 2021; Ishak et al., 2023). However, many studies still suggest that adaptive capabilities do not affect marketing performance (Phuong et al., 2022; Wiwoho et al., 2020). This proves a research gap for which a solution must be found.

The internal and external environment influences company performance. Therefore, there must be suitability for companies with good environmental adaptability while the environment changes uncontrollably. Companies need to ensure that adaptation strategies can suppress threats from the external environment so that the level of fluctuation in adaptation is not too high (Algarni et al., 2022). This means that a high and excessive level of adaptation will result in the company's performance being counterproductive or a decline in company performance. Furthermore, companies must consider the sustainability of adaptive strategies to increase efficiency and improve company performance (Ishak et al., 2023).

Companies must organise adaptation strategies so as not to miss out. Accuracy and harmony are needed so that adaptation does not become counterproductive. Therefore, companies must be able to create strategies so that the environment tends to be dynamic and does not force companies to create continuously adaptive strategies (Situation-specific model). Thus, general strategies that can be useful in all situations are needed to overcome excessively high levels of adaptation. However, this strategy will not be helpful if environmental conditions have a high level of fluctuation.

Therefore, a control system is needed so that adaptability can optimally align the company's strategy with the external environment (Tapanainen et al., 2022). Thus, local products must emphasise product features based on culture, human creativity, technological innovation, and the natural environment to create a gap with competitors. Therefore, the

research aims to explain how companies create sustainable advantages; a mechanism is needed to isolate the products' advantages. This mechanism will be a barrier for competitors to duplicate and imitate, so local batik products will still have high value. This term is known as isolating mechanism product advantage. Apart from that, the lack of threats in this form will impact the environmental situation, which tends to be safe and stable.

The unstable environmental situation forces companies to innovate the products they offer to consumers. This is an important task for companies in responding to long-term challenges and successful product innovation by balancing exploration and exploitation (Santos-Vijande et al., 2022). In strategic marketing, innovation creates opportunities to create competitive advantage and business development (Harjadi et al., 2020). This can be done if the company can innovate. Previous research revealed that product innovation capability cannot support radical product innovation, but companies following an outside-in strategy have more customer orientation (Ali et al., 2022).

Product innovation is the creation of new products from new materials or changes to existing products to meet consumer desires, but it requires high costs, risks, and challenges (Fatonah & Haryanto, 2022). Apart from that, the positive impact caused by product innovation is that companies can reduce product diversity to make their innovation performance more optimal (Chang et al., 2024). Therefore, companies must be able to look for relevant sources of information to guide innovation design by considering market capabilities.

Research relating adaptive capability to marketing performance in SMEs is still being debated, as described in the previous paragraph. In addition, research on isolating mechanism product advantage variables is still minimal, and testing the relationship between these variables and marketing performance is still rare. Thus, the novelty of this study is that it tests the relationship model between adaptive capability and SME marketing performance with isolating mechanism product advantage and product innovation capability.

This research tries to test the idea that to suppress and create a dynamic environment, a mechanism for isolating product advantages is needed. So, the company's adaptive capabilities and advantages based on resources or capabilities can help improve company performance as measured through its marketing performance. This mechanism will prevent competitors from carrying out attacks due to creating a gap, which makes it difficult for competitors to overcome. This difficulty will impact competitors' ability to carry out attacks, and the environment tends to be dynamic or less competitive.

THEORETICAL REVIEW

Marketing Performance. Marketing performance indicates the successful performance of a business organisation or individual that plays a specific strategic role. This study uses a resource-based view theory approach to create competitive advantages that can improve marketing performance, specifically in SMEs. Good marketing performance shows a high level of sales, increasing the number of sales both in product units and in monetary units. A good business strategy largely determines marketing performance; the company must have capabilities based on the established strategy (Farida & Setiawan, 2022). Two performance measures are used in an SME business: business growth and customer equity.

According to (Ho et al., 2020), marketing performance is expressed in three main quantities: sales value, sales growth, and market share, ultimately leading to company profits. Marketing performance is characterised by good sales growth from previous years and higher growth than competitors. This will continue if competitors cannot present the products sold by the company. This can be prevented by reducing the number of imitations, replications, and duplications.

SMEs must be competent in seeing potential related to performance (Chinakidzwa & Phiri, 2020). They must dig deeper into the antecedents that can improve their business performance. Therefore, this research aims to describe SME marketing capabilities to adapt, create competitive advantage, and innovate products. In particular, the findings of this research can provide recommendations that can improve the performance of the batik SME business with the research model used.

Adaptive Capability. Adaptive capability is a dynamic process of continuous and rapid learning to identify and exploit emerging market and technological opportunities by applying new innovative ideas. Adaptive capability shows the speed at which a company can overcome market opportunities, take advantage of opportunities, follow competitors' movements, and maintain its advantage in the market while competing for market share (Tapanainen et al., 2022). With an adaptive strategy, companies can increase the flexibility of static plans and learning processes to correct themselves to the market based on a series of experiments through innovation (Hunt & Madhavaram, 2020; Ishak et al., 2023).

According to (Purvis et al., 2019), to become a source of sustainable competitive advantage, a company must have valuable resources and capabilities, namely the company's resources and capabilities to improve its market position against competitors; rare, namely rare company resources and capabilities that competitors do not have; isolated from imitation or substitution; and the company's resources and capabilities are difficult for competitors to imitate. The higher an organisation's adaptability, the more it will create a strategy and isolate competitors from competitive advantages, thus preventing competitors from imitating capabilities and strategies (Jatmiko et al., 2021).

Thus, adaptive capability can improve the company's sustainability performance (Algarni et al., 2022). As in the competitive business environment, SMEs can be anticipated by enriching and using adaptive capabilities (C. Reimann et al., 2021). This means that adaptive capability has a significant impact on SME performance. In facing a business environment that is not static, SMEs must have sensitivity and an adaptive attitude to change, especially tastes and meeting consumer preferences (Harjadi et al., 2020). Thus, the hypotheses developed in this research are: rare businesses not owned by competitors, isolated from imitation or substitution, and the company's resources and capabilities are difficult for competitors to imitate. The higher an organisation's adaptability, the more it will create a strategy and isolate competitors from competitive advantages, thus preventing competitors from imitating capabilities and strategies (Ndegwa et al., 2018).

Isolating Mechanism Product Advantage. Resources in the form of assets, competencies, processes, skills, or knowledge controlled by the company are included in the company's resources that need to be developed to achieve specific goals. This way, the company can create specific and valuable product differentiation compared to its competitors. Although the literature shows that differentiation through products creates entry barriers for competitors, there is no evidence to suggest that digitally enabled services enable the erection of specific entry barriers or create isolating mechanisms to

maintain the competitive advantage achieved by the product (Sánchez-Montesinos et al., 2018).

The isolation mechanism is a business concept that explains the sustainability process used as their competitive advantage (Ndegwa et al., 2018). For example, a mechanism for isolating product advantages will be formed if the company can create advantages supported by resources not easily imitated by competitors or barriers to imitation (Dmitry Sharapov & MacAulay, 2022). In this way, a mechanism for isolating product advantages will be formed, encouraging companies to innovate to maintain competitive advantage. The gap formed to isolate product superiority will continue to encourage and force companies to innovate.

The product isolating mechanism strategy supports companies in their innovation activities because it can protect company profits from competitors, suppliers, and customers (Dmitry Sharapov & MacAulay, 2022). The company's focus on product innovation can also be further increased to protect products by imposing sanctions on imitation or copycat products (Dmitry Sharapov & MacAulay, 2022). Thus, it is important to examine further the role of this variable in increasing product innovation capability and marketing performance.

Product Innovation Capability. Innovation plays a central role in business life because it facilitates creating novelty through creativity and experimentation to obtain new products in the form of services or goods. Environmental uncertainty, especially the market environment, encourages companies always to behave adaptively (Sharfaei et al., 2023). Developing a product does not require creating an entirely new product; simply modifying it into a new one can be categorised as innovation (Wiwoho et al., 2020). Creating a new product will attract market attention, especially when the new product has value for consumers (Falahat et al., 2020). This will encourage the company's performance to increase from a marketing or revenue perspective because it is one of their competitive advantages (Qiu et al., 2020; Fatonah & Haryanto, 2022). Business actors must be able to emphasise sustainable innovation more to achieve performance targets (Nuryakin & Maryati, 2022).

Innovation is a company's way of increasing its capabilities and capacity to increase its competitive advantage (Elgarhy & Abou-Shouk, 2023). So, every time there is an increase in product innovation, it will impact the company's performance. However, studies linking SME innovation culture to marketing performance are minimal (Arsawan et al., 2022). Furthermore, companies must have innovation capabilities for the products they sell to improve their marketing performance (Harianto et al., 2019; Harjadi et al., 2020; Nuryakin & Maryati, 2022).

The relationship between adaptive capability and isolating mechanism product advantage. Research that confirms the relationship between adaptive capability and isolating mechanism product advantage is still relatively rare. Previous studies suggest that SMEs' adaptive capability is necessary to create a competitive advantage. However, this is important because it refers to the resource-based view (RBV); the isolation mechanism is a strategy so that the product is complex for competitors to imitate (Wiwoho et al., 2020) Sánchez-Montesinos et al., 2018). Thus, companies must have the ability to adapt to all changes that occur because adaptation is dynamic. Apart from that, adaptive capability in marketing can improve products that are superior to competitors (C. K. Reimann et al., 2022). This means that adaptive capability is important in isolating product advantage mechanisms. Thus, the hypothesis developed in this research is:

H1: Adaptive Capability is positive and significant toward Isolating Mechanism Product Advantage.

The relationship between adaptive capability and product innovation capability. Market uncertainty requires companies to be able to innovate (Handoyo et al., 2023). Therefore, businesses must always be able to adapt to create product innovation. The adaptive behaviour displayed by the company allows it to continue to exist in the face of competition because it continuously innovates in creating product advantages (Robertson et al., 2023). Further mode, adaptive capability is used as an instrument for companies to increase product innovation capability (Ali et al., 2022). Additionally, previous studies stated that adaptive capability is an important antecedent in increasing product innovation capability (Wiwoho et al., 2020). Thus, the hypothesis being tested is:

H2: Adaptive Capability is positive and significant toward Product Innovation Capability.

The relationship between adaptive capability and marketing performance. The ability to adapt a business to its environment is essential for the survival of the company. Previous studies suggest that adaptive capability can improve business performance in terms of financial and non-financial performance (Sadeghi et al., 2023). Adaptive capabilities can provide solutions to problems faced by the market to improve marketing performance (Zahoor & Lew, 2023). Marketing capabilities in market experiments encourage responding flexibly to customer needs and desires to improve business performance; this means that the company has adaptive capabilities (C. K. Reimann et al., 2022). This means that adaptive capability is an antecedent of marketing performance (Sadeghi et al., 2023; Zahoor & Lew, 2023; C. K. Reimann et al., 2022). Thus, the hypothesis tested in this research is:

H3: Adaptive Capability is positive and significant in marketing performance.

The relationship between Isolating Mechanism Product Advantage and Product Innovation Capability. Companies must be able to innovate in every changing condition, such as the Covid and post-Covid pandemic conditions (Nuta et al., 2024). Companies must have a positive attitude to increase product purchase intentions (Riptiono, 2022). Thus, companies must have advantages in their products to compete with competitors. One way is to design an isolating mechanism (Dmitry Sharapov & MacAulay, 2022). With an isolating mechanism, companies can protect their products from being imitated by competitors (Sánchez-Montesinos et al., 2018). This can be a unique strategy to protect their products from competitors and increase their ability to create product innovations (Santos-Vijande et al., 2022). Thus, the hypotheses tested in this research are:

H4: Isolating Mechanism Product Advantage is positive and significant in product innovation capability.

The relationship between Isolating Mechanism Product Advantage and SMES Marketing Performance. Isolating mechanism product advantage in SMEs has received very little attention in the SME business performance. Previous researchers said that

product excellence could create a competitive advantage for a company to improve performance (Wongsansukcharoen & Thaweepaiboonwong, 2023). One way to increase competitive advantage is to protect products from competitors or with an isolating mechanism strategy (Sánchez-Montesinos et al., 2018). Furthermore, the company will gain a competitive advantage compared to its competitors in the contemporary market to improve its performance (Chatterjee et al., 2024). Thus, the hypothesis tested in this research is:

H5: Isolating Mechanism Product Advantage is positive and significant toward SMES marketing performance.

The relationship between Product Innovation Capability SMES Marketing Performance. Innovation is a driver that can grow and develop a business (Ali et al., 2022). Our research provides a better picture and understanding of the relationship between innovation and marketing performance in SMEs. Based on previous literature, the company must own innovation capability. A culture of innovation will greatly influence SMEs in improving their performance (Salah & Ayyash, 2024). In facing competition, companies must carry out marketing innovations, such as product innovations, to improve their performance (Aksoy, 2017). Previous studies suggest innovation is crucial in improving a company's marketing performance (Abbas et al., 2024). This means innovation is important in improving SME marketing performance (Aksoy, 2017; Abbas et al., 2024); (Salah & Ayyash, 2024). Thus, the hypotheses tested in this research are:

H6: Product innovation capability is positive and significant for SMES marketing performance.

Based on the literature review and hypothesis development, the research framework is contained in **Figure 1**.

Jurnal Manajemen
e-JM
E-ISSN: 2549-8797
ISSN: 1410-3583

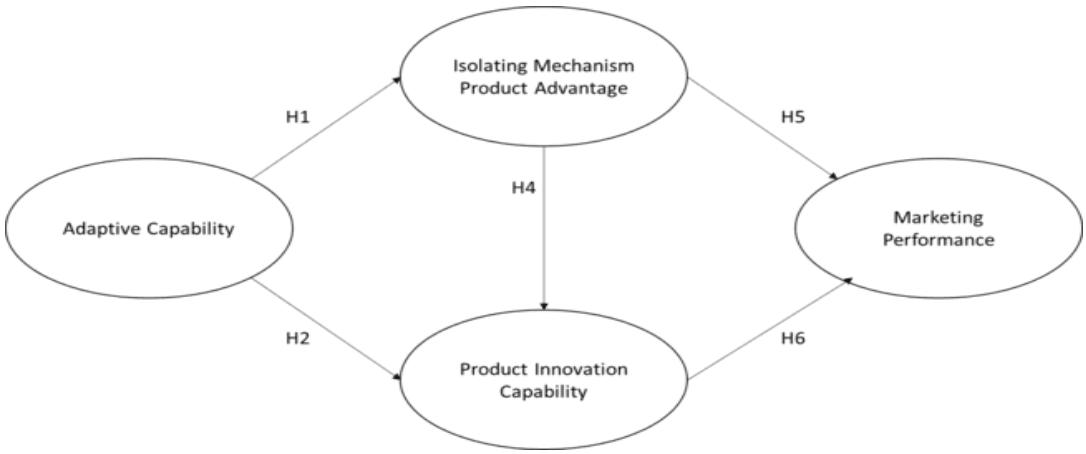

Figure 1. Research Model

METHODS

Design, population, and sample. The primary data used in this research was obtained from distributing questionnaires. Questionnaires were distributed to 300 batik business owners in Barlingmascakeb (Banjarnegara, Purbalingga, Banyumas, Cilacap and Kebumen), and 271 questionnaires were returned. In this research, sampling was carried out using a purposive sampling method, and the analytical tool that researchers will use is the Structural Equation Modeling (SEM) method. This research uses a sampling approach with 15 to 20 observations for each estimated parameter (Hair et al., 2019). This research contains 13 estimated parameters. The sample size determination is adjusted to the analytical tool SEM-AMOS with the Maximum Likelihood (ML) estimation model. The minimum number of parameters x 20 (13x20=260) is required, so the minimum sample used is 260. To anticipate the existence of missing answers or missing questionnaires. If it is filled out and not returned, 300 copies of the questionnaire will be distributed.

Measurement. The measurements for this research adopt previous research; the marketing performance variable is measured using three indicators adopted from (Santos-Vijande et al., 2022), namely: (1) Sales growth, (2) Market share growth, and (3) Profit growth. The adaptive capability variable is measured using three indicators adopted from (Algarni et al., 2022), namely: (1) The workers in our firm can find alternative ways of doing their work; (2) Our firm can develop flexible processes to respond rapidly to changes and opportunities detected in our markets; and (3) Our firm can change strategy rapidly according to our business priorities. The isolating mechanism product advantage variable was measured using four measurements from a previous study by (Wiwoho et al., 2020), namely: (1) knowledge protection, (2) technological capabilities, (3) market-based assets, and (4) first-mover advantage. Moreover, the product innovation capability variable is measured in 3 indicators by (Harianto et al., 2019), namely, (1) culture of innovation, (2) product innovation, and (3) technical innovation.

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Jurnal Manajemen
e-JM
E-ISSN: 2549-8797
ISSN: 1410-3583

RESULTS

Description of Respondents. Based on the research results, data on the classification of education level and age of respondents was obtained as well as company-related data, namely length of business, number of workers and turnover, as in the following **Table 1**:

Table 1. Description of Respondents

No.	Description	Frequency	Percentage
1	*Education*		
	Junior High School and below	21	7.750
	Senior High School	42	15.500
	Diploma	102	37.640
	Bachelor	67	24.720
	Master and above	39	14.390
3	*Age of Respondents*		
	25 to 35 years	39	14.390
	35 to 45 years	78	28.780
	45 to 55 years	88	32.470
	Diatas 55 years	66	24.350
4	*Age of Business*		
	1 to 5 years	54	19.930
	5 to 10 years	85	31.370
	11 to 15 years	91	33.580
	Diatas 15 years	41	15.130
5	*Total Employees*		
	Di Bawah 10 peoples	34	19.930
	10 to 20 peoples	68	28.780
	21 to 30 people	84	32.100
	Diatas 30 peoples	52	19.190
6	*Income/month*		
	100 million and below	72	26.570
	100 to 200 millions	118	43.540
	200 to 300 millions	47	17.340
	300 million and above	34	12.550

Sources: primer data processed, 2024

Homogeneity Test on the Model. Homogeneity testing was carried out to avoid bias in the model. Bias can occur because respondents fill out research instruments carelessly, are in a hurry, or do not understand the context. This can unknowingly form similarities or similarities with other answers. This study used the Bartlett test method with the Kaiser-Meyer-Olkin (KMO) value to ensure that the model did not indicate homogeneity, meaning the sample answers differed.

Table 2. Output Kaiser-Meyer-Olkin (KMO)

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.954
Bartlett's Test of Sphericity	Sig.	0.000

Sources: primer data processed, 2024

Jurnal Manajemen
e-JM
E-ISSN: 2549-8797
ISSN: 1410-3583

The KMO value has a variance of 0 to 1. However, exploratory factor testing can occur if the KMO value is more than 0.600 or the sig value is less than 0.050. The output in **Table 2** shows that the KMO value is 0.954 or above 0.500. It is also strengthened by the sig value, 0.000 less than 0.050.

Validity and Reliability Results. The first thing to do is assess whether the research model that has been built meets the instrument testing criteria, namely by measuring the construct to assess its unidimensionality and reliability. Unidimensionality is a basis for calculating reliability, which is used when indicators of a construct are accepted. The approach used to assess the unidimensionality of the model is to measure composite reliability and variance extracted for each construct.

Reliability is a construct measurement that is consistently measured through internal indicators. High-reliability results provide confidence that the indicators for each variable have consistency in their measurement (Vaske et al., 2017). The accepted level of reliability must be more or equal to 0.700, while reliability is less or equal to 0.700, which is acceptable for research that is still exploratory (Hair et al., 2019). However, reliability cannot guarantee validity. Validity can measure the extent to which an indicator explains the accuracy in measuring what it wants to measure. Another reliability measure is variance extracted as a complement to the construct reliability measure with a cut-off value of more or equal to 0.500.

Table 3. Output Construct Reliability and Average Variance Extracted

Variable	Indicator	Loading Factors	Standard Loading^2	Measurement Error (1-Std. Loading)	CR	AVE
Adaptive Capability	KA1	0.591	0.349	0.651	0.840	0.575
	KA2	0.955	0.912	0.088		
	KA3	0.688	0.473	0.527		
	KA4	0.753	0.567	0.433		
Isolating Mechanism Product Advantage	MMKP1	0.961	0.924	0.076	0.969	0.839
	MMKP2	0.958	0.918	0.082		
	MMKP3	0.906	0.821	0.179		
	MMKP4	0.921	0.848	0.152		
	MMKP5	0.885	0.783	0.217		
	MMKP6	0.861	0.741	0.259		
Product Innovation Capability	IP1	0.896	0.803	0.197	0.948	0.786
	IP2	0.894	0.799	0.201		
	IP3	0.927	0.859	0.141		
	IP4	0.813	0.661	0.339		
	IP5	0.899	0.808	0.192		
Marketing Performance	KP1	0.886	0.785	0.215	0.965	0.847
	KP2	0.927	0.859	0.141		
	KP3	0.919	0.845	0.155		
	KP4	0.928	0.861	0.139		
	KP5	0.941	0.885	0.115		

Sources: primer data processed, 2024

The results of the parameter estimation test show that the model has passed the instrument's reliability and validity tests. The validity value measured using AVE equals 0.700, and Construct Reliability is more or equal to 0.500 (Hair et al., 2019).

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Fit Model Analysis. Basic goodness of fit is the basic indicator for measuring the model: Chi-square Degrees of freedom. Absolute fit measures measure the overall fit model (both the structural model and the measurement model together), consisting of chi-square), goodness of fit ideals (GFI), and root mean square error of approximation (RMSE). Incremental fit indices are measures to compare the proposed model with other models specified by researchers, consisting of adjusted goodness of fit index (AGFI), norm fit index (NFI), comparative fit index (CFI), incremental fit index (IFI), and relative fit index (RFI), Tucker Lewis Index (TLI).

Parsimonious fit indices make adjustments to fit measurements so that they can be compared between models with different numbers of coefficients, consisting of Akaike's Information Criterion (AIC), Consistent Akaike Information Index (CAII), Expected Cross Validation Index (ECVI), Parsimonious standard fit index (PNFI) and Parsimonius Goodness of Fit Index (PGFI). In empirical research, a researcher does not have to fulfil all goodness of fit criteria. The use of 3 to 4 goodness of fit criteria is considered sufficient to assess the suitability of a model if each of the goodness of fit groups, namely absolute fit indices, incremental fit indices and parsimonious fit indices, is represented (Hair et al., 2019). Based on data processing in the model, the results in **Table 4** are obtained.

Table 4. Cut off Value Goodness of Fit

Criteria	Cut-off value	Results	Conclusion	Classification (Fit)
Chi-Square	Expected to be small	526.041	Fit	Absolute fit indices
RMSEA (root mean square error of approximation)	more or less equal to 0.080	0.096	Marginal fit	
GFI (Goodness of fit index)	greater than equal than 0.900 Values range from 0 – 1 (with 0 of poor fit and 1 of perfect fit)	0.816	Marginal fit	
AGFI (Adjusted goodness of fit)	greater than equal to 0.900	0.766	Marginal fit	
CMIN/DF (the minimum sample discrepancy function/degree of freedom)	more or less equal to 5	3.188	Fit	Basic goodness of fit
TLI (Tucker Lewis Index)	greater than equal to 0.950	0.927	Fit	Incremental fit indices
NFI (normed fit index)	greater than equal to 0.900	0.911	Fit	Incremental fit indices
CFI (Comparative fit index)	greater than equal to 0.950	0.937	Marginal fit	
Parsimonious normal fit index (PNFI)	The higher, the better. NFI modification, the use of comparing models with different DFs with a limit of 0-1	0.791	Fit	Parsimonious fit indices.
Parsimonious goodness of fit index (PGFI)	The higher, the better/parsimony. Modification of GFI based on parsimony estimated model. (0-1)	0.641	Fit	Parsimonious fit indices.

Sources: primer data processed, 2024

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When the model construct passes the instrument test and meets the goodness of fit criteria, the next step is interpreting the hypothesis test output. The P value shows the influence test between variables, and the beta value shows the direction of influence. The hypothesis test output is in **Table 5**.

Table 5. Output Test of The Hypotheses

No.	Paths			B	Prob.	Decision
H1	Adaptive Capability	→	Isolating Mechanism Product Advantage	0.527	0.000	Accepted
H2	Adaptive Capability	→	Product Innovation Capability	0.013	0.873	Rejected
H3	Adaptive Capability	→	Marketing Performance	0.443	0.002	Accepted
H4	Isolating Mechanism Product Advantage	→	Product Innovation Capability	0.486	0.000	Accepted
H5	Product Innovation Capability	→	Marketing Performance	0.286	0.001	Accepted
H6	Isolating Mechanism Product Advantage	→	Marketing Performance	0.317	0.000	Accepted

Sources: primer data processed, 2024

DISCUSSION

The relationship between adaptive capability and Isolating Mechanism Product Advantage. The present study examines the research gap between adaptive capability in improving SME marketing performance by using isolating mechanisms, product advantage and product innovation capability. The research results show that the results were declared significant in testing the first hypothesis (H1), which tested the direct influence of adaptive capability on isolating mechanism product advantage. This means that the higher the adaptability of an organisation, the more it will create a strategy and isolate competitors from competitive advantages, thus preventing competitors from imitating capabilities and strategies. The results of this research align with previous research conducted by (Tapanainen et al., 2022), which states that adaptability has a good potential to form specific resources and advantages from varying environmental conditions. The organisation's ability to adapt will be an advantage that impacts the formation of sources of competitive advantage.

The contribution of adaptive capability in positively influencing the isolating mechanism product advantage is based on the testing of the indicators used in this study. The first indicator is that the workers in our firm can find alternative ways of doing their work, which means that workers with alternative abilities in dealing with problems can influence the isolating mechanism product advantage. The second indicator is that our firm can develop flexible processes to respond rapidly to changes and opportunities detected in our markets, which means that companies that can respond to opportunities and changes quickly will be better able to create isolating mechanism product advantage. The third indicator is our firm's ability to change strategy rapidly according to our business priorities. SMEs that can change business strategies based on business priority scales will significantly influence the isolating mechanism's product advantage.

This study proves that adaptive capability influences the isolating mechanism's product advantage. That is, companies with adaptive capabilities will find it easier to isolate

the advantages of their products. This is done to anticipate that their superior products will be complex for competitors to imitate (Sánchez-Montesinos et al., 2018) to create a competitive advantage for their products (C. K. Reimann et al., 2022). This has managerial implications, and Batik Tulis SMEs are expected to have adaptive capabilities to maintain the superiority of their products with isolation mechanisms. This will give Batik a distinctive characteristic that makes its products difficult for competitors to imitate. The results of this research also confirm previous research conducted by (Algarni et al., 2022) that adaptive capabilities can function for companies to find alternative solutions to the problems they face, respond quickly to any changes, and make changes to business priority strategies.

The relationship between adaptive capability and Product Innovation Capability. Different results were shown in testing the second hypothesis (H2), which tested the effect of adaptive capability on product innovation capability with the result of rejecting the hypothesis. This means that adaptive capability in batik SMEs cannot influence the company's ability to innovate its products. The results of this research align with previous research conducted by (Harjadi et al., 2020). The findings of this study confirm the phenomenon of the batik industry, especially Batik Tulis, is that it has been patterned and has a pattern that is unique to a particular place so that it cannot be changed (Nuryakin & Maryati, 2022). Selain itu, Batik Tulis industry prefers to innovate in the form of processes and technology to increase productivity and production efficiency. However, in the modern batik industry, product innovation still exists in processed products and printed batik motifs. However, the competitive industry means that product innovation in the batik industry is not the primary weapon because there are many cheaper imitation batik products.

The indicators used to measure adaptive capability have been proven to improve product innovation capability. The first indicator is that the workers in our firm can find alternative ways of doing their work, which means that workers with alternative abilities in dealing with problems can influence product innovation capability. The second indicator is that our firm can develop flexible processes to respond rapidly to changes and opportunities detected in our markets. This means that companies that can respond to opportunities and changes in the market quickly will be better able to create product innovation capability. Moreover, the third indicator is our firm's ability to change strategy rapidly according to our business priorities. SMEs that can change business strategies based on priority scales will significantly influence product innovation capability.

The results of this study have succeeded in providing managerial implications for Batik Tulis SMEs, which must be able to create innovations in their products, such as design innovations, quality innovations, packaging innovations, and other marketing innovations. Product innovation is important in marketing because it creates opportunities for companies to develop and expand their product portfolio (Falahat et al., 2020). However, the risks and challenges faced by batik SMEs are not manageable. Business actors with product innovation capabilities can develop and modify the products offered to meet market needs (Falahat et al., 2020). Of course, this can be done when the company can quickly respond to changes that occur with adaptive capability. However, the results of this research prove that adaptive capability cannot influence batik SMEs to increase their product innovation capabilities.

The relationship between adaptive capability and Marketing Performance. Testing the third hypothesis (H3) is to determine the relationship and influence between adaptive capability and product innovation capability. The research results show that adaptive capability has proven positive and significant on marketing performance at batik

SMEs in Barlingascakeb. The results of this research align with previous research conducted by (Algarni et al., 2022), which stated that marketing performance must align with the company's adaptive behaviour. The findings of this study reveal that SMEs facing increasingly tight business competition must be equipped with adaptive capabilities so that the products they offer can be sold to consumers. Apart from that, SMEs must also adapt to changes in the environment, culture and technology. This way, business growth and profits can be maintained to increase marketing performance.

Marketing performance plays an important role in the existence of the batik SME business; not only current marketing performance but also the company must be able to create sustainable marketing performance (Setyaningrum et al., 2023). Each company has differences in its resulting performance, depending on the internal capabilities of the company itself (Joensuu-Salo et al., 2018). This study confirms that the indicators used to measure adaptive capability can influence the marketing performance of Batik Tulis SMEs. Marketing performance is not only a financial measure; non-financial aspects such as satisfaction, loyalty and brand recommendations to others also play an important role in marketing performance (Elgarhy & Abou-Shouk, 2023).

Adaptive capabilities for companies are used as a signal to increase innovation and performance (Wiwoho et al., 2020). This is seen as the company's ability to resolve its problems immediately. The efforts include the company's quick response to market potential, identification of business opportunities, and practical problem-solving competencies. Batik SMEs must be able to increase their adaptive capabilities because change is dynamic and thus contributes to sustainable performance (Algarni et al., 2022). The research results provide managerial implications in creating Adaptive capabilities such as recognising technical and market opportunities, identifying new customer needs and diversifying in new markets, and assessing and diagnosing competitor products.

The relationship between Isolating Mechanism Product Advantage and Product Innovation Capability. Next, the results of testing the fourth hypothesis (H4), which tested the effect of isolating mechanism product advantage on product innovation capability, were accepted. This means that the better the isolating mechanism for product advantage, the greater the product innovation capability. This research's results align with previous research (Sánchez-Montesinos et al., 2018). The results of this study indicate that to increase product innovation capability, a mechanism is needed to isolate product excellence. This aims to create excellence with competitors who have the potential to replicate or imitate products. Therefore, a mechanism to isolate product excellence will force organisations to innovate products to maintain that excellence. A mechanism to isolate product excellence will be formed and encourage companies to innovate to maintain competitive advantage. The excellence formed to isolate product excellence will continue to encourage and force companies to innovate.

The indicators that measure the isolating mechanism's product advantage are important in increasing product innovation capability. The first indicator is knowledge protection; companies that protect their knowledge will be more substantial in isolating mechanism product advantage, thereby growing product innovation capability. The second indicator is technological capabilities; companies that can operate technology in their business activities will have good capabilities in product innovation. The third indicator is market-based assets, companies that view the market as an asset and will always strive for product innovation. Moreover, the fourth indicator is first-mover

advantage, meaning that companies that make first-mover their competitive advantage will be increasingly able to innovate products.

The results of this study contribute to Batik Tulis SMEs, which are expected to be able to increase the isolating mechanism product advantage to increase product innovation capability. In this way, they will be more competitive than their competitors. With superior product isolating capabilities, they can protect their products from competitors' onslaught of imitation products (Dmitry Sharapov & MacAulay, 2022; Sánchez-Montesinos et al., 2018). Not all companies can increase their ability to isolate their product advantage mechanism. Furthermore, this capability can be improved if companies respond quickly to changes in their business environment. In this way, innovation capabilities will be more optimal (Santos-Vijande et al., 2022).

The Relationship between Isolating Mechanism Product Advantage and Marketing Performance. The fifth hypothesis (H5) tested the effect of isolating mechanism product advantage on marketing performance in batik SMEs in Barlingmascakep with significant results. The results of this research are in line with studies conducted by (Dmitry Sharapov & MacAulay, 2022), the marketing performance of a business can be determined by how product excellence can be isolated with the proper mechanism. This concept became known as a sustainable competitive advantage, namely that the difference in resources and capabilities between a company and its competitors is a source of competitive advantage.

The first indicator is knowledge protection; companies that protect their knowledge can improve their marketing performance. The second indicator is technological capability; companies using technology in their business activities will improve their marketing performance. The third indicator is market-based assets, companies that view the market as an asset that can improve marketing performance. The fourth indicator is first-mover advantage, meaning companies that make the first mover can improve marketing performance.

These results provide managerial implications for Batik Tulis SMEs, which can use unique isolation mechanisms in their products to create a strong positioning in the market. Therefore, isolation mechanisms can be described as strategic capabilities or core competencies fundamental to delivering superior performance and enabling sustainable competitive advantage (Sánchez-Montesinos et al., 2018). This makes the product unique as a result of an isolating mechanism. In addition, building insight from competitive dynamics studies can add insight to knowing competitors' movements. The ability to isolate means companies can focus on four specific isolation mechanisms to turn off knowledge: patents, confidentiality, lead time, and complementary assets (Dmitry Sharapov & MacAulay, 2022).

Batik Tulis has a unique value, and it is not easy to make the same product because it is made by hand. This uniqueness naturally creates advantages for Batik Tulis. However, to compete with printed Batik and other competing products, batik SMEs must increase product superiority through isolating mechanisms because isolating products can create competitive advantages (Wongsansukcharoen & Thaweepaiboonwong, 2023). Thus, Batik Tulis SMEs can protect imitation from competitors to increase marketing performance (Sánchez-Montesinos et al., 2018; Chatterjee et al., 2024).

The relationship between Product Innovation Capability and Marketing Performance. Finally, the sixth hypothesis (H6) was studied to test the influence of product innovation capability on marketing performance, and the results were declared

acceptable. This means that the higher the company's ability to innovate its products, the more it will be able to improve its marketing performance. The results of this research are in line with previous research by (Harianto et al., 2019; Harjadi et al., 2020); (Nuryakin & Maryati, 2022), which states that product innovation will influence company performance as measured through sales volume, profit level, market share and return on investment.

This research found that the innovative capabilities of Batik Tulis SMEs can be demonstrated through design, appropriate technology, packaging, and so on. Thus, batik SME business players must be able to innovate, especially product innovation, to improve their marketing performance. Moreover, product innovation capability plays a vital role in the marketing performance of Batik Tulis SMEs. This proves that the company's ability to carry out product innovation can increase its business growth (Aksoy, 2017; Salah & Ayyash, 2024).

The indicators that measure product innovation capability are important in improving SME Batik Tulis's marketing performance. The first indicator is a culture of innovation, meaning that companies with a culture of innovation will improve their marketing performance. The second indicator is product innovation; companies that innovate products have an impact on improving their marketing performance. Moreover the third indicator is technical innovation. Innovation efforts that are carried out technically can also improve marketing performance.

The company's innovation capability is important in being used as a tool to achieve success (Somwethee et al., 2023). Thus, these results provide managerial implications for SMEs that need innovation capabilities like this to create their competitive advantage in the market. The innovation capabilities that Batik Tulis can demonstrate include product development and creation, service innovation, and other innovation capabilities. Furthermore, this innovation capability can give companies a dynamic competitive advantage because it is considered an optimal strategy to achieve competitive advantage and overcome major competitors (Fatonah & Haryanto, 2022).

CONCLUSION

This research reveals that adaptive capability, isolating mechanism product advantage, and product innovation capability are important antecedents in improving SME marketing performance. Even though the company can innovate products, adaptive capability does not influence this. Companies do not always have to adapt adaptively to change by carrying out product innovation. Adaptive behaviour could involve other methods or strategies for innovation, such as promotion, distribution, or price. Furthermore, adaptive capability in batik SMEs plays a vital role in facing business competition. With the ability to adapt to changes in the business environment, it is hoped that companies will have a competitive advantage and a mechanism to isolate their superior products.

This research can provide a practical contribution to batik SMEs in Barlingmascakeb in maintaining and improving their marketing performance, which can be done in several ways. First, business owners must be adaptive to protect their products' superiority from competitors by isolating their superior products so that competitors do not imitate them. Second, the ability to adapt to all changes in the business environment. Third, the ability to isolate the advantages of their products to improve product innovation capabilities and marketing performance. Fourth, product innovation capabilities such as design, packaging, and creating new products to improve their marketing performance.

However, this research has several limitations. Firstly, the marketing performance measured in this research is based on a resource-based view. Future research can dig deeper into consumer behaviour towards purchasing Batik Tulis. Second, the scope of the research was in Barlingmascakep, which was felt to be too small, so future research could be carried out in Central Java or other more expansive areas. Third, there is one variable used whose hypothesis is rejected, so future research can test again on the same object or a different object with characteristics that match the variable.

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ACKNOWLEDGEMENTS

The Authors thank Yayasan Pendidikan Putra Bangsa and Universitas Putra Bangsa Research Center for funding and conducting this research. We thank the editor and reviewers for their supportive comments and suggestions.