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The role of service innovation and competitive advantage ad mediators of product innovation on marketing performance: Evidence from the SME manufacturing firms in Indonesia

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A B S T R A C T

This paper aims to explore the role of service innovation and competitive advantage as a mediator of product innovation on marketing performance of small and medium enterprises (SMEs) manufacturing firms in Indonesia. The sample size used in the research was 180 SMEs and the sampling technique is area (cluster) sampling. Furthermore, the sample criteria or respondents, whose researchers' recommendations for filling in the research instrument are managers and can represent company owners. Findings provide empirical evidence that service innovation on marketing performance; competitive advantage on marketing performance; product innovation on service innovation; and product innovation on competitive advantage have positive and significant effects, except the influence of competitive advantage on marketing performance which was not significant.

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1. Introduction

As an impact of globalization, business organizations have made efforts to determine strategies that will contribute to sustainable competitive advantage. Therefore, this strategy will require each company to continuously innovate and at the same time differentiate its products or services (Kankam-Kwarteng et al., 2022). The importance of sustainable innovation requires a well-planned management system, thereby enabling companies to excel in the creation of technology-based knowledge, market & marketing and administrative aspects (Fernando et al., 2019). While the facts of business climate in 2020 is predicted to remain unstable, which among others is since July 2019, the economic slowdown was quite drastic, declining from conditions in January to July 2019 which were quite improved. Therefore, the Ministry of Cooperatives and SMEs targets as many as 6% of SMEs in Indonesia to move up from SMEs to large businesses. Minister of Cooperatives and SMEs, Teten Masduki (2020), said, currently the number of small businesses is 700,000 units business. Means that 6% of that number as many as 42,000 units business have to go up in class. The size of the grade, said Teten, is that the business scale is large, the business capital is large, and the raw materials are not imported, and the products are exported. Next year the number of entrepreneurs in Indonesia is above 2%. At present the number of Indonesian entrepreneurs is still below 2%. "We are inferior to neighboring countries such as Malaysia, Singapore, Thailand which are already far above 20%," he said. Regarding micro businesses, Teten believes this sector is able to develop because microbusiness is the foundation of the national economy. Companies try to provide a service that is preferable, but many businesses fail systematically to innovate their services (YuSheng & Ibrahim,2019). Su (2023), there are three categories, including: product, process, and organizational innovation, which are integrated in organizing as better company assets. According to Hanelt et al., 2021; Le & Ikram, 2022; Christa & Kristinae, 2021; and Hameed et al., 2021), based on research findings, where there is a correlation between

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innovative practices and company performance (Hanelt et al., 2021; Le & Ikram, 2022; Christa & Kristinae, 2021; Hameed et al., 2021). Chindasombatcharoen et al. (2022), use instrumental variables to control the endogenous relationship between innovation and company performance. According to Marion and Fixson (2021), companies that participate in research tend to develop innovative new products. Meanwhile, purchasing decisions are based on the consumer's desire to buy the product, because the product is a product that has been innovated, so it becomes a new product (Christa & Kristinae, 2021). Meanwhile, the follow-up to the next stage means that companies can now carry out service innovation, which is all about making improvements to products and services in line with the demands of changing times (Kanwal & Yousaf, 2019). Therefore, there must be follow-up to the next stage where the company must be able to carry out service innovation, why is that ? Because it is a stage of improvement in products and services according to consumer needs from time to time. The aim of this research is to contribute to increasing literature related to conceptual models of service innovation and its impacts on consumers' marketing performance: Support on product innovation and competitive advantage at SMEs Manufacturing in Indonesia (Ibrahim & Yusheng, 2020). Failure to achieve performance service innovation of (Carlborg et al., 2014), it might be possible, because the company did not take a formal approach, to improve service innovation (Storey et al., 2016). Empirical studies show that some companies use a formal approach to service innovation (Yusheng & Ibrahim, 2019). Service innovation includes the introduction of new production processes, products and services and is based on new technology (Skålén et al., 2015). Several service innovations exist in the business environment (Randhawa & Scerri, 2015) among them are completely new, including: services, production processes, market, and marketing aspects. Innovation is the secret for companies in creating competitive advantages for companies, so producing innovation becomes an important thing (Vijaya et al. 2021). This aspect of business is one of the biggest reasons and apart from brand loyalty as an alternative, why customers prefer to choose only one product rather than other products (Tresna & Rahardja, 2019; Dahana et al., 2021). Ismanu,et al. (2021), one of the efforts of SMEs must carry out product innovation as an effort to enter new markets using existing resources (Omar & Morales, 2021). Therefore, innovation strategies can be implemented for all companies so that they will have a competitive advantage. According to (Marion & Fixson, 2021; Atalay et al., 2013), product innovation is an introduction and development of different new products and complements the lack of previous products and prioritizes product quality. Furthermore, the importance of innovation excellence will affect companies (Liu & Atuahene-Gima, 2018). According to Harjadi et al. (2020), product innovation has a positive effect on company performance (Zaefarian et al., 2017; Lee et al., 2019). The results of previous researchers (Rajapathirana & Hui 2018; Tuan et al. 2016) have found a very strong relationship between innovation and company performance. Thus, the need for product innovation will improve company performance (Frank, 2019; Ogbeibu, 2020; Han & Zhang, 2021). This is done because they want to provide unique products and services (Haus-Reve, 2019; Lim, 2020). If the company organization does not innovate, poor performance and even failure will occur (Snihur & Wiklund, 2019). Marketing performance is a term that refers to the method in which advertisers pay certain companies or platforms to run marketing campaigns. Companies that are paid are required to provide positive results or performance, such as many clicks or customer conversion rates. Marketing performance is an attempt by the company to find out the needs, meet the expectations and style of (Bhegawati, & Yuliastuti, 2019; Rodriguez & Morant, 2016).

2. Literature Review

2.1 Marketing Performance (MP)

The definition of marketing performance (MP), measuring a business process to achieve the objective of marketing (Taouab & Issor, 2019). Marketing performance (MP) is used to measure the achievements obtained from the whole process of marketing activities in business organizations (Sugiyanti & Ardyan (2017). According to Sarwoko and Nurfarida (2021), marketing performance (MP), its includes the level of market share, the growth rate of profit before tax, sales growth and such as growth rate, ROI, ROA, and business positioning, sales, market share, and present marketing activity evaluation (Suwandana,2023).The importance of complimenting marketing performance (MP) assessment to marketing activities in companies is growing (Tomczyk et al., 2016; Salim et al., 2020). Then, recognition of the marketing performance (MP) is the ability of the company to offer a satisfied product, reasonable prices, and market share to suit their customer's needs. (Leonidou et al., 2013; Duwalang & Santika, 2020). The marketing performance of SMEs is greatly influenced by the level of innovation in the company (Wiwoho et al., 2020), while the product innovation aspect will influence marketing performance (Meutia, 2015; Respatiningsih,2021; Jamaludina, 2021).

2.2 Service Innovation (SI)

The definition of service innovation (SI), as to what extent SMEs can achieve a performance on service innovation (SI), by Storey et al. (2016). Performance of service innovation (SI) is a determining factor for service success on services (Ta & Yang, 2018) and recently it tends to increase (Storey et al., 2016; Islama et al., 2022). Basically, service innovation is not something new, there is also consideration to include after-sales service, delivery systems and related relationships between sellers and buyers. YuSheng and Ibrahim (2019) describe service innovation (SI) as novelty in service concepts consisting of processes, knowledge of customers, experience, technological innovation, business innovation models, good employee competence and management, besides that marketing systems to create. According to Ta and Yang (2018), there is another opinion of innovative services (SI) of the literature consists of three main theoretical approaches: (1) technology, related to

the existence of service innovation (SI) which constitutes the service industry; (2) service aspects with the aim of distinguishing innovation in services, (3) an integrative approach - based on the similarity between products and services, which includes aspects that are easily understood (intangible, non-technology or and technology).

2.3 Production Innovation (PI)

According to (Christa & Kristinae, 2021; Harjadi et al., 2020; Adnania et al., 2023), innovation is one aspect related to empowering resources in business, to produce new products. Businesses need capabilities that can empower all resources to increase market share so that it will have an impact on business performance, thus also directly affecting increasing competitive advantage, business resources, assets, and business performance (Angkanurakbun, 2016). Product innovation can also be a change both overall and a small part of product accessories by prioritizing uniqueness (Liao et al., 2017, 2018; Racela, 2014). Na and Kang (2019) argued whether the results of product innovation could provide significant benefits for the organization, such as increasing market share, brand image, customer satisfaction and customer loyalty. Product innovation is to describe a product that has novelty in terms of characteristics, including the development of technical specifications, components, raw materials, and other auxiliary materials (Hameed et al., 2021). According to Ramadani et al. (2019), innovation is related with strategy and resources, while Janssen et al. (2015) and Duwalang and Santika (2020) believe innovation is novelty and newness.

2.4 Competitive Advantage (CA)

A competitive advantage is a benefit that exists when a company has and produces a product or service that is seen by its target market as better than its closest competitors (Bintara et al., 2023). These factors are believed to be greatly beneficial for consumers (Tewua et al., 2023; Vijaya et al. 2021; Normala et al., 2023). Competitiveness can be implemented for several activities in a company, such as design, production, marketing, delivery, and product innovation (Hendrayanti & Nurauliya, 2021). Nuryakin (2018) and Aziz et al. (2022) stated that the company's core competencies can create competitive advantage (CA), while it is very important for companies with the right approach and criteria to achieve CA. Competitive advantage not only requires added value, but also the benefits and existence of information technology that can provide convenience quickly to customers (Nuryakin, 2018). Business performance results will provide a competitive advantage in business (Tresna & Rahardja, 2019). The concept of competitive advantage refers to the achievement of superior performance using resources and organizational competence (Fatikha et al., 2021). According to Dwyer et al. (2014), companies must continue to create value that competitors cannot imitate by continuing to secure irreplaceable assets. Competitive advantage basically shows the strength that an organization has in facing competitors.

2.5 Hypothesis

2.5.1 Service Innovation (SI) and Marketing Performance (MP)

Service innovation (SI) is service renewal or significant improvement to the service concept that is practically applied (Daud, 2016; Bilgin & Adiguzel, 2021; Ibrahim & Yusheng, 2020). Service Innovation is all about making improvements to products and services in line with the demands of changing times (Kanwal & Yousaf, 2019), while according to Kankam-Kwarteng et al. (2018) and Carlborg et al. (2014), there is a correlation between market orientation on marketing performance (MP) and service innovation as mediation. The research findings show that service innovation (SI) has a significant effect on marketing performance (MP). This finding is reinforced by Mahmoud et al. (2018), Formisano et al. (2019) and Obeidat (2016) which states that service innovation (SI) contributes significantly to marketing performance (MP), therefore we propose the following hypothesis.

H$_1$: *SI has a positive effect on MP.*

2.5.2 Product Innovation (PI) and Marketing Performance (MP)

Product innovation is a way to create new products to meet consumer needs and desires and it enables buyers to purchase products as expected. However, product innovation is not always related to the product (Bustinza et al., 2019). Sustainable innovation is a business that consistently provides the best quality products to customers (Christa & Kristinae,2021). According to Tavassoli (2018), product innovation (PI) has a positive and significant effect on marketing performance. One strategy that must be carried out is to know whether the company needs to be in an internal comfort zone, so it must be more creative in designing existing products and turning them into new products. Xie et al. (2019), Qiu et al. (2020) and Falahat et al. (2020) show that product innovation (PI) has a positive influence on marketing performance (MP). Creating a new product or innovating an existing product is a way companies continue to exist and survive in a rapidly growing market (Kafetzopoulos et al. 2020; Tung, 2012). According to Suliyanto and Rahab (2012), there are findings that innovation has a positive effect on business performance at the SMEs sector in Banyumas Regency. According to Killa (2014), product innovation (PI) has a positive and significant effect on marketing performance (MP). Therefore, the second hypothesis is developed:

H$_2$: *PI has a positive effect on MP.*

2.5.3 Competitive Advantage (CA) and Marketing Performance (MP)

Competitive advantage is a corporate strategy for collaborators on the market, it has an influence on marketing performance (MP) and is expressed positively and significantly in yellow rice businesses in Manado (Gimenez et al., 2019). According to Distanon and Khongmali (2020), the existence of evidence of competitive advantage effect on marketing performance (MP) expressed positively and significantly among SMEs in South Kalimantan Province and SMEs in Purwokerto (Liao & Cheng (2014). The same thing was found by Ferreira et al. (2020), who stated that competitive advantage has a positive relationship with marketing performance (MP). According to Zaini et al. (2014), competitive advantage (CA) has a positive and significant effect on marketing performance (MP) in clothing retail stores in the city of Denpasar. Competitive advantage influences the success of new products positively and significantly, including increasing organizational profits and increasing the number of sales (Ekawati et al., 2017). Therefore, the third hypothesis is developed as follows:

H$_3$: *CA has a positive effect on MP*.

2.5.4 Product innovation (PI) and Service innovation (SI)

Product innovation (PI) is innovation that is used in all potential company operations to create the ideas and imagination of the person in the end to the customer (Tavassoli, 2018). Product innovation (PI) in this study was measured (e.g., changes in design, technical innovation, and product development). Product innovation (PI) is an activity of creating new products or improving the quality of existing products (Jajja et al., 2017). Wang et al. (2021) in their research found that product innovation can increase customer satisfaction, it means consumers feel satisfied because of a service that is more innovative. Product innovation (PI) is an important strategy for the owners of the wooden handicraft industry in Tanggung Village so that the products produced are no less competitive with more innovative competing products (Dhameria et al., 2021). The same statement from the two researchers regarding “more innovative” which means that something is better given to consumers is service innovation (SI) (Sukarmen et al., 2013; Mustika et al., 2018). The research results found that product innovation (PI) has a positive and significant effect on service quality on customer loyalty (Wang et al., 2021). Therefore, the fourth hypothesis is developed:

H$_4$: *PI has a positive effect on SI.*

2.5.5 Product innovation (PI) and Competitive Advantage (CA)

Innovation is the main source of competitive advantage (CA) in the era of economic education, because through differentiation it is possible for companies to maintain their superiority. To achieve competitive advantage (CA), innovation must always focus on creating something new towards competitive advantage. Empirical data can be used as evidence that product innovation (PI) has a positive influence on competitive advantage (Mursid et al., 2019). Meanwhile, Kuncoro and Suriani (2018) found that product innovation (PI) partially had a positive and significant influence on competitive advantage. Then, sustainable innovation for a company is an important thing that must be accomplished and ultimately leads to the creation of competitive advantage. Empirical data is used as a basis by Mursid et al. (2019) to prove that product innovation (PI) has a positive effect on competitive advantage. Kuncoro and Suriani (2018) state that product innovation (PI), partially has a positive and significant influence on competitive advantage. Hendrayanti and Nurauliy (2021) found that innovation has a positive and significant effect on competitive advantage. In several studies, it is mentioned that innovation will impact a company's competitive advantage. Companies that innovate regularly will be able to increase their competitive advantage with competitors (Setyawati, 2014). Muafi and Roostika (2014) believe that the ability to create product innovation (PI) is a very important and strategic competitive resource in building competitive advantage (CA). Then, there is a positive and significant effect of product innovation (PI) on competitive advantage CA. Therefore, the fifth hypothesis is developed:

H$_5$: *PI has a positive effect on CA*.

Based on the hypotheses (H1 to H5), another aim of this research is developed of variables as a mediator:

H$_6$: *The role of SI as a mediator that affects PI on MP.*
H$_7$: *The role of CA as a mediator that affects PI on MP.*

3. Research Method

3.1 Validity and reliability test of Instrument

Validity is a measure that determines the validity of an instrument and it’s a valid instrument has high validity (Heale & Twycross, 2015). An instrument is declared valid if it can measure what is desired. If the measurement scale is not valid

then it is not useful for researchers, because it does not measure what should be measured (Heale & Twycross (2015). According to Almanasreh and Chen (2019), reliability is a test used to measure indicator variables in the questionnaire. An instrument is declared reliable if each person's response to a given statement is always consistent from time to time. A variable is said to be stable if it has a Cronbach alpha value > 0.6 and besides that it also meets the criteria for a Cronbach alpha value greater than the Cronbach alpha item if deleted.

3.2 Sample

The sample is part of the population studied in a study and the results will reflect the original population, but not the population itself (Hair et al., 2017). The sample is performed because researchers have limitations in this research in terms of time, energy, funding, and the sample must be a truly representative sample. The number of samples used in this research was 180 respondents taken from small and medium enterprises (UKM) in Indonesia, and the sampling technique is using area (cluster) sampling. All the companies are located in Indonesia which consists of three provinces located in West Java, Central Java and East Java. Furthermore, the sample criteria or respondents, whose researchers' recommendations for filling in the research instrument are managers and can represent company owners. Table 1 shows the profile of the respondents.

Table 1
Profile of Respondent

Specification	Type	Percentage
	Male	73.33 %
Gender	Female	26.67 %
	25 to 30 years	49 %
Age	31 to 36 years	31 %
	37 to 42 years	20 %
	Senior High school	25 %
Education	Associate degree	43 %
	Bachelor's degree	32 %
	5 to 10 years	13 %
Length Business	11 to 16 years	50 %
	> 16 years	37 %
	Convection	62.78 %
Business type	Fashion	37.22 %

The results of the profile description of the sample in this year were mostly male, 121 people (73.33 %) and people aged between 37 to 42 years (20%). There were 43 % diploma graduates and strata 1 graduates (32 %). The research sample is SMEs, the majority of which are engaged in the convection industry sector, totaling 113 people (67.78 %) and who have been in this business for at most a period of 11 to 16 years, 90 people (50 %).

4. Results and Discussion

4.1 Evaluation of the outer model.

Evaluation of the outer model is carried out to assess the validity or reliability of the model. The outer model with reflective indicators is evaluated through convergent and discriminant validity of the indicators forming the latent construct and composite reliability as well as Cronbach alpha for the indicator block. Below is the estimation of the result of the partial least squares model algorithm shown in Fig. 1:

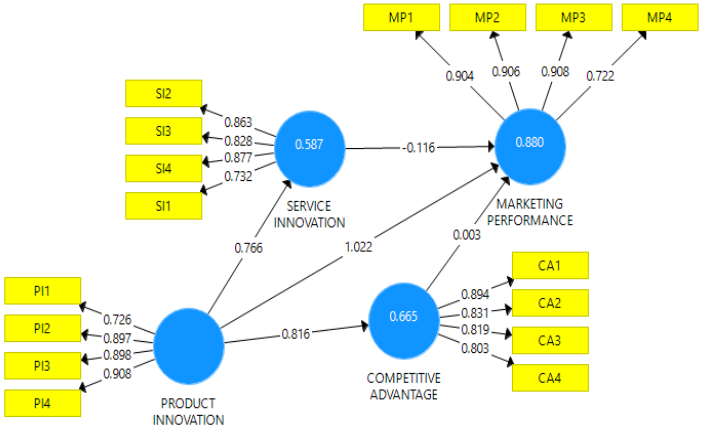

Fig. 1. Outer Model.

4.1.1. Convergent Validity

Convergent Validity relates to the principle that the measures (manifest variables) of a construct should be highly correlated. The convergent validity test can be seen from the loading factor value for each construct indicator. Then, convergent validity test in PLS with reflective indicators is assessed based on factor loading and if the factor loading is > 0.50 it is considered practically significant (Ali et al., 2018; Rasoolimanesh & Ali, 2018). Table 2 shows the results.

Table 2
Value of Outer Loadings

	Competitive	Marketing Performance	Product Innovation	Service Innovation	Average Variance Extracted
CA1	0.894				0.701
CA2	0.831				
CA3	0.819				
CA4	0.803				
MP1		0.904			0.746
MP2		0.906			
MP3		0.908			
MP4		0.722			
PI1			0.726		0.740
PI2			0.897		
PI3			0.898		
PI4			0.908		
SI1				0.863	0.784
SI2				0.828	
SI3				0.877	
SI4				0.732	

Based on Table 2, The rule of Thumb used is that the loading factor for confirmatory research must be > 0.70, then it is declared valid. Rule of Thumb, namely the loading factor value for exploratory research between 0.60 – 0.70 can be declared valid.

4.1.2 Discriminant Validity

Discriminant validity is a test that can be used to measure the differences between two variables that are conceptually similar. Discriminant validity is achieved when there is a low correlation of two variables that should not be related to each other constructs in the model (Hair et al. 2017). The following results:

Table 3
Value of Cross Loading

	Competitive Advantage	Marketing Performance	Product Innovation	Service Innovation
CA1	**0.894**	0.610	0.687	0.726
CA2	**0.831**	0.456	0.674	0.732
CA3	**0.819**	0.471	0.498	0.532
CA4	**0.803**	0.828	0.875	0.591
MP1	0.692	**0.904**	0.874	0.637
MP2	0.682	**0.906**	0.887	0.586
MP3	0.777	**0.908**	0.857	0.647
MP4	0.571	**0.722**	0.556	0.409
PI1	0.580	0.552	**0.726**	0.757
PI2	0.808	0.834	**0.897**	0.634
PI3	0.716	0.887	**0.898**	0.647
PI4	0.690	0.912	**0.908**	0.624
SI1	0.894	0.610	0.687	**0.726**
SI2	0.703	0.655	0.921	**0.750**
SI3	0.601	0.636	0.745	**0.906**
SI4	0.628	0.613	0.774	**0.917**

Based on Table 3, the cross-loading comes from an indicator of the latent variable assigned to the criterion that it must be greater than the loading of all other latent variables. Then, Fornell Larcker, AVE root of latent variable must be greater than squared correlation between the other latent variables.

Table 4
Fornell-Larcker

	Competitive Advantage	Marketing Performance	Product Innovation	Service Innovation
CA	0.837			
MP	0.751	0.864		
PI	0.816	0.935	0.861	
SI	0.739	0.669	0.766	0.827

Based on Table 4, the Fornell-Larcker criterion is interpreted as a measure that compares the square root of the AVE value with the relationship between latent variables. Thus, the square root value of each AVE construct must be greater than the correlation value with other constructs.

4.1.3. Composite Reliability

Composite reliability is an indicator for measuring a construct which can be seen in the latent variable coefficients view. The Rule of Thumb of composite reliability value more > 0.70 in confirmatory research and but, a value of 0.60 – 0.70 is acceptable for exploratory research (Henseler et al., 2015).

Table 5
Composite Reliability and Cronbach Alpha

	Cronbach's Alpha	Composite Reliability
SI	0.864	0.904
MP	0.883	0.921
PI	0.880	0.919
CA	0.844	0.896

Based on Table 5, composite reliability a value must be > 0.70, for theory test and a value > 0.60. Cronbach's alpha a value > 0.70 for theory test and > 0.60 for exploratory research.

4.2. Evaluation of Inner Model

In this review, the description of the hypothesis testing results and the R-squared obtained from the SmartPLS 3.2.9 startup will be provided as shown in Fig. 2:

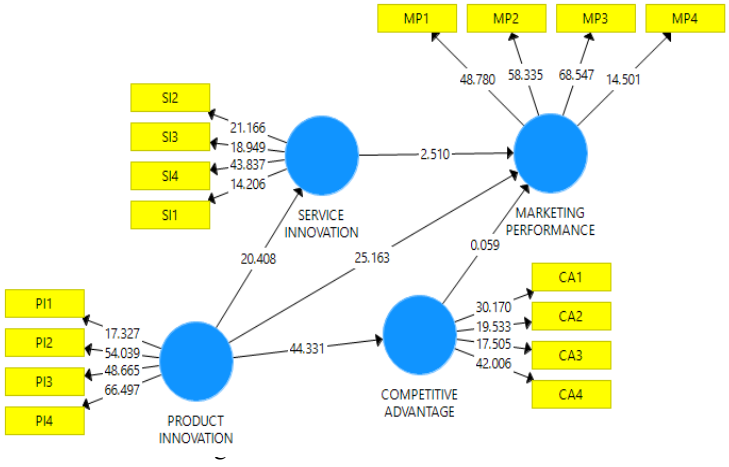

Fig. 2. The results of testing the hypothesis

4.2.1 R-Square

R-Square is a value that shows how much the exogenous variable influences the endogenous dependent variable. R-squared estimation on each path by PLS (Rasoolimanesh & Ali, 2018).

Table 6
Value of R Square

Variables	R Square
SI	0.584
CA	0.663
MP	0.878

According to Table 6, the results of the R Square variable of service innovation amounted to 58.4 %, The R square value for variable of competitive advantage = 66.3%, and marketing performance = 87.8%.

Overall, the structural model explains the diversity of research data as indicated by the value of Q Square through calculations as follows:

$Q^2 = 1 – [(1-R_1^2) \times (1-R_2^2) \times (1-R_3^2)] = 1 – [(1-0.584) \times (1-0.663) \times (1-0.878] = 1 – 0.0846 = 0.9154$ (91,54%).

The Q Square result of 0.9154 means that the conformity between the structural models compiled with the research data used is 91.54%.

4.2.2 Inner Weight

Inner weighting is used to test the formulated research hypothesis. The results of the research hypothesis test have shown the inner weight of the assessment as follows:

Table 7
Inner Weight

	Original Sample (O)	T Statistics (|O/STDEV|)	P Values	Remarks
SI → MP	0.116	2.510	0.012	Positive & significant
PI → MP	0.712	25.163	0,000	Positive & significant
CA → MP	0.053	0.059	0.953	Positive & not significant
PI → SI	0.766	20.408	0.000	Positive & significant
PI → CA	0.816	44.331	0,000	Positive & significant

H1: The relationship between service innovation and marketing performance, with (O) = 0.116; T-Statistics = 2.510; and p - value = 0.012. These results show that there is a positive and significant effect between service innovation and marketing performance because the p value < 0.05 and T-Statistics value >1.96.

H2: The relationship between product innovation and marketing performance, with (O) = 0.712; T-Statistics = 25.163; and p-value = 0.000. These results indicate that there is a positive and significant difference between product innovation and marketing performance because the p value < 0.05.

H3: The relationship between competitive advantage and marketing performance, with (O) = 0.053; T-Statistics = 0.059; and p-value = 0.953. These results show that there is a positive but not significant between competitive advantage and marketing performance < 0.05, since T-Statistics value < 1.96.

H4: The relationship between product innovation and service innovation, with (O)= 0.766; T-Statistics = 20.408; and p-value = 0.000. These results show that there is a positive and significant between product innovation and service innovation since the p value < 0.05.

H5: The relationship between product innovation and competitive advantage with (O) = 0.816; T-Statistics = 44.331; and p-value = 0.000. These results show that there is a positive and significant between product innovation and competitive advantage because < 0.05.

4.2.3 Indirect Effects

For indirect effect results in PLS analysis are presented as follows in the specific results:

Table 7
Indirect Effect

	Original Sample (O)	T Statistics (|O/STDEV|)	P Values	Remarks
PI → CA → MP	0.002	0.059	0.953	positive & not significant
PI → SI →MP	0,288	2.482	0.013	positive & significant

For indirect effect of product innovation on competitive advantage through marketing performance, with (O) = 0.002; T-Statistics = 0.059; and p-value = 0.953. That, there is a positive, but not significant effect between product innovation and marketing performance where competitive advantage as a mediator. Meanwhile, the indirect effect of product innovation on marketing performance through service innovation, with (O) = 0.288; T-Statistics = 2.482; and p-value = 0.013. This shows that there is a positive and significant effect through service innovation.

5. Conclusions and Suggestions

The exploration of this paper answers the research objectives, first, to provide the development of a conceptual model of service innovation and its impact on marketing performance, which is a support for product innovation and competitive advantage. Second, to test the influence of among others: service innovation on marketing performance; competitive

advantage on marketing performance; product innovation towards service innovation; and product innovation on competitive advantage, from the research results it was found that all of them were stated to have a positive and significant influence, except that the influence of competitive advantage on marketing performance was stated to have a positive and not significant influence. Third, testing service innovation as a mediator of the influence of product innovation on marketing performance, the results were found to have a positive and significant effect, while competitive advantage as a mediator of the influence of product innovation on marketing performance, the impact was positive and not significant. Fourth, the aim of this research is to provide empirical evidence that the importance of competitive advantage, product innovation and service innovation in the context of SMEs in Indonesia is to achieve superior marketing performance. Fifth, the results of this research provide a contribution and can be used as a reference in academics and practitioners.

Suggestions for future researchers, based on these findings, it is necessary to conduct research by adding other variables besides those used in this research, including: (1) entrepreneurial orientation; (2) market aspects related to digital marketing; and (3) continuous improvement is the process of making changes without the need for approval and management interference. Please note that temporary employees can do this voluntarily. This idea can be started, for example, by eliminating bad steps or rearranging these steps.

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