

The Development Model of Marketing Adaptation Strategy based on Entrepreneurial Capacity towards Export Performance

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Abstract

The aim of this study is to develop an adaptation model of marketing strategy based on entrepreneurial capacity towards export performance. The amount of respondents is 220 from 282 leaders of traditional herbal medicine industry in Central Java province, Indonesia. This study uses analysis techniques of Structural Equation Model AMOS software. The finding of this study indicates that there is an improvement of Central export performance, the main priority conducted by increasing the exploration of new markets. Therefore, it is necessary to meet the unique needs of consumers, consumer value, explore different market opportunities and anticipate market threats.

Keywords: *entrepreneurial capacity; exploration of new market; development of marketing program; awareness of customer differences; export performance.*

1. Introduction

A fundamental problem in strategy management is how a company's organization can achieve superior performance and maintain competitive advantage (Teece, D.J., Pisano G.). Strategy is the key to success which affects organizational performance (Bokor, 1995) because strategy is an overall plan that explains the competitiveness position of a company (Mintzberg and Quin, 1990).

Thus, organizations must adapt from time to time. Organizations must search and select suitable strategies to achieve success in achieving their goals. Each organization can use and develop their resources and capabilities to achieve excellent position as the differentiation of short periods and the continuous stability of the business in the future. According to Nonaka (2003), Resource-based Outlook (RBV) describes that organizational benefits can be achieved by focusing on the company's resources and capabilities, such as the ability to win the current business competition.

The increase of competition pressure at the national market level encourages business organizations to seek new overseas opportunities. Export is a step towards internationalization. However, export operational activities of small and medium enterprises (SMEs) are considered to be a difficult, complex and dynamic process. In particular, decisions which related with more specific marketing for each country in terms of costs and risks. Mainly centered on the measurement of export performance (A. Al-Aali, 2013). The export-oriented marketing aspect of SMEs is an interesting area of research, due to difficult and complex challenges and decisions, especially with the emergence of international competition. Mersid's study, P (2014) is only focused or limited to the marketing mix with export performance. In the previous research, the marketing strategy adaptation is related to the adaptation of various aspects of the marketing mix such as product, promotional price, and distribution (Szymanski, Bharawaj and Varadajan, 2008). The industry strategy preparation on SMEs is generally base on internal and

external analysis. The aspects of owner entrepreneurial capacity is rarely mentioned. SMEs came from a hereditary heritage, it does not mean that the owner's generations always have entrepreneurial capacity. Therefore, it is necessary to adapt the marketing strategy, which reflects the ability of SMEs to calculate the assumptions of environmental change and adjust the strategy for new conditions (Sumittra, J, 2011). For example, adjusting low cost or differentiation strategy, making new strategy, and using several concurrent strategies. To take the advantage of new market opportunities, organizations required entrepreneurial capacity which includes innovation, risk-taking and proactive (Saowaluk, 2009).

2. Literature Review

2.1. Entrepreneurial Capacity

Rapid environmental change requires organizations to adapt from time to time. Organizations must undertake suitable marketing strategies to generate success and survive to achieve organizational goals. The Hult's (2002) study shows that entrepreneurial capacity is capable to achieve competitive advantage, have sustainable benefits and maintain new creativity and sustainable innovation.

Entrepreneurial capacity shows the level of enterprise to improve competence continuously by integrating resources and capabilities. The three dimensions of entrepreneurial capacity include innovation, risk-taking, and proactivity (Covin and Slevin, 1989). The concept of entrepreneurial capacity in this study was adopted from the entrepreneurial orientation. Therefore, the entrepreneurial capacity includes three dimensions, namely: 1). Innovation by maintaining new ideas. Innovation refers to the company's ability to produce new products to match existing ones to meet current or future market needs. Innovation in entrepreneurial capacity is an important capability that helps in building a competitive advantage for the company. 2). Risk taker (willingness to take risks). Entrepreneurial capacity through risk-

taking is more likely to accomplish strategic action. 3). Proactive. Entrepreneurial capacity's aim is to show the level of the organization to continue its competence to meet the new integration of resources and capabilities.

New entrepreneurs and products coming into the business environment expose customers to the new brands. It can be conducted by a strategy of changing preferences and behaviors. Therefore, proactive behavior and dare to take competitive risks add the competitive advantage of SMEs which is needed to achieve and sustain organizational performance (Ingrid, L. and Kenneth, M.K., 2014). Proactive is a strategy to capture opportunities among competitors. Nonetheless, to be the first in the market related to proactive behavior requires the ability to take risks. In the open market economy context, rivals move freely and quickly to seize the same opportunities. Therefore, innovation is important to maintain the competitive advantage that has been developed. On the other hand, reality shows that organizational performance depends on how the company is able to manage the speed and diversity of external pressures that arise at any time. Entrepreneurial capacity can be a shield against the uncertainty and volatility created by the macro environment. The consequence is companies are obsessed with the idea of being highly innovative, which is showing a greater tendency to take risks, competitiveness, and autonomy (Reaz, U., Tarun Kanti, B. and Yousuf S, 2015). Thus, the business enterprise has the entrepreneurial capacity to manage better environment and bring the entrepreneur to do the better than the others. Some studies can be concluded that entrepreneurial capacity allows small companies or new businesses to perform better than competitors and improve company performance. Hughes and Morgan (2007) find that only pro-activeness and innovation have a positive effect on organizational performance.

2.2. Marketing Adaptation Strategy

Adaptation strategy reflects a company's ability to calculate the assumptions of environmental change and adjust strategy for new conditions. For example, to adjust low cost or differentiation strategy, to accept new strategies, and to use multiple strategies (Phattarawan, 2010). Previous research has found that adaptability, related to firms, can changes their strategic plans as opportunity and threats emerge, becoming positively related to the entrepreneurial capacity of an enterprise (Covin, 1989). The company's ability to generate or position itself in the marketplace is the core of strategy development. Globalization and rapid change have made marketing increasingly important for competitive advantage strategies (Albaum and Tse, 2001). Therefore, organizations must adapt and respond to change by developing or creating new ideas into the marketplace in order to seek new opportunities and achieve success. Marketing strategy adaptation refers to company's ability to analyze the situation and determine direction to adapt or adjust marketing activities that match customer needs and market demand (Sumittra, J, Mahasarakham, 2011). Further, it explains that adaptation dimension of marketing strategy includes: 1) *Exploration of new market*, the company is expected to meet the unique needs of different markets or to match market opportunities; 2) *Development of marketing program*, the extent of a company can diversify its marketing development and expand marketing programs to accommodate differences in the environment and consumer behavior. 3) *Awareness of customer differences*, related to the awareness ability of customer differences about the needs and expectations for creation in terms of product features and benefits. These differences depend on demographics, psychographic characteristics, or behavior.

In the previous research, the marketing strategy adaptation is related to the adaptation of various aspects of marketing mix such as product, promotional price, and distribution (Szymanski, Bharawaj and Varadajan, 2008). The adaptation of SME marketing generally based on internal and external analysis with

limited dimension. The aspect of the entrepreneurial capacity of the owner is rarely mentioned. Although SMEs came from hereditary heritage, it doesn't means that owner's generation has entrepreneurial capacity. While Saowaluk Jitnom, Mahasarakham (2009) state that organizations with entrepreneurial capacity have the competency to face and exploit new market opportunities and production

H1abc: The higher entrepreneurial capacity (innovative, proactive, risk-taking), the exploration of new markets is increasingly widespread.

The marketing program development is related with the extent of the companies can diversify marketing development and expand marketing programs to accommodate differences in environmental strength, consumer behavior, usage patterns and competitive situations (Leonidou et al., 2002). While Lages and Abrantes (2008) explain that marketing program is related to the adaptation of various aspects of marketing mix such as product, promotion, price and distribution. A marketing program is not a method to increase sales, but create a customer or set the stage for making sales. Business can achieve greater efficiency (increase profit margins) in current operations when business share customers, facilities and marketing programs with other business unit. Company with marketing adaptation strategy shows a higher marketing orientation than firm with lower adaptation strategy. Consequently, the mission of a marketing program is to build an environment where it can contributes to customer success. Successful marketing programs can evaluate some aspects such as creating new business, keeping the company in the minds of customers, and making companies sustainable in the market and effectively customer-oriented and customer retention.

The dimension of proactive entrepreneurial capacity is the behavior of seeking future opportunities, with the introduction of new products or services and act to anticipate the demand in the future (Lumpkin et al, 2009). Further, the company's proactive response to overcome unattended market opportunities. This approach is needed to overcome the unarticulated needs of customers and to gain competitive advantage. Proactive behavior which beneficial to SMEs in developing countries is characterized by emerging and relevant new opportunities in entrepreneurial strategy.

In the dimensions of risk taker, the literature distinguishes between risk and uncertainty. Businessman is more likely to operate in riskier environments than in uncertain environments. In the situations when employee dare to take risks are calculated, the consequence is gather relevant information which makes it possible to make decisions. Resources are being invested in a dynamic and competitive environment where changing factors involve risks. Risk taking as tendency to take bold action, such as exploration into the market, is using resources for business with uncertain outcomes. (Ingrid, L.R & Kenneth Bengesi, M.K, 2014). And the dimension of innovation is an openness to new ideas as corporate culture aspects. Innovativeness reflects the company's ability to engage in new ideas and creative processes that can lead to new products, markets, or technological processes (Rauch et al., 2009).

The previous research has found that planning adaptation related to firms can change strategic plans as emerging opportunities and threats, the antecedent is the entrepreneurial orientation (Covin and Slevin, 2008). Entrepreneurial capacity through innovation, risk-taking, and proactive tend to complete strategic action, through developed programs (Saowaluk Jitno, 2009). Therefore the proposed hypothesis is:

H2abc: The higher the entrepreneurial capacity (innovative, proactive, risk-taking), the development of marketing programs is increasingly widespread

Awareness of customer differences refers to the awareness ability of customer differences toward the needs and expectations for creation in terms of product features and benefits.

These differences depend on demographic, psychographic, or behavioral characteristics. Richard, T. (2010). shows that success in the customer requires a deep understanding of customer needs, expectations, and preferences. The study result shows that different versions of the product or service can be evaluated differently based on the value assigned to different customer segments (Varian, 1998). In addition, companies that have successfully changed their product offerings to accommodate customer differences are identified to have a good opportunity to increase customer benefits (Phattarawan, T 2010). Therefore companies who seek information from customers and understand the differences, needs and expectations, can respond to customers correctly with a variety of products that enhance competitive flexibility. Salahuddin Yousuf (2015) shows that entrepreneurial capacity is an activity that involves discovery, evaluation and exploitation of opportunities to introduce new goods and services, ways of organizing, markets, processes, and raw materials through organizing efforts that were not previously available. The consequences are able to recognize the characteristics of consumers (customized). Therefore, the proposed hypothesis is:

H3abc: The higher the entrepreneurial capacity (innovative, proactive, risk-taking), the higher the awareness of customer differences

2.3. Export Performance

The existence of global competition has prompted business organizations to look for strategies that can improve export performance. The development and implementation of effective marketing strategies is essential for companies to pursue global market expansion (A. Al-Aali, 2013). Exports are the main activities in economy, especially in developing country market. Further, superior export performance is a vital importance for managers who think exports as a tool to increase the company's growth, increase production capacity, improve financial performance, strengthen competitiveness, and even guarantee the company's survival in the global market. Export performance plays an important role for companies in spreading business risk in different markets and generating more revenues and funds for reinvestment and further growth. When company gets saturated in the domestic market, the consequence is more relying on foreign markets to increase revenue and sales. Export performance is important to understand the role of marketing ability in the global marketing context. Marketing ability involves an integrative process where company uses tangible and intangible

resources to understand complex consumer-specific needs, achieve product differentiation relative to global competition, and achieve superior brand equity.

Saowaluk Jitnom (2009) explains that the strategy adaptation reflected the company's ability to calculate the assumptions of environmental change and adjust its strategy for new conditions i.e. to adapt the low cost or differentiation strategy, to accept new strategies, or to use multiple strategies together. This strategic adaptive capability is important for corporate survival, the strong cross-functional adaptive capabilities can trigger high performance.

H4abc: The more effective marketing adaptation strategy, the higher export performance

3. Research Method and Measures

The respondents of this study were the leaders of the traditional herbal medicine industry in Central Java Province amounting to 282, but the questionnaires that can be analyzed were 202. The hypothesis is tested using Structural Equation Modeling (SEM) software. Variables and indicators consist of: a) entrepreneurial capacity includes: *innovation* is an ability of company to produce new products which match the existing to meet current or future market needs. The indicator refers to Lumpkin, G.T. and Dess, Gregory (2009) such as speed in product development. *Proactive* is a business competency to meet the new integration of resources and capabilities, with indicators such as long-term orientation. *Dare to Risk* is the willingness of businessmen to take risks, with indicators having a strong tendency for high-risk investments and high courage.

The marketing adaptation variables include: a) *Exploration of new market* is fulfilling the unique needs of different markets or to match market opportunities. With meeting unique needs (Sumittra, J., 2011) as an indicator. b) *Development of marketing program* is the extent of a company can diversify its marketing development in terms of its core and expand marketing programs to accommodate differences in the environment and consumer behavior. With making variety of marketing development as an indicator. c) *Awareness of customer differences* is the ability of customer differences awareness about the needs and expectations for creation in terms of product features and benefits. These differences depend on demographics, psychographic characteristics, or behavior. With meeting customer expectations as an indicator. d) *Export Performance* is a result that has been achieved from what has been done, or the tasks

No	Variable	Indicator	Loading Factor	Reliability
1	Innovative	a) Speed in product development	0.79	0.75
		b) Application of new technology.	0.74	
		c) Market (segment) development	0.85	
2	Proactive	a) Anticipate problems	0.81	0.81
		b) Long-term oriented	0.76	
		c) Selectivity in product launching	0.95	
		d) Systemic and sustainable	0.88	
3	Risk Taking	a) Has a strong tendency for high risk investments	0.82	0.82
		b) High boldness	0.76	
		c) Has an aggressive attitude	0.81	
4	Exploration new market	a) Meet unique needs	0.81	0.71
		b) Meets consumer value	0.74	
		c) Different market opportunities	0.92	
		d) Market threat	0.79	
5	Development of Marketing Program	a) Variations of marketing development	0.85	0.75
		b) Accommodate differences in the environment	0.80	
		c) Accommodate differences in consumer behavior	0.81	
6	Awareness of Customer Difference	a) Has the awareness ability of different needs of customers	0.82	0.73
		b) Meet expectations for the creation of product features	0.81	
		c) Meet customer expectations	0.80	
7	Export performance	a) Contribute to the growth of export sales	0.83	0.71
		b) Has growth	0.80	
		c) Export market share	0.70	
		d) Has export profitability	0.82	

Table 1.
Validity
and Reliability Test

charged by the organization in overseas markets. With indicators is having contributed to the growth of export sales (Carlos M.P. Sousa, 2010). The variables were measured with questionnaire by using likert-scale with answer scale of 1-5. The scale represented the rating from 'strongly disagree' to 'strongly agree'. Table 1 shows the results of validity and reliability test. Table 1 shows a loading factor value above 0.7 (Sekaran, 2003) and a minimum reliability value of 0.6 (Hair et al., 2010). Therefore, it can be concluded that the instrument has the validity and reliability.

4. Result and Discussion

The empirically model test using Structural Equation Modeling. The model indicate Chi- square = 290.235 with probability value of 0.111; GFI=0.843, AGFI=0.805 and TLI=0.982, while value of RMSEA=0.030. The result of the model is fit. Based on statistical analysis, the result indicates conformity with the required standard values. As shown in Figure 2 the Full Analysis Model results.

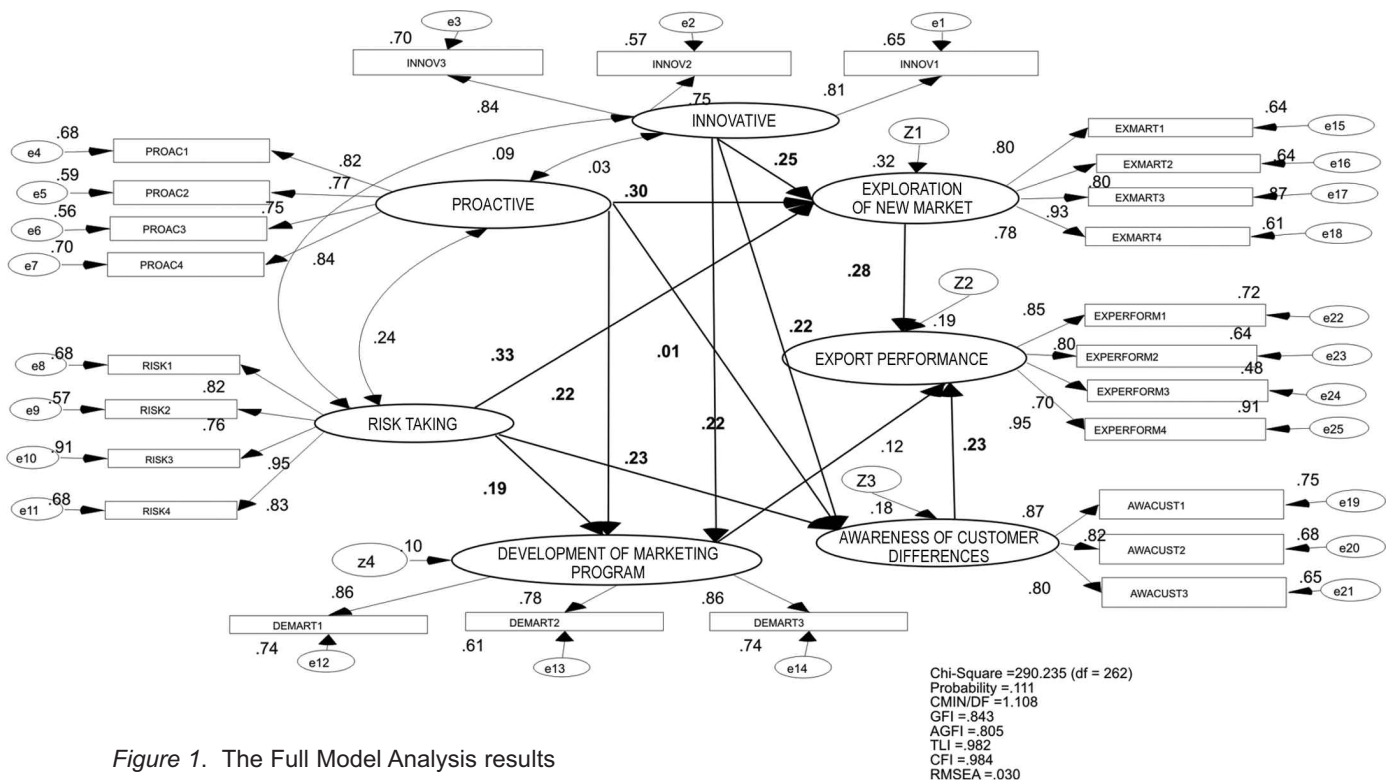


Figure 1. The Full Model Analysis results

Table 2 shows that from 12 (twelve) proposed hypotheses, 10 (ten) are supported by empirical data and 2 (two) are not supported by empirical data. It can be explained as follows:

Exogenous variable	Endogenous variable	Standard Estimate	T-value
Innovative	Exploration of New Market	0.247	2.701**
Proactive	Exploration of New Market	0.300	3.177**
Risk Taking	Exploration of New Market	0.326	3.567**
Innovative	Development of Marketing	0.012	0.113
Proactive	Development of Marketing	0.217	2.075**
Risk Taking	Development of Marketing	0.193	1.985*
Innovative	Awareness of Customer	0.216	2.163**
Proactive	Awareness of Customer	0.300	3.177**
Risk Taking	Awareness of Customer	0.229	2.330**
Exploration of New Market	Export Performance	0.277	2.826**
Development of Marketing	Export Performance	1.116	1.227
Awareness of Customer	Export Performance	0.227	2.309**

p < 0.10; * p < 0.05; ** p < 0.01; *** p < 0.001

Table 2. Inner Path Model Coefficients and their Significance

The Hypothesis 1 abc of entrepreneurial capacity (innovative, proactive, risk-taking) has a significant effect on exploration of new market. It means that the higher the entrepreneurial capacity (innovative, proactive, risk-taking) will increase the exploration of new markets of traditional herbal medicine industry, because entrepreneurial capacity includes innovative which means the ability to produce new products so it can adapt the existing to meet current or future market needs, proactive which means initiate change in various situations, and risk taking which means taking risks that refer to the organization's willingness to

take advantage of business opportunities although it does not know whether these efforts will succeed and does not know the consequences (Ingrid L.R. & Kenneth, Bengesi, M.K., 2014). Consequently the innovative, proactive, and risk-taking aspects (entrepreneurial capacity) can meet the unique needs of different markets or to match market opportunities (Saowaluk J, 2009).

Hypothesis 2bc is supported, the result shows that entrepreneurial capacity (proactive, risk-taking) has an effect on the development of marketing programs. This means an increased proactive and risky attitude will be able to develop marketing programs. It is consistent with the Saowaluk. J, (2009) who explains that entrepreneurial capacity through innovation, risk-taking, and proactive tend to solve strategic actions, through developed marketing programs. While hypothesis 2a, the entrepreneurial capacity dimension i.e. innovation to develop marketing program is not supported by empirical data. The condition is due to the innovations that exist in the traditional herbal medicine industry is not balanced with the dynamics of the development of marketing programs, such as a new technology leap. Hypothesis 3abc, entrepreneurial capacity (innovative, proactive, risk-taking) has a significant effect on awareness of customer differences. It means that entrepreneurial capacity has the ability to identify information from customers and understand differences, needs and expectations, can respond to customers correctly with products that increase competitive flexibility. This condition supports the study of Yousuf, S, (2015) which shows that entrepreneurial capacity is an activity that involves the discovery, evaluation and exploitation of opportunities to introduce new goods and services, ways of organizing, markets, processes, and raw materials through organizing efforts that did not previously exist. The consequences are able to recognize the characteristics of consumers.

Hypothesis 4bc is supported, the export performance variable is significantly affected by the marketing adaptation strategy (exploration of new market, awareness of customer differences). It means that when businessman is saturated in the domestic market, the consequence is more relying on overseas markets to increase revenue and sales. Export performance is important to understand the role of marketing ability in the global marketing context. It supports Saowaluk, J. (2009) who explains that strategic adaptation reflected the company's ability to calculate the assumptions of environmental change. Consequently, strong cross-functional strategic adaptation capability can trigger high performance. However, hypothesis 4a, marketing adaptation variables namely the marketing program development on export performance is not supported by empirical data. This is due to the development of marketing programs in the traditional herbal industry which is not optimal with the acceleration of global market environment changes.

5. Conclusion and Limitation

The main priority of the development model of marketing adaptation strategy based on entrepreneurial capacity towards export performance of traditional herbal medicine industry is conducted by increasing marketing adaptation such as new market exploration dimension, which includes indicators of fulfilling unique requirement, fulfilling customer value, different opportunities market and market threats.

The limitations of this study are apparent in the results of full SEM model testing indicating that the model is in accordance with the data or fit with the data used. However, there are two conformity tests that are accepted marginally namely the Goodness of Fit Index (GFI = 0.843) and Adjusted Goodness of Fit Index (AGFI = 0.805). The calculation with AMOS's software shows that the effect of entrepreneurial capacity (innovation, proactivity and risk-taking) to the awareness of customer differences Squared Multiple Correlations of 18.2%, entrepreneurial capacity (innovation, proactive and risk-taking) to the exploration of new market Squared Multiple Correlations of 32.3%. Then, the entrepreneurial capacity (innovation, proactive and risk-bearing) to the development of marketing Squared Multiple Correlations program of 10.5%. While marketing adaptation (awareness of customer differences, exploration of new market, development of marketing program) to Squared Multiple Correlations export performance of 18.9%. The three antecedents of awareness of customer differences, development of marketing programs and export performance of Squared Multiple Correlations have low qualifications (below 20%). The three antecedent of the Squared Multiple Correlations have low qualifications, it is a black bock which is an interesting study area.

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