

# The Effect of Marketing Capability on Financial Performance with the mediating role of Perceived Service Quality and the moderating role of Competitive Intensity. An empirical study on the Banking Sector in Indonesia

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## Abstract

This research aims to analyze the effects of Marketing Capability towards Financial Performance with Perceived Service Quality as Variable Intervening and Competitive Intensity as Variable Moderating at Banking Company in Indonesia. This research was conducted by distributing questionnaires to 170 respondents who are a customer of Bank. Quantitative analysis with path analysis model method was used for the technical analysis. The results of this research show that Marketing Capability does not affect Financial Performance. Perceived Service mediate the influence of Marketing Capability on Financial Performance. Competitive Intensity does not moderate the effect of Marketing Capability on Financial Performance. Competitive advantage directly affects the Financial Performance.

**Keywords:** Marketing capability; perceived service quality; competitive intensity; financial performance.

## 1. Introduction

The bank is a financial institution which has an intermediation function, namely channeling parties who have an excess fund (surplus) to parties that need funds (deficit). This causes that the bank has funding activities and financing funds. It can be interpreted that bank as a financial institution whose business activities are to collect and redistribute the funds to the society, and also provide other bank services (Kasmir, 2008). The bank is a business entity that collects funds from the society (deposits) and distributes fund to the society (credit or other forms in order to improve people's live) according to Indonesia Banking Constitution Number 10 in 1998.

The banking industry in Indonesia has an important role. Based on Indonesia banking constitution in 1998, banking aims to support the implementation of national development in an attempt of effort to improve equity, economic growth, and national stability to improve the welfare of society in general. According to the Indonesia banking constitution in 1998, the role of banks has an important role in advancing the economy of a country, where banks can assist in providing businesses capital to the society so that can move the real sector which will then affect national income in general.

The increasing of incoming of the country followed by its industrial growth. In this research, the banking industry has grown well. Based on statistic data of the banking industry in Indonesia there is 4.413.056 branch office in 2016, and it increased than the previous year. In 2014 statistic data showed there

is 414.114.420 commercial bank office, it was better than in 2013 which is only 3.663.968. All the statistic data based on Otoritas Jasa Keuangan (Financial Services Authority) in 2015 (OJK, 2015). The increasing number of offices was also followed by the growth of assets, ten banks with the biggest asset Indonesia has controlled more than 65% (4.214,14 trillion) banking assets in Indonesia has reach (6.475,60 trillion) Apriyani, (2017).

The growth of the industry made an impact on the increase of industrial competition. The high competition in the banking industry can increase the risk that will be faced by banks in Indonesia, such as the level of bank health, risk management, and moving consumers. Therefore marketing strategies and risk control system is needed. The bank control system is essential to obtain maximum profit so that it can increase the value of the company because not all banks operating in Indonesia can be categorized as good or healthy. Whether or not a bank is healthy in terms of financial ratios which can be seen in the financial performance report.

This aim of this research to analyze the effect of marketing capability towards financial performance with perceived service quality as an intervening variable and competitive intensity as moderating variable on banking company in Indonesia

## 2. Literature Review

### 2.1 Marketing capability

The bank should have good marketing capability. The capability is generally defined as a driver to

increase assets within the organization able to provide profits (Theodosiou et al., 2012). Capabilities are different with an asset, the capability cannot be observed, difficult to measure, and monetary value cannot be given, the example like real property or equipment Day, (1994). Although Vorhies & Morgan (2005) tried to measure the marketing capability from eight factors to measure the ability of a company through the success of their marketing:

1. Pricing Capability
2. New Product Development Capability
3. Channel Management Capabilities
4. Marketing Communication Capabilities
5. Selling Capabilities
6. Market Information Management Capabilities
7. Marketing Planning Capabilities
8. Marketing Implementation Capabilities

Although, the capability which implanted in the daily routine of the company and some action cannot be distributed or imitated. Which implied that capability is the primary company component of the competitive advantage. Researcher main focus in the marketing literature is focusing on the ability to attract the market, which facilitated the spread of effectiveness from a market-based asset. This capability connects with the function of marketing, and individual elements also a process development for marketing strategy and execution Morgan et al., (2009).

## 2.2 Perceived Service Quality

Perceived Service Quality is some kinds of space that occurred because of the difference of quality service among the service that the customer hoped, and the customer received Lee et al., (2000). Quality of service provided will create a perception. Perceived Service Quality is talking about how a bank is forming a service quality that is embedded in customer mind, thus creating a good perception in the customer's view, and vice versa if the quality of service provided is not by customer expectations, it will result in a bad perception.

Therefore creating good quality perception required good business processes and bank facilities between bank employees and bank customers, so that generates good quality perception. According to Braday & Cronin Jr, (2001) perceived service quality can be measured through 3 main factors:

1. Interaction quality.
2. Physical environment quality.
3. Result quality/outcome.

So in this case, a bank employee takes an essential role in ensuring the service process is delivered correctly. According to Yoo & Park (2007) employee are the most critical part of improving perceived service quality. Excellent service quality is more than consumer expectation.

## 2.3 Competitive Intensity

Intensity competition occurs because of the high competition and growth between companies in the same industry so that this has an impact on corporate decision-making strategy. According to Auh & Menguc (2005), competitive intensity can be defined as a situation where competition is very fierce because of any competitor in the market and the lack of potential opportunities for further growth. According to Kwiecieński (2016), measurement of competitive intensity in an industry can be obtained by HHI (Herfindahl-Hirschman Index), where HHI measure a level of competition based on consumer perceptions of seeing competition in the industry, which is measured based on the five main factors based on the model 5 force's porter

1. Buyer Strength
2. Supplier Strength
3. Competition Level
4. Threats New competitors
5. The threat of substitute products

According to Behrens & Lijesen (2015) HHI rate intensity of the competition from consumer perception arising from competition in the industry, such as price competition or cost incurred by a consumer to obtain the product or service or the emergence of a substitute product. So that it requires the ability of infrastructure and good service so that banks are not caught up in price competition or promotion.

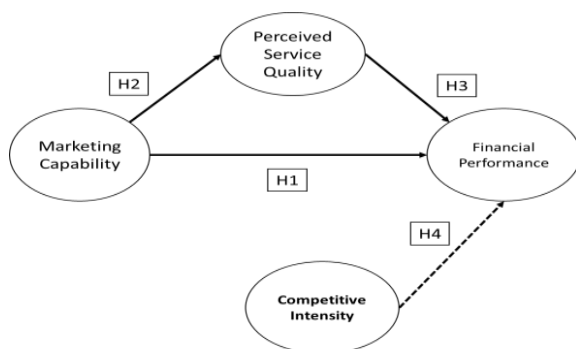
## 2.4 Financial Performance

Financial performance is one of the benchmarks of the health of the bank. Good financial performance can minimize financial risk in the company. According to Katchova & Elnow (2013), good financial performance is one of the benchmarks of profits that will be generated by the company. So financial performance becomes a target that must be maintained and developed by the company. Also, financial performance is a valid indication of the survival and operation of the company. This is appropriate in the research from Kamboj et al. (2015), financial performance is a form of success from the activities of the company operational capabilities and marketing capability activities to create excellence that can drive the company financial performance.

Based on Al-Matari et al. (2014), financial performance dividing into two performance measurement types: According to based measurement and market-based measurement. The measurement indicator of accounting is based on the company profitability in the short term such as ROA, ROE, ROS, PM,

ROI, OCF, EPS. The second type is market-based measurements that are categorized as long term measurement such as Tobin's Q. Ratio Tobin's Q, first proposed by James Tobin in 1969 which is defined as a ratio that connects the market value of a company asset with the replacement cost of the asset. So in this research, researchers used ROA and ROI and Tobin's Q to assess financial performance from short term and long term financial performance of baking companies.

## 2.5 Conceptual Framework



Picture 1. Conceptual Framework

### Hypotheses

- H1: Marketing capability has an impact on financial performance.  
 H2: Marketing capability has an impact on perceived service quality.  
 H3: Perceived service quality has an impact on financial performance.  
 H4: Competitive intensity has a moderation impact on marketing capability on financial performance

## 3. Methodology Research

### 3.1 Population and Sample

The population is a combination of all elements that have a similar set of characteristics, which includes the universe for marketing research problems (Malhotra, 2004). Another opinion said that population is a generalization area consisting of the object or subjects that have certain qualities and characteristics applied by researchers to be studied and then conclusions drawn (Sugiyono, 2009). On this research, the population is 42 banks that already registered in Indonesia Stock Exchange (ISE).

Sampling technique in this research is using non-probability sampling, where all populations do not have the same opportunity to become respondents and sampling is based on researchers consideration

(Simamora, 2002). Users who are sampled in this research are banks in Indonesia domiciled in Surabaya that have positive financial statements, and respondent from banks are represented by consumers aged 15-60 and have been customers for at least three months when filling out questioners — determining sample size in determining the number of samples used in the research in such a way that it can represent the population. In determining the minimum number of sample, the researcher used the formula from Gay & Diehl (1992), where causal research requires a minimum of 30 samples to represent the entire population, so of the 42 number of bank listed on the ISE took 34 samples of banks that have positive value financial statements (financial statement has growth), 34 banks represent 72% of the population. Each sample represents five customers of the bank as respondent, where the overall answer of the respondents is taken the average answer to represent one answer bank sample; the total of 170 respondents received bank customers.

### 3.2 Variable Operation Definition

Variable operation definition to be used consist of 4 variable:

#### A. Variable Independent

##### Marketing Capability

1. Pricing Capability is the ability of the company to determine the price level that is in accordance with the target customer purchasing power measured by the following 3 indicators (Costs that are in accordance with the quality of bank services provided, Costs set according to the benefits of bank products, and Costs are determined according to the security obtained.)
2. Three indicators measure new Product Development Capability The ability of companies to create new products and services according to the needs of the target customers. (The bank that I use can provide products according to my needs, Banking services as needed, and Banking services can be through online media.)
3. Channel Management Capability is the ability of companies to be able to reach customers measured by three indicators (Bank has many branch offices, Banks have many ATMs, and Bank has many EDC machines.)
4. Marketing Communication Capability is the company's ability to convince customers about the existence of products and services measured by three indicators (Bank employees can communicate product excellence well, Infor-

mation on bank services is easy to understand, Ease of reporting customers complaints)

5. Selling Capability is the ability of a company to be able to offer products and services measured by three indicators (Bank offers attractive products, Bank has a complete product (including insurance), and I can buy bank product on the internet.
  6. Market Information Management is the company's ability to be able to receive information from customers measured by three indicators (Bank employees can explain the product, Bank employees respond to customer complaints quickly, and Bank's website offers complete information.
  7. Marketing Implementation is the company's ability to apply marketing programs to customers measured by three indicators (Bank has an attractive gift program, Banks often hold events for loyal customers, and Bank provides funding programs for specific events (SSF and Jazz traffic with BNI))
- B. Intervening Variable**  
Intervening variable in this research is Perceived Service Quality,
1. Interaction Quality is the process that the customer feels when the service takes place is measured by three indicators (Bank employees serve kindly, Bank employees serve with a greeting, and Bank employees can provide services quickly.)
  2. Physical environment Quality environmental conditions when the service process occurs is measured through 3 indicators (Bank has a clean room, Bank has a cool room, and the Bank has a comfortable waiting area)
  3. Result Quality/outcome which is related to the results obtained by customers, measured through 3 indicators (Bank employees provide satisfactory service, Bank employees can help me very well, and I am satisfied with the service of this bank.)
- C. Moderating Variable**  
Moderating variable in this research is Competitive Intensity
1. Buyer Strength superiority of buyers in influencing competition conditions in the industry measured by three indicators as follows (Banks compete to promote consumers., Banks compete to provide the cheapest cost, and Banks compete to provide the lowest credit interest rate)
  2. Supplier Strength Supplier excellence, in determining prices and influencing competition is measured by the following three indicators

1)Banks are influenced by interest rates from Bank Indonesia, 2)Bank Indonesia is essential in this industry, and 3)Customers with large funds can affect the bank's interest rate.)

3. Competitive Level the condition of competition in the industry for services or products that are increasingly tight in the bank's banking industry, measured through (Banks are increasingly competing to defend their customers, Loan interest competition is getting more robust, and Banks compete to provide the cheapest admin fees.)
4. Threats New competitors the ability of banks in Indonesia to retain their customers from new competitors, (New banks often appear in Surabaya, New banks can compete with existing banks, and New banks are easier to get customers.)
5. The threat of substitute products threats from other bank products or services that can attract consumers to move, measured through (Bank consumers start moving to non-bank financial institutions (Insurance, BPR, Cooperatives, ), Non-bank financial institutions can serve as banks. Moreover, Consumers of the Bank are aware that non-bank financial institutions are as good as Banks.

**D. Dependent Variable**

Dependent variable or endogen variable in this research is Financial Performance (Z1)

1. ROE Return on Equity, the rate of return on business capital, carried out by the bank:  $(\text{Profit}/\text{Capital}) \times 100\%$
2. ROI/Return on Investment, the rate of return on the entire investment,  $(\text{profit before tax} / \text{total assets})$ .
3. Tobin's Q is the value of the company in the market that is perceived by the customer, and Tobin'Q can be assessed by the formula:  $(\text{Total Market Value} + \text{Total Debt Value}) / \text{Total Asset Value}$

### 3.3 Data Analysis Techniques

In this research, the hypotheses test are using patch analysis technique. Statistical test on path analysis in this research performed with partial least square regression method. Processing of the data in this research is using smartPLS.

## 4. Research Result and Discussion

### 4.1 Internal Consistency Reliability

On the second step of reliability measurement, internal consistency reliability is measured to measure how consistent the indicators of each variable are.

Composite Reliability is used to measure internal consistency reliability as a substitute for Cronbach’s Alpha in modern research. The composite reliability value must be more than 0,7 so that variable can be said to be reliable.

**Table 1.** Composite Reliability

Variable	Composite Reliability	Explanation
Marketing Capability	0,987	Reliable
Perceived Service Quality	0,929	Reliable
Competitive Intensity	0,955	Reliable
Financial Performance	0,773	Reliable
Moderating	1,000	Reliable

In Table 1, it can be seen that the entire variable has a composite reliability value above 0,7. This concludes that the overall variable has high internal consistency reliability.

**4.2 Convergent validity**

To check the value of convergent validity, it is necessary to evaluate the Average Variance Extracted (AVE) on each latent variable. The AVE value must be more than 0,5 to be able to ensure that each variable has a convergent validity parameter that is feasible to use.

**Table 2.** Average Variance Extracted

Variable	AVE	Explanation
Marketing Capability	0,781	Valid
Perceived Service Quality	0,595	Valid
Competitive Intensity	0,592	Valid
Financial Performance	0,531	Valid
Moderating	1,000	Valid

Table 2 showed that the overall variables used in this research have reasonable convergent validity. By presenting convergent validity, it can be continued for further evaluation of validity.

**4.3 Discriminant Validity**

Discriminant validity is used to measure the relationships between variables. According to Fornell and Larcker (1981) suggest that the square root of two AVE values latent variable must be more significant than the correlation value to ensure discriminant validity.

The bold number in Table 4 are obtained from the results of the square root of the AVE value on the latent variable; then the results are compared with the number on each other latent variable that is related. Through this table, it can be explained that the root of AVE marketing capability (0,0884) is bigger than the correlation of marketing capability with perceived

service quality (0,369), competitive intensity (0,555), and financial performance (0,531) so that the marketing capability variable can be said valid.

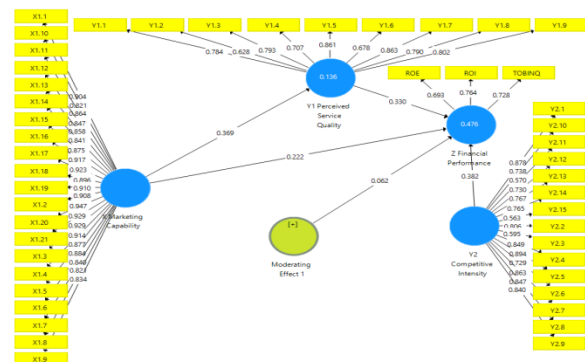
**Table 3.** Fornell-Larcker Criterion Analysis

Variable	Moderating	Marketing Capability	Perceived Service Quality	Competitive Intensity	Financial Performance
Moderating	<b>1000</b>				
Marketing Capability	-0.408	<b>0.884</b>			
Perceived Service Quality	-0.086	0.369	<b>0.771</b>		
Competitive Intensity	-0.184	0.555	0.172	<b>0.770</b>	
Financial Performance	-0.129	0.531	0.472	0.551	<b>0.729</b>

The AVE root of the Perceived Service Quality variable (**0,771**) is also higher than the correlation of the Perceived Service Quality with Marketing Capability (0,369), Competitive Intensity (0,172), and Financial Performance (0,472). Then the Perceived Service Quality variable can be said valid.

The root AVE variable of Competitive Intensity (**0,770**) is also higher than the correlation of Competitive Intensity with Marketing Capability (0,555), Perceived Service Quality (0,172), and Financial Performance (0,551). Then the variable Competitive Intensity can be said valid.

Then, the AVE root of Financial Performance variable (**0,729**) is also higher than the Financial Performance correlation with Marketing Capability (0,531), Perceived Service Quality (0,472), and Competitive Intensity (0,551). Thus, the Financial Performance variable can be said valid.



**Picture 2.** Path Coefficient and Coefficient of Determination

**4.4 Evaluation of Path Coefficient, Coefficient of Determination (R<sup>2</sup>) and Prediction Relevance (Q<sup>2</sup>)**

Evaluation of path coefficient is used to show how strong the effect or effect of the independent variable is on the dependent variable. Whereas the

determination coefficient is used to measure how many endogenous variables are influenced by other variables. In marketing research,  $R^2$  values above 0,75 and above are categorized as substantial, 0,50 – 0,75 means moderate, and 0,25 – 0,50 means weak.

In the path coefficient analysis, it has been proven that the perceived service quality and competitive intensity are intervening variables which strengthen the relationship between marketing capability and Financial Performance. From the picture above, it can be explained that the greatest path coefficient value is indicated by the effect of marketing capability on the perceived service quality of 0,369. In the picture above the effect of marketing capability with the perceived service quality, can affect more with the effect of 0,330 on financial performance. The strongest relationship to financial performance was also obtained when marketing capability passed the perceived service quality and competitive intensity towards financial performance.

In the relationship of marketing capability to financial performance directly has a path coefficient of 0,222. Then when the relationship passes the perceived service quality variable first, then the value of the path coefficient increases to 0,330. So this is evidence that the perceived service quality is an intervening variable that strengthens the relationship between marketing capability and financial performance.

Competitive intensity also has a relationship with financial performance. It is known that the path coefficient value is 0,382. However, competitive intensity cannot be included in the moderating variable because the path coefficient moderating effect has a weak influence of 0,062.

So the conclusion for all variables in this model has a path coefficient with a positive number. That is, if the greater the value of the path coefficient on one independent variable on the dependent variable, the stronger the influence of the independent variable on the dependent variable is also stronger. However, the relationship of marketing capability to financial performance directly has the lowest number, which is 0,222, which means that the effect of marketing capability on financial performance is very low.

Meanwhile, the coefficient of determination ( $R^2$ ) in the figure shown in the numbers in the variable circle, perceived service quality, and financial performance proves that the perceived service quality variable is influenced by marketing capability with a variance value of 0,136. This means that as many as 76,4% is influenced by other variables outside the research. Then the Financial Performance variable is influenced by the variables marketing capability,

perceived service quality, and competitive intensity with a variant value of 0,476. So it is known that in this study Financial Performance is influenced by 47,6% where 52,4% of the formation of financial performance is explained by other variables outside the research.

To find out the predictive value of relevance, here is the formula:

$$Q^2 = 1 - (1 - R^2) (1 - R^2)$$

$$Q^2 = 1 - (1 - 0,136) (1 - 0,476)$$

$$Q^2 = 0,456$$

The calculation results showed a predictive-relevance value of 0,456 ( $> 0$ ). This means that 45,6 percent is explained by the variables Perceived Service Quality, Competitive Intensity, and Financial Performance. While the remaining 54,4 percent is explained by other factors beyond the model studied. Thus, the model is said to be worthy of having relevant predictive value.

#### 4.5 T-Statistic and Hypotheses Test

The value of T-statistics is obtained from the bootstrapping procedure, where this value is used to conclude the hypothesis test. The value of T-statistics with a significance level of 5% explains that the inner model will be significant if the value of T-statistics is higher than 1,96.

Is the path coefficient value that shows the strength of the influence from one latent variable to another latent variable. While the value in the sample mean column (M) shows the middle value of the path coefficient. While the standard error (STDERR), shows the error value in the sample mean. The value of T statistics to see the calculated T value that will be used to test the hypothesis, where T statistics which have a value above 1.96 have an influence.

Conclusion Hypotheses and T-Statistic

1. It means there is no influence from marketing capability on financial performance.
2. The effect of marketing capability on the perceived service quality has a value of T-statistics 2,232; it means there is an effect of marketing capability on perceived service quality.
3. The influence of the perceived service quality on financial performance has a value of T-statistics 2,638; it means there is the influence of the perceived service quality on financial performance.
4. The effect of competitive intensity as a moderating variable on the relationship of marketing capability with financial performance has a T-statistic value of 0,393; it means there is no influence from competitive intensity as a variable moderating to the relationship of marketing capability with financial performance.



**Table 4.**

	Original Sample (O)	Sample Mean (M)	Standard Error (STERR)	T Statistics ( O/STER R )
Marketing Capability→Financi al Performance	0,222	0,203	0,207	1.074
Marketing Capability→Perceiv ed Service Quality	0,369	0,387	0,165	2.232
Perceived Service Quality→Financial Performance	0,330	0,345	0,125	2.638
Competitive Intensity→Financial Performance	0,382	0,430	0,185	2.059
Moderating Effect→ Financial Performance	0,062	0,132	0,170	0,393

## 4.6 Conclusion

### 4.6.1 Marketing Capability to Financial Performance

The results of this research showed that marketing capability has no significant effect on financial performance. In this research showed that the absence of this effect from the results of the T-statistics test with a value of 1,074, which is below 1,96. So that Bank's marketing capabilities does not affect financial performance.

The marketing capability possessed by the bank has not been able to build financial performance directly. Marketing ability itself is part of the bank's strategy which aims to increase the number of bank customers and attract consumers to use bank services. So a well-run marketing capability can increase the number of bank customers, so that time is still needed to increase the number of customers to increase the income of the bank, and then this can affect the bank's financial performance.

### 4.6.2 Marketing Capability to Perceived Service Quality

The results in this research indicate that the marketing capability variable of the bank has a significant influence on perceived service quality with the results of the T-statistics test value  $> 1.96$  which is equal to 2,232. The bank's steps to face competition in the banking industry need plan and purpose in the banking marketing strategy, in order to achieve this bank need marketing capabilities which can be created due to the bank's effort to plan marketing programs until implementation in the field.

The perceived effect of the marketing capability possessed by the bank will form a relationship with

the customer that is realized through the perceived service quality. Bank customers have felt that marketing capabilities can support bank services so that customers get a closer relationship with the company because of the marketing capabilities that help them to bond directly with the bank.

### 4.6.3 Perceived Service Quality to Financial Performance

The value of the perceived service quality on financial performance at the bank has a T-Statistic value above 1.96, which is 2.638. This value indicates that the influence between perceived service quality and financial performance has a significant value.

Perceived service quality is the level of reciprocity between the customer and the bank. This relationship is perceived by the customer to be well interwoven. From the existence of this relationship, the customer will make continuous purchases until customer arises that reflects loyalty and can provide sustainable benefits to the bank. This is because customers receive a good quality of interaction, the physical quality provided by the bank so that they can provide quality results in the form of customer satisfaction.

### 4.6.4 Competitive Intensity as a Moderating to The Relationship of Marketing Capability with Financial Performance

From the results of the analysis in this research, it can also be proven that competitive intensity did not have a moderating effect on the relationship of marketing capability with financial performance. It can be seen from the T-Statistics test value of 0,393, less than 1,96. The positive value proves that the higher the level of industrial competition, the better marketing capabilities needed to improve financial performance in the face of competition.

Also, a high level of persuasion also encourages better financial performance, as evidenced by the direct relationship of competitive intensity, which can have a strong influence on financial performance so that it is known that Competitive Intensity influences the bank's financial performance.

This made competitive intensity capable of being an endogen variable, where there is a significant direct impact on financial performance that made the level of industrial competition able to improve better financial performance.

Overall, the discussion of the hypothesis above can answer the formulation of the problem in this research. The relationship between concepts can be accepted by being reinforced by observational data.

The entire variable has a significant relationship except for the direct relationship of marketing capability to financial performance, and the results of moderation of the relationship of competitive intensity.

So in the high level of industrial competition, marketing capabilities have a weak effect on financial performance. This finding is due to the lack of time and a long process of marketing efforts to turn it into a profit for the company, so that quality services are needed to support the Bank's marketing ability to accelerate the process thus creating loyal and willing consumers to make sustainable purchases, and later will increase revenue for the bank.

## 5. Conclusion and Suggestion

### 5.1 Conclusion

The primary goal of this study is to examine the effect of marketing capability on financial performance with perceived service quality as an intervening variable and competitive intensity as a moderating. From the finding several conclusion can be withdrawn as follow:

Marketing capabilities in the banking industry are increasingly equal. Intensity of competition is very tight such that marketing capabilities are not strong enough to enhance the financial performance. However, competitive intensity can directly influence financial performance; this can be interpreted as the high intensity of competition can improve financial performance, through improvement on their capabilities and services.

### 5.2 Suggestion

Referring to the results of the research and discussion, the following researchers propose the following suggestions:

Banks can improve the implementation of sustainable marketing capability with customers at the perceived service quality and the company's ability to compete in competitive intensity which will ultimately improve financial performance. The need for revamping the marketing implementation by offering attractive events that are in line with the target market trend of the Bank. Companies must continue to carry out unique events that create customer involvement. Events like in public places such as malls or shopping centers. Also, events that embrace the community such as gatherings and road shows also need to be implemented by the bank.

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