

## Improving export performance through innovation capability during COVID-19 pandemic: The mediation role of aesthetic-utilitarian value and positional advantage

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### ABSTRACT

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Globalization has made exports an important activity for several companies including the growing Small and Medium Enterprises (SMEs). This is observed in the wood craft SMEs which is one of the main pillars supporting the Balinese economy when the tourism sector experienced a decline during the COVID-19 pandemic. It is important to note that innovation capability is a special asset for SME to increase exports, especially when the products have value and advantages. Therefore, this study analyzed value creation through the adoption of the Service-Dominant Logic (SDL) theory which was manifested in the aesthetic-utilitarian value variable. The study population includes all the 242 woodcraft SMEs in Bali while the samples were selected using the census method and the data obtained were analyzed through the partial least squares technique. The results showed that innovation capability has a positive effect on export performance, aesthetic-utilitarian value, and positional advantage. Moreover, aesthetic-utilitarian value and positional advantage were discovered to have a positive influence on export performance and also partially mediated the relationship between innovation capability and export performance. This implies SMEs need to develop high innovation capabilities to ensure their products are superior to those of their competitors. Furthermore, the value offered also needs to be unique and in line with customer needs.

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### 1. Introduction

Small and Medium Enterprise (SME) is one of the main pillars of economic growth for developing countries such as Indonesia (Morina & Gashi, 2016) due to its significant contribution to their development through the utilization of local resources. Therefore, there is a need to focus on strengthening the enterprises operating in this industry. This is necessary due to the tight business competition as well as the rapid development of technology and information which require further improvement of their performance. An example is the woodcraft SMEs in Bali which were observed to be competing with both local and foreign markets because they operate internationally.

Research showed that innovation capability is important to the maintenance of SME's performance (Fu et al., 2021; Yasa, Sukaatmadja, Giantari, & Rahyuda, 2016), especially during the current COVID-19 pandemic. Another study by Escandon-Barbosa, Rialp-Criado, Fuerst, Rodriguez-Orejuela, and Castro-Aristizabal (2019) and Ribau, Moreira, and Raposo (2017) reported that it affects export performance while Lages, Silva, and Styles (2009) showed a contrary finding. This was further confirmed by the findings of (Roper & Love, 2002) that innovation has a positive effect on the export performance of British companies but has a negative influence on German companies. According to several studies there is a direct and positive influence of innovation capability on export performance (Azar & Drogendijk, 2016; Bıçakcıoğlu-Peynirci, Hizarci-Payne,

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Özgen, & Madran, 2019; Chen, Sousa, & He, 2016; D'Angelo, 2012; Otero-Neira, Tapio Lindman, & Fernández, 2009; Rua, França, & Fernández Ortiz, 2018).

The differences observed in these findings indicate the research gap to be filled. Therefore, this study develops a value variable based on SDL theory which was selected due to some factors. First, SDL provides a basis for the thinking that a product needs to provide appropriate value for its target customers and those with more appropriate value are expected to generate better interest from the target consumers (Lusch, Vargo, & O'Brien, 2007). Second, there is a need to create value with consumers based on the concept of value co-creation to ensure more capable products last in the customer's memory (Morosan & DeFranco, 2016). This is reflected in the aesthetic-utilitarian value which is a variable developed based on aesthetic and utilitarian values. The aesthetics aspect is defined as the beauty attached to the physical display of products to communicate their attributes in order to achieve competitive advantage (Candi & Saemundsson, 2011; Dobson, 2007; Lemos, 2020). This demonstrates it is not only focused on the visual appearance but also other senses such as touch and taste (Swilley, 2012) acting as stimuli in both cognitive and emotional responses (Wang, Cruthirds, Axinn, & Guo, 2013). It is important to note that aesthetics is increasingly becoming a significant consideration in the process of developing a company's marketing strategy. It is no longer just "software" around the "hardware" material but progressively turning into the core of a product (Weggeman, Magala, Lammers, & Akkermans, 2007). However, consumers are also observed to be concerned with the ability of products to provide useful shopping value in relation to tasks, reasonableness, caution, and activity efficiency (Chiu, Wang, Fang, & Huang, 2014). Therefore, the utilitarian value was introduced to improve usability, benefits, and profits (J. Williams & Aitken, 2011). This shows that aesthetic-utilitarian value is a concept designed to maximize aesthetic and utilitarian values simultaneously in a product.

Intense business competition and rapid development of technology and information require SMEs to improve their export performance by having the ability to adapt to changes (Rua et al., 2018). This can further provide a competitive advantage which is the basis to achieve superior performance. The essence of the competitive advantage is to ensure a company performs better than its competitors and has the ability to create value for its consumers (Rua et al., 2018; Teece, 2010). This requires that the products have a superior position and provide value. It is, however, important to note that innovation capability can influence firm performance when the product has an advantage over other products. Therefore, this study also examines the effect of positional advantage on exports. Positional advantage can be conceptualized as a superior market position that leads to better company performance (Micheels & Gow, 2014). It is often associated with ownership or access-based sources and specifically stems from the endowment of the firm's unique resources, market position, established access, and other relatively static traits (Bridson, Evans, Mavondo, & Minkiewicz, 2013; Rua et al., 2018). According to H. Ma (2000), a positional advantage is based on a company's social or economic status, actual or perceived customers, competitors, partners, regulators, and other stakeholders. Several studies have examined the value of positional advantage in different sectors (Hult & Ketchen, 2001; Langerak, 2003) with some observed to have focused on its relationship with SME performance.

The purpose of this study is to develop a new conceptual model to manage innovation capabilities towards improving export performance, especially in export-oriented woodcraft SMEs in Bali, by adding two mediating variables of aesthetic-utilitarian value and positional advantage which are also a novelty in this study. Additionally, this is expected to contribute to the development of knowledge, especially concerning the dominant service logic which provides a clear frame of mind on the value obtained by customers. The aesthetic-utilitarian value concept combines the aesthetic and utility sides of a product created through co-creation values as a contribution to its value. Another expected contribution is that this study can provide a new perspective for the industry in producing products with selling value in the export market.

## 2. Literature Review and Hypothesis

### 2.1 *SDL Theory and Aesthetic-Utilitarian Value*

Service-Dominant Logic (SDL) theory states that humans basically apply their competencies to benefit others and reciprocally benefit from competencies applied by others (Lusch et al., 2007; Navarro, Andreu, & Cervera, 2014; Prahalad, 2004; Quoquab & Mohammad, 2016; Vargo & Lusch, 2004, 2007, 2016, 2017; J. Williams & Aitken, 2011). This implies the value is created together to have co-creation value instead of being developed by an actor to be delivered by another (Vargo & Lusch, 2017).

The Aesthetic-Utilitarian Value is a variable developed through the adoption of the Service-Dominant Logic theory to deliver and create values with customers. The theory was put forward by Vargo and Lusch (2004) in response to the shift from the dominant logic which was based on the exchange of goods to the dominant logic of services. It is important to note that the goods-dominant logic focuses on tangible resources, embedded value, and transactions while the service-dominant logic focuses on intangible resources, value creation, and relationships (Vargo & Lusch, 2004). The service-dominant logic has been extensively studied over the past few years with the shared value creation narrative observed to have evolved into one of the reciprocal services integrating resources. This is through a holistic, meaning-laden experience in a multilevel and overlapping service ecosystem which is managed and evaluated through institutional arrangements (Vargo & Lusch, 2016).

The Service-Dominant Logic's view is that, first, marketing activities (and economic activity in general) are best understood in terms of service-for-service exchanges. In other words, activities are derived from the special knowledge, abilities, and services people perform for themselves and others as well as those to be performed for them instead of goods that are only

occasionally used in transmission. These services represent a source of value and a destination for exchange. Second, value is created together, not by a single actor, and delivered (Vargo & Lusch, 2017).

Entrepreneurs need to understand the relationship between the exploration of new ideas which is related to value creation and the exploitation of ideas which is associated with value capture (Lepak, Smith, & Taylor, 2007; Setini, Yasa, Gede Supartha, Ketut Giantari, & Rajiani, 2020). It is possible for SME entrepreneurs to capture value using resources such as the attributes that are difficult to imitate and considered creative by competitors. The values built are in the form of core and peripheral values (Sharabi & Harpaz, 2009) with the cores observed to be generally irreplaceable while the peripherals are supporting values considered by consumers and also adaptable from time to time like fashion. This denotes the core value that needs to be built into the product, expressed in behavior, and reflects the nuances of the communication. It is related to the ability of the products or services to provide functional use to consumers (Sheth, Newman, & Gross, 1991).

Utilitarian values are extrinsic values that make individuals think rationally to fulfill their needs and obtain real benefits as indicated by their ability to shop effectively and efficiently. These values include durability, performance, warranty, low price, and brand name (T. G. Williams, 2002). However, consumers are more concerned about the ability of products to provide useful shopping value such as tasks, reasonableness, caution, and activity efficiency (Chiu et al., 2014). It is important to note that the consumers' assessment of the product is not only limited to the aspect of usability but also the aesthetics. This aesthetics is defined as the study of human reactions to non-instrumental qualities of an object or event. The total aesthetic experience includes an appreciation of the formal, expressive, and symbolic qualities of a product, appearance, or environment (DeLong & Fiore, 1994; Fiore & Moreno, 1996; Karnes, Sridharan, & Kanet, 1995).

Aesthetic value is owned by an object, event, or situation, paradigmatically a work of art or natural environment, based on the ability to obtain pleasure (positive value) or displeasure (negative value) when valued or experienced aesthetically. De Klerk and Lubbe (2008) found that consumers do not only view and buy products based on their function but also on the aesthetic value provided. Therefore, a new variable called aesthetic-utilitarian value was formed with the focus on ensuring products offer aesthetics and utility as the main values to consumers. This application of this value is expected to assist SME players to compete in the international market and improve their export performance.

## *2.2. Innovation Capability*

Innovation capability is classified into two concepts which include its application as a process and as an outcome in small businesses (Saunila, 2019). A common way to conceptualize innovation capability in first-line studies where it was considered a process is to think of it as the potential to create innovative outcomes (Dadfar, Dahlgaard, Brege, & Alamirhoor, 2013; Keskin, 2006; Neely, Filippini, Forza, Vinelli, & Hii, 2001; Setini, Yasa, Supartha, & Giantari, 2021). In this study, it was perceived as a one-dimensional phenomenon including actions that can be applied to improve the SME performance (Castela, Ferreira, Ferreira, & Marques, 2018). The widely used definition of innovation capability was proposed by Lawson and Samson (2011) as "the ability to continuously transform knowledge and ideas into new products, processes, and systems for the benefit of the company and its stakeholders". Keskin (2006) also stated that it is the readiness to test new ideas, track new behavior in doing things, and have creativity in operating. Zhang and Hartley (2018) showed that innovation capability focuses on leveraging experiences and ideas from different sources. The concept was also defined in other schools of thought as the potential to create innovative outcomes. Several dimensions have been reported to simultaneously contribute to the creation of high innovation capabilities (Boly, Morel, Assielou, & Camargo, 2014; Saunila, 2017; Saunila, Pekkola, & Ukko, 2014) and these include leadership, organizational culture, utilization of external knowledge, competency management, and employee creativity. Moreover, different types of capabilities have also been associated with total innovation capability (Forsman, 2011; Oura, Zilber, & Lopes, 2016).

## *2.3 Positional Advantage*

The positional advantage of a firm is directly analogous to the barriers to competitive mobility preventing it from shifting its strategic position (G. S. Day & Wensley, 1988). This shows that competitive advantage is a firm's positional advantage in the market segment it operates. An example of this is the delivery of superior customer value and/or achievement of lower costs compared to competitors (Hooley, Greenley, Cadogan, & Fahy, 2005). It is important to note that the positional advantages associated with costs, promotions, and sales are key factors to improve company performance. Moreover, it can also be due to the competitive strategy of a company such as being a low-cost producer and/or through differentiation of product or service line. These definitions simply indicate that positional advantage is a company's superior market position through the provision of superior customer value as well as the achievement of lower relative costs.

## *2.4 Relationship between variables and hypotheses*

The ecosystem perspective in SDL states that innovation is a change in the value created by a company through the integration of resources to generate exchanges in the service ecosystem. This is necessary because the ability to innovate usually leads to sustainable and systematic work processes for companies (Vargo & Lusch, 2014). Moreover, innovation capability can direct companies to create exchanges, maintain and avoid disruption, thereby, ensuring positive performance. Saunila (2019) showed that small businesses can take advantage of different forms of innovation capabilities such as the ability to generate product innovation and several others which are expected to ultimately influence their performance. The majority of studies

on SME have reported a positive relationship between innovation capability and firm performance (Bıçakcıoğlu-Peynirci et al., 2019; Faruk & Subudhi, 2019; O’Cass & Sok, 2014; Oura et al., 2016; Telagawathi, Yasa, Giantari, & Ekawati, 2022; Zhang & Hartley, 2018). Neely et al. (2001) also showed that product innovation capability affects export performance. This, therefore, led to the formulation of the following hypothesis.

**H<sub>1</sub>:** *Innovation capability has a positive and significant impact on export performance.*

Service-Dominant Logic provides a basis for the thinking that products need to provide appropriate value for the target customers and those with more appropriate value are expected to generate better interest. This implies companies should not be static in offering value propositions or services in a dynamic environment, thereby, making service innovation very important. This is not expected to be focused only on finding something new but also on developing a system based on shared value creation (Vargo & Lusch, 2017). It is important to note that innovation depends on several competencies which can be continuously updated, created, integrated, and changed by the company (Lusch et al., 2007). The innovation capability of a company can be described as the capacity to develop innovation continuously in response to a changing environment (Olsson, Wadell, Odenrick, & Bergendahl, 2010). This explains how companies with good innovation capabilities can capture, create, and deliver good value to customers in order to improve their performance. They also usually apply the learning-by-doing strategy which is very difficult for their competitors in the market to duplicate (Cavusgil, Calantone, & Zhao, 2003). Moreover, product innovation capabilities are important to creating superior performance and shared values (O’Cass & Ngo, 2012). This, therefore, led to the formulation of the following hypothesis.

**H<sub>2</sub>:** *Innovation capability has a positive and significant effect on Aesthetic-Utilitarian Value.*

Service-Dominant Logic theory demonstrates that innovation is very important to the development of a globally integrated market associated with the emergence of new technologies and competition. This signifies that companies need to adapt, make changes in their business environment, and search for opportunities to create change through strategic innovation (Martin, Javalgi, & Cavusgil, 2017). Landoni et al. (2016) also confirmed that innovation capability has a positive effect on overall competitive advantage. This is applicable to certain design innovation capabilities discovered to be effective even for short-term strategies. Carbonell and Rodriguez (2006) studied the speed of innovation against a company's positional advantage based on image, technical performance, and quality. The findings showed that the speed of innovation has a positive and significant effect on the company's positional advantage. Moreover, George S Day (1994) outlined a valuable framework of capabilities which are complex skill sets to achieve a positional advantage. This, therefore, led to the formulation of the following hypothesis.

**H<sub>3</sub>:** *Innovation capability has a positive and significant effect on positional advantage.*

The creation of shared value is considered a key principle of Service-Dominant Logic (Vargo & Lusch, 2004). This is due to the fact that the theory postulates a distinct role for customers to jointly create value by using the product as well as participating in the development of the value proposition through the sharing of their expectations and experiences (Payne, Storbacka, & Frow, 2008; Vargo & Lusch, 2008). Cabiddu, Lui, and Piccoli (2013) showed that a company needs to develop a value creation strategy to achieve superior performance. This is supported by the findings of Zaborek and Mazur (2019) that the creation of shared value has a positive effect on organizational performance. Moreover, the use of aesthetics or industrial design was observed to have contributed positively to company performance (Candi & Saemundsson, 2011). This, therefore, led to the formulation of the following hypothesis.

**H<sub>4</sub>:** *Aesthetic-Utilitarian Value has a positive and significant effect on export performance.*

A very competitive and dynamic industry requires a company to be able to develop a position advantage in achieving better performance. Moreover, the positional advantage theory described by Day and Wensley (1988) showed that a superior market position can lead to the creation of customer value and relatively lower costs. Porter (1990) also defined positional advantage as a company's relative position in the market due to its sustainable competitive advantage through reduced production costs or the ability to differentiate products and earn a premium price. This indicates having a positional advantage over competitors is an important resource for SME to ensure long-term survival. This can be achieved through strategic flexibility and timing when compared to larger competitors (Micheels & Gow, 2014). Micheels and Gow (2014) expanded the findings of Hult and Ketchen (2001) on the importance of positional advantage on company performance by showing the ability of companies to achieve superior performance over competitors through the development of a positional advantage. Similar results were also observed for G. S. Day and Wensley (1988) and this led to the formulation of the following hypothesis.

**H<sub>5</sub>:** *Positional Advantage has a positive and significant effect on Export Performance.*

Most global corporate executives express the view that innovation is the key to growth in an increasingly competitive business environment. This was observed from the fact that innovative firms have historically dominated industries (O’Cass & Ngo, 2012). Moreover, innovation capabilities have been reported to be assisting companies to align their plans with market needs and always strive to take advantage of existing opportunities. It was observed that those with superior innovation capabilities usually adopt a learning-by-doing style which is difficult for competitors to duplicate (Cavusgil et al., 2003). Furthermore, product innovation capabilities are important in creating superior performance, co-creation, and relationship values. This is

evidenced by the consideration of the market as being increasingly characterized by shorter product life cycles due to more dramatic changes in customer preferences and the tendency to seek newer products. SDL theory also states that innovation capabilities can fundamentally encourage the creation of shared value to generate effective exchanges in the service ecosystem (Vargo & Lusch, 2014). Innovation enables the development of a customer base due to its ability to create value (O'Cass & Ngo, 2012). It has also been discovered that innovation and customer participation are important issues in research on company performance. This was further confirmed by Ngo and O'Cass (2013) that innovation capability is required but not a sufficient condition to achieve superior performance without effective consumer participation. This, therefore, led to the formulation of the following hypothesis.

**H<sub>6</sub>:** *Aesthetic Utilitarian Value can mediate the effect of innovation capability on export performance.*

Altuntas, Cinar, and Kaynak (2018) reported that innovation capability had no impact on export performance. Innovation capability was defined as the ability needed to develop future products and this shows it has a strategic role in the future of the company. Another study showed that innovation capability can only improve export performance when it has the ability to generate a positional advantage for companies in the international market (Bıçakcıoğlu-Peynirci et al., 2019). Moreover, positional advantage theory states that advantages can be created through the company's activities within the framework of a business system (G. S. Day & Wensley, 1988). The innovation capability in every activity contributes to the business value chain in order to create excellence. This is observed from the product innovation (Altuntas et al., 2018; Hendar & Kartikab, 2019) that improved performance by providing a positional advantage for products (Ho, Nguyen, Adhikari, Miles, & Bonney, 2019). Moreover, the differences created through innovation for competing products to provide value to consumers (O'Cass & Ngo, 2012) were also reported to have the capacity to ensure positive export performance (Hendar & Kartikab, 2019; Ho et al., 2019). This, therefore, led to the formulation of the following hypothesis.

**H<sub>7</sub>:** *Positional Advantage can mediate the effect of innovation capability on export performance.*

These theoretical and empirical reviews were used to develop the conceptual framework in Fig. 1.

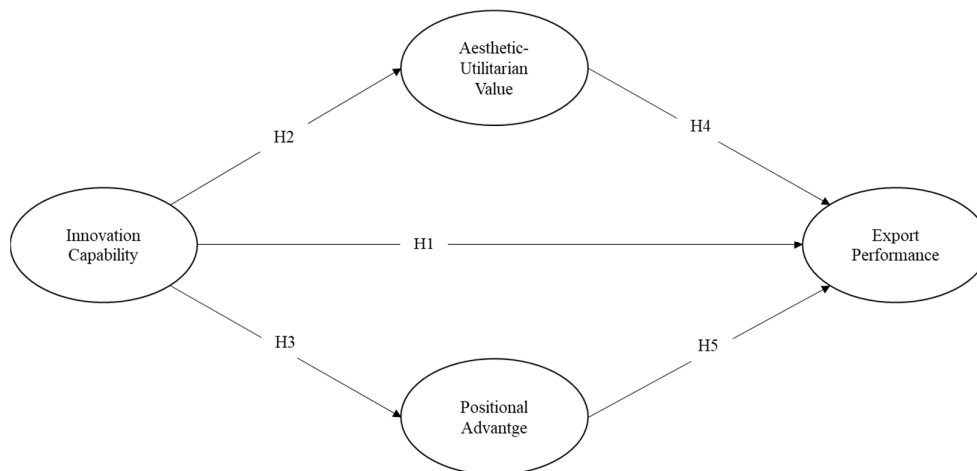


Figure 1. Conceptual Framework

### 3. Materials and Methods

The Bali region was selected based on several considerations which include the fact that (1) it experienced the highest decline in regional income in Indonesia during the COVID-19 pandemic, (2) the handicraft industry contributed to the Balinese economy by being the highest contributor to export and led by the woodcraft SMEs, (3) the competition in the woodcraft industry is very competitive, thereby, requiring the SMEs to always innovate, and (4) the woodcraft industry is known for its high aesthetic value in addition to strengthened function for the products offered to consumers. A total of 242 woodcraft SMEs in the export business were the population of this study and used as samples through the census technique. Meanwhile, only 194 questionnaires were returned, and this indicates a response rate of 80.17%. The innovation capability variable which consists of technical innovation capability (TIC) and non-technical innovation capability (NTIC) dimensions were measured using 9 statement items. Meanwhile, the aesthetic-utilitarian value variable which includes visual, physical, and functional benefit dimensions were measured using 10 statement items. The positional advantage also has 4 statement items while export performance has 5 statement items. Data were collected through the distribution of questionnaires to all respondents which are the owners of woodcraft SMEs in Bali engaged in export activities. The questionnaire has 28 statement items related to the variables studied and the responses were measured using a Likert Scale rated from 1 for strongly disagree to 5 for strongly agreed. Moreover, it was tested for validity and reliability before its application. It is also important to note that this is a

quantitative approach, and the hypotheses were tested using a variant-based structural equation model (SEM-PLS) to determine the relationship between the latent variables.

#### 4. Results

The validity and reliability of the constructs and indicators were tested. The validity was determined using convergent and discriminant validities while reliability was through composite reliability and Cronbach alpha. The results showed that the model developed fulfilled the eligibility criteria as indicated in the following Table 1.

**Table 1**  
Validity and Reliability Test

Variable	Dimension/ Indicator	Outer Loading	Average Variance Extracted (AVE)	Composite Reliability	Cronbach's Alpha
Innovation Capability	Technical innovation capability		0.735	0.909	0.866
	TIC1	0.852			
	TIC2	0.883			
	TIC3	0.864			
	TIC4	0.780			
	Non-technical innovation Capability			0.971	0.963
	NTIC1	0.936			
	NTIC2	0.948			
	NTIC3	0.930			
	NTIC4	0.929			
Aesthetic-utilitarian Value	Visual Benefit		0.513	0.855	0.775
	VB1	0.778			
	VB2	0.733			
	VB3	0.801			
	VB4	0.775			
	Physical Benefit			0.891	0.817
	PB1	0.813			
	PB2	0.890			
	PB3				
	Functional Benefit			0.877	0.791
Positional Advantage	FB1	0.906			
	FB2	0.841			
	FB3	0.767			
	PA1	0.716	0.605	0.859	0.784
	PA2	0.756			
	PA3	0.868			
	PA4	0.761			
	PA4	0.761			
Export Performance	EP1	0.796	0.645	0.901	0.862
	EP2	0.756			
	EP3	0.834			
	EP4	0.793			
	EP5	0.833			

The structural model (inner model) was tested to determine the effective formation of the model using variables. The criteria for the tests include the determination of the R square ( $R^2$ ), Q-Square predictive relevance ( $Q^2$ ), effect size, hypothesis, and mediation. The findings showed that the R-square value for the aesthetic-utilitarian value variable is 0.168 and this means 16.8% of its variability can be explained by the innovation capability variable while the remaining 83.2% is due to other factors. It was also discovered that only 6.8% of the positional advantage variable can be explained by the innovation capability variable while the remaining 93.2% is due to other factors. Moreover, 39.9% of export performance was influenced by innovation capability, aesthetic-utilitarian value, and positional advantage while the remaining 60.1% is associated with other variables. The results also showed that the R-square value for the aesthetic-utilitarian value and positional advantage variables is weak while the value for the export performance variable is moderate. Furthermore, the  $Q^2$  was calculated to be 0.526 and this means has predictive relevance because the value is higher than zero.

**Table 2**  
Effect size ( $f^2$ )

Variables	Aesthetic-Utilitarian Value	Positional Advantage	Export Performance
Innovation Capability (X)	0.201	0.073	0.069
Aesthetic-Utilitarian Value (Y1)			0.108
Positional Advantage (Y2)			0.067

Table 2 shows that the effect size of innovation capability on the aesthetic-utilitarian was  $0.201 \geq 0.15$  and this implies it is in the middle category. Meanwhile, the value for innovation capability on positional advantage and export performance was 0.073 and 0.069 respectively which is between 0.02 to 0.15, thereby indicating a small category. It was also discovered that the effect of aesthetic utilitarian value and positional advantage on export performance was 0.108 and 0.067 and this indicates it is in a small category because the values are between 0.02 and 0.15.

The results of the hypotheses tested showed that H1-H5 is proven because they had P-values below 0.05. This suggests the endogenous variables have a significant effect on export performance as indicated by the direct effect test results presented in the following Table 3.

**Table 3**

Direct effect statistical test results

Constructs	Original Sample (O)	T Statistics ( O/STDEV )	P Values
Innovation capability → Aesthetic-utilitarian value	0.409	7.657	0.000
Innovation capability → Positional advantage	0.261	4.443	0.000
Innovation capability → Export performance	0.223	3.234	0.001
Aesthetic-utilitarian value → Export performance	0.329	3.502	0.001
Positional advantage → Export performance	0.245	3.043	0.002

The mediating role of the aesthetic-utilitarian value and positional advantage variables were tested using Variance Accounted For (VAF) and the results are presented in the following Table 4.

**Table 4**

VAF Value

Construct	VAF	Result
Innovation capability → <i>Aesthetic-Utilitarian Value</i> → Export performance	0,377	<i>Partial Mediation</i>
Innovation capability → <i>Positional Advantage</i> → Export performance	0,223	<i>Partial Mediation</i>

Table 4 shows that hypothesis 6 which states that aesthetic utilitarian value can mediate the effect of innovation capability on export performance is acceptable as indicated by the 37.7% VAF value. It was also observed that Hypothesis 7 which states that positional advantage can mediate the effect of innovation capability on export performance is acceptable as indicated by the 22.3% VAF value.

## 5. Discussions

### 5.1 The Effect of Innovation Capability on Export Performance

The analysis results showed that the effect of innovation capability on export performance is positive and significant. This implies the presence of higher innovation capability is expected to lead to higher performance for the woodcraft SMEs. It is important to reiterate that innovation capability is the ability to continuously transform knowledge and ideas into new products, processes, and systems in order to provide benefits for a company (Saunila, 2019). It was discovered that the woodcraft SMEs were increasingly required to innovate during the Covid-19 pandemic to sustain their export performance. Those with high innovation capabilities had the ability to respond better to environmental changes. This denotes innovation capabilities that can make a business survive, generate profits, and compete strongly in a very dynamic business environment, thereby enhancing the performance. It is also crucial to improving the SME's export performance because they are competing with both local and foreign competitors offering similar products.

This result is in line with the ecosystem perspective in SDL where the company's ability to innovate is believed to have the ability to assist in creating value in order to ensure positive performance. This signifies that the companies that integrate resources to generate exchanges in the innovation service ecosystem can ensure sustainable and systematic work processes (Vargo & Lusch, 2014). It also agrees with the findings of Bıçakcıoğlu-Peynirci et al. (2019); Faruk and Subudhi (2019); O'Cass and Sok (2014); Oura et al. (2016); Zhang and Hartley (2018) that there is a positive relationship between innovation capability and firm performance. Neely et al. (2001) also reported that product innovation ability affects export performance. This implies the conclusion from several previous studies that an increase in innovation capability can improve export performance has been confirmed.

### 5.2 The Effect of Innovation Capability on Aesthetic-Utilitarian Value

The results showed that innovation capability has a positive and significant effect on aesthetic-utilitarian value. This indicates higher innovation capability is expected to lead to a higher export performance for woodcraft SMEs in Bali. Therefore, companies that can survive in the market are those with the ability to provide real value to their customers through innovation capabilities. It was also observed that there is currently a shift in value creation from only producers to the involvement of multiple actors including the consumers. This simply shows good innovation capability can make it easy for companies to collaborate and manufacture products that suit the needs and tastes of consumers.

The result agrees with the SDL theory that companies need innovative ability to develop products with the capacity to provide appropriate value for their target customers. This is associated with the previous report that product innovation capabilities are important to the achievement of superior performance, shared value, and relationships (O'Cass & Ngo, 2012). Moreover,

companies need to be dynamic in developing and delivering value propositions or services offered, thereby, indicating the significant importance of service innovation (Vargo & Lusch, 2017). It has been previously discovered that companies with good innovation capabilities usually rely on competencies and resources continuously updated, created, integrated, and changed to meet specific needs (Lusch et al., 2007). They mostly apply the concept of learning-by-doing which is very difficult for competitors to duplicate (Cavusgil et al., 2003). These companies can capture, create and deliver good value to customers and also improve their performance (Cavusgil et al., 2003).

### *5.3 The Effect of Innovation Capability on Positional Advantage*

It was discovered from the analysis that innovation capability has a positive and significant impact on positional advantage. This indicates higher innovation capability can provide a better positional advantage for woodcraft SMEs in Bali. This further shows that innovation is an essential element for a company to achieve success in a highly competitive environment. Firms with high levels of innovation activity and capability gain better responses from the environment and competitive advantage to improve their performance. This is in addition to the development of positional advantage based on the capacity to learn, innovate, and explore existing opportunities. Moreover, the ability of SMEs to optimize the best resources in the product development process is a determinant to have superior products compared to competitors. This shows that they need both technical and non-technical capabilities to produce innovative and superior products which are important to achieving a better positional advantage in the market (Hendar & Kartikab, 2019).

The result conforms with the SDL theory that innovation has a strategic role in creating, maintaining, and developing markets (Vargo & Lusch, 2016). An increase in innovation capability can provide a positional advantage for a company compared to its competitors and also ensures a sustainable competitive advantage (Landoni et al., 2016). Moreover, Landoni et al. (2016) further reported that innovation ability has a positive effect on overall competitive advantage while Carbonell and Rodriguez (2006) indicated the positive and significant influence of innovation speed on positional advantage. These findings have, therefore, been confirmed by this study.

### *5.4 Effects of Aesthetic-Utilitarian Value on Export Performance*

The analysis showed that aesthetic-utilitarian value has a positive and significant effect on export performance. This implies a higher aesthetic-utilitarian value can lead to better export performance for woodcraft SMEs in Bali. The firms that pay attention to the creation and delivery of superior value to consumers were able to improve their export performance. This is due to the fact that the products provided both visual benefits to attract consumers and physical resilience to perform the functions expected by the consumers. This allowed the SMEs to improve their export performance and compete in international markets.

One of the main principles in the aesthetic-utilitarian value of the SDL theory is to develop shared values (Vargo & Lusch, 2004). This denotes the aesthetic and usability are not determined by only the producers but through the involvement of consumers through the concept of co-creation value. The joint role can develop a value proposition to match the expectations and experiences of the consumers (Payne et al., 2008; Vargo & Lusch, 2008).

The result was observed to be in line with the findings of Cabiddu et al. (2013) that a company needs to develop a value creation strategy to achieve superior performance. Zaborek and Mazur (2019) also found the positive influence of shared value creation on organizational performance. Moreover, the use of aesthetics or industrial design has been found to have a positive contribution to company performance (Candi & Saemundsson, 2011).

### *5.5 The Effect of Positional Advantage on Export Performance*

Positional advantage allows companies to accurately position themselves in the market based on the suitability of their current capabilities and product offerings. This shows that a higher positional advantage is expected to lead to a higher export performance for woodcraft SMEs in Bali. Firms can earn a competitive advantage in the international market by positioning their products better than their competitors. This can be achieved through technological superiority, product quality, speed to market, and a firm's image. The SMEs need to use superior technology in producing their products in order to ensure they are not easily and quickly imitated. Moreover, quality is a matter of general concern associated with performance due to its ability to place a product in a superior position. It was also observed in the woodcrafts industry that competitors are often quick to imitate designs, and this signifies that offering new products to the market at a faster rate compared to competitors has the ability to provide a positional advantage. Furthermore, a firm with a positive image indirectly has a good position in the market. This shows that positional advantage is very important to the improvement of export performance by SMEs.

Positional advantage theory indicates a relationship between positional and competitive advantage. This is associated with the fact that having a positional advantage encourages the creation of customer value which further differentiates the product from competing products in the market and leads to the achievement of a premium price (Porter, 1990). The relative advantage established is strategically advantageous considering the high competition and dynamism in the industry.



This was observed to agree with the findings of Micheels and Gow (2014) and Hult and Ketchen (2001) on the importance of position advantage on firm performance. Therefore, this study confirms the results of several previous studies that increasing positional advantage can improve export performance.

### *5.6 The Mediating Role of Aesthetic Utilitarian Value on the Relationship between Innovation Capability and Export Performance*

The results showed that innovation capability has a direct effect on aesthetic-utilitarian value and export performance. Moreover, the VAF test indicated aesthetic-utilitarian value had a partial mediation role in the relationship between innovation capability and export performance of woodcraft SMEs in Bali. This proves that innovation capability has both direct and indirect effects on export performance through aesthetic-utilitarian value. It shows that the SMEs need to have the capacity to innovate through the creation of values to enhance their export performance. Those with high innovation capabilities were able to increase their ability to create and deliver value to customers (O'Cass & Ngo, 2012). This was achieved through the technical and non-technical aspects continuously developed to produce innovative woodcraft products in order to offer superior value to customers. It is important to note that aesthetic-utilitarian value can be applied to these when the SME has high innovation capability and this is expected to provide a competitive advantage in the market, especially the international market. This is due to the fact that the products are not only assessed based on beauty but also on their function and benefits in line with the needs of the customers. The advantages provided by this value can increase the desire of international customers to buy the woodcraft products of the SMEs, thereby, increasing their export performance.

This further confirms the SDL theory (Vargo & Lusch, 2014) that innovation focuses on creating shared value either directly or indirectly through services provided. A company's innovation capability is a resource within a service ecosystem considered important in creating shared value and generating performance. This creation of shared value is shown in this study by aesthetic-utilitarian value which can also provide economic benefits for the company in the form of performance.

The result supports Cavusgil et al. (2003) that companies with superior innovation capabilities make it difficult for competitors to duplicate their ideas in the market. It was also noted by O'Cass and Ngo (2012) that product innovation capabilities are important in creating superior performance, co-creation value, and relationship. They also allow the establishment of a customer base due to their ability to produce value. Moreover, Ngo and O'Cass (2013) found that innovation capability is required but not sufficient to achieve superior performance without effective consumer participation.

### *5.7 The Mediation Role of Positional Advantage on the Relationship between Innovation Capability and Export Performance*

The results revealed that positional advantage has the ability to mediate the effect of innovation capability on the export performance of woodcraft SMEs in Bali. This demonstrates that innovation capability has a direct effect on positional advantage and export performance. The VAF value also indicates a partial mediating role of positional advantage on the effect of innovation capability on performance. This shows that innovation capability has both direct and indirect effects on export performance through positional advantage. This is due to the fact that innovative and quality products manufactured according to consumer needs can strengthen positional advantage (O'Cass & Ngo, 2012). The SMEs with high innovation intensity have better market performance because they have been able to apply technical and non-technical values to provide a positional advantage for their products in the export market (Bıçakcıoğlu-Peynirci et al., 2019). It is important to note that positional advantage is associated with the provision of a better position for products compared to competitors. This can be achieved based on the quality, benefits, and suitability of the product to consumer needs (Hendar & Kartikab, 2019). Moreover, innovation is very important in developing products and business processes but the products also need to be placed in a superior position. This is necessary because consumers usually compare products on the market and have the tendency to buy those considered to provide superior benefits. Therefore, the export performance of the woodcraft SMEs is expected to increase when they use innovation capability to enhance the positional advantage of their products.

The finding conforms with the theory of positional advantage (Day & Wensley, 1988; Hao Ma, 2000; Porter, 1990) that positional advantage can increase competitive advantage and ensure better performance. This is associated with the fact that the competitors are hindered from shifting a company's strategic position to ensure a continuous stay in the market. According to Hao Ma (2000), positional advantage originates from unique resources such as innovation capability. Consequently, companies with high innovation capabilities have the ability to develop a strong positional advantage because they can differentiate their products through the provision of a superior, thereby, improving their performance.

This finding agrees with Bıçakcıoğlu-Peynirci et al. (2019) that innovation capability can only improve export performance when it generates a positional advantage for companies in the international market. Moreover, product innovation associated with innovation capabilities also has the capacity to improve performance (Altuntas et al., 2018; Hendar & Kartikab, 2019) by ensuring a positional advantage for products based on the perspective of the consumers (Ho et al., 2019).

## 6. Conclusion

The COVID-19 pandemic forced the woodcraft SMEs in Bali to be creative in managing their businesses. This shows the significant importance of technical and non-technical innovation in ensuring quick adaptation and survival for businesses in the current condition. Therefore, SME owners and managers need to determine the appropriate strategy to match the changing market conditions in order to maintain their export performance.

It is also important to note that the woodcraft products should not only offer aesthetic value but also provide benefits to their users. Subsequently, these two values need to be combined in order to satisfy the target consumers. This is due to the fact that the ability of SMEs to offer more aesthetic-utilitarian values to consumers was able to boost export performance because consumers always want the maximum value. Therefore, the firms with the ability to offer high value are the main choice of consumers.

The export performance can also be increased by the advantages possessed by SME products which place the products in a superior position compared to competitors in the international market. This positional advantage shapes the perspective of the consumers concerning the firm and makes it difficult for them to purchase competing products. This subsequently enhances the export performance of these woodcraft SMEs.

The theoretical implication of aesthetic-utilitarian value is the involvement of producers and customers in the combination of aesthetics and utility to provide greater value to customers. The process allows integrating the desires and tastes of the customers into a product in order to obtain value. This is observed to be closely related to the concept of co-creation value in Service Dominant Logic theory. Moreover, the practical implication is that the SMEs can make an effort towards improving export performance during the COVID-19 pandemic by increasing their innovation capability, strengthening their positional advantage, and offering aesthetic-utilitarian value in their products.

This study has several limitations; First, it is limited to small and medium enterprises which are different from large companies and this means the model needs to be tested on a population of large-scale companies. Second, the data were collected using a cross-section method and this indicates further studies are needed when the environment is changed. Therefore, it is recommended that different timescales are analyzed or a longitudinal approach is adopted in the future.

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