

# THE IMPACT OF CAPABILITY INNOVATION TO MARKETING PERFORMANCE THROUGH VALUE CREATION AT THE CENTER OF SMALL AND MEDIUM KNITTING INDUSTRY IN BANDUNG

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## Abstract

*The problems faced by the entrepreneurs incorporated at the center of small and medium enterprises (SMEs) of knitting industry in Bandung vary. The weak innovation capability causes a low value creation and implies in the reduction of marketing performance.*

*This research aims to investigate the relation between the marketing performance in small and medium enterprises (SMEs) knitting industry in Bandung (Indonesia) which is influenced by innovation capability and value creation.*

*The methodology used in this research is the Descriptive Analysis conducted with 281 respondents of entrepreneurs of SMEs at the knitting industry center in Bandung. The scores are calculated using LISREL 8.7 and scoring method to obtain grand mean of each variable. Structural Equation Model (SEM) is also used as the quantitative analysis to test all hypotheses in accordance to the research aims.*

*The result of this research shows that there is a significant impact, both direct and indirect, from innovation capability and value creation to the marketing performance of the SMEs at the center of knitting industry in Bandung.*

**Keywords:** *knitting industry center, innovation capability, value creation, marketing performance*

## BACKGROUND

Small and Medium Enterprises (SMEs) in Indonesia contributes significantly to economic growth, with employment absorption of 99.74% of the total national absorption and contributes to Gross Domestic Product (GDP) of IDR 1,013.5 trillion or 56.73% of Indonesian GDP. (Disperindag Sumedang.go.id, 2014). In Indonesia, SMEs is the subject of discussion and the government concern since they are spread throughout Indonesia and provide a potential job opportunities. They contributes to the economic development of Indonesia in various ways, such as creating employment opportunities, expanding the labor force for urbanization, and providing the need for flexibility as well as economic innovation in general.

Nevertheless, there are various problems faced by the SMEs. According to Mensah (2004) in Agyapong (2010), the SMEs entrepreneurs obtains only limited formal education, have a weak access and utilization of technology as well as a weak managerial skill, often faced an extreme capital volatility, and inability to obtain both technical skill and technology that hinders them from various opportunities.

The SMEs at the center of knitting industry in Bandung also faced various problems. One of the main problem is the lack of creativity of the entrepreneurs that cause to a weak innovation capability. Many of the entrepreneurs only follows the trend from a few creative entrepreneurs rather than strive to be creative in

designing a unique and superior products. Even though, managing creativity and innovation capability are the fundamental elements of an innovative organization (Saunilla & Ukko, 2012).

Dobni (2010), concludes that company with high innovative orientation involves in the strategy of value creation, for instance by developing new products and/or services, creating in both radical or incremental change, based on the needs and demand of their customers (Baregheh *et al.*, 2012). Yang *et al.*, (2009) stated that innovation can be considered as the ability of an organization, because it is the act of spreading resources with a new capacity to create value (Yang *et al.*, 2009). Thus, the weak innovation capability at the center of knitting industry in Bandung causes a low value creation, that become on of their main problem.

Therefore, Innovation is increasingly recognized as the main contributor to the success, performance and viability of organization. Innovation is often driven by the pressure from external environment such as competition, deregulation, the scarcity of resource and customer demand, and related to the adaptive behavior that changes the organization in order to maintain or improving their performance (Damanpour, 2009 in Baregheh *et al.*, 2012).

The weak innovation capability and the low value creation eventually causes a declining in marketing performance. This due to the innovation capability is unable to create values in accordance to the needs and demand of the customers. Although, to increase the marketing performance on an ongoing basis, the company is required to be able to create superior value so as to produce a unique and provides more benefits over competitors (Da Gama, 2011; Bonoma & Clark, 1988; Woodburn, 2006).

Thus, this research aims to investigate the impact of innovation capability and value creation to the marketing performance of the SMEs at the center of knitting industry in the city of Bandung. The findings in this research will provide an overview to the SMEs at the center of Knitting Industry at Binong Jati and Margasari in Bandung the importance of innovation capabilities to create a superior value and improve their marketing performance.

## LITERATURE STUDY AND RESEARCH MODEL FRAMEWORK

### 1. Innovation Capability

#### a. The concept of innovation and innovation capability

Innovation according to Bessan & Tidd (2011) comes from the Latin words *sin* and *Novvare*, which means 'making something new' or change something (*to change*). Baregheh *et al.*, (2012), defines innovation as a multi stage process where organization transforms ideas into a new product or improving service or process. While Subramanian & Mosleshi (2013) states that innovation as the implementation of creative and useful ideas into reality.

A more operational definition of innovation as described by the experts is that innovation extensively defined as a new products, products improvement (which already existed), new production techniques, new organizational structure, new markets discovery as well as new discovery of input factors (Baregheh *et al.*, 2012; Iakovleva & Borch, 2012).

To be innovative, an organization should be able to develop their innovation capability. Managing creativity and innovation capability is one of the fundamental element of an innovative organization. It is essential for future success, since organization operates in an uncertain environment (Saunilla & Ukko, 2012:355).

The definition of innovation capability from various experts are summarized as follows:

**Table 1** Definitions of innovation capability

Writer	Definition
Lin <i>et al.</i> (2010)	Innovation capability is a new implementation or new creation in organisation based on technology applied in system, policy, program, product, processes or tools and services (Chang & Le, 2008; Damanpour & Evan, 1984)

Writer	Definition
Forsman & Rantanen (2011)	Product innovation capability as the ability to acquire and assimilate external knowledge, to turns it into unique competence and new ideas, and make it as a newness pioneer here in after effectively commercialize it
Baregheh <i>et al</i> (2013)	Innovation as a multistage process where organisation transform ideas to a new product/service/process or develop existng product/service/process to develop, compete and differentiate themselves succesfully in market
Toma <i>et al.</i> (2014)	Innovation as a multidimensional concept where the company focus to product, process and service as an implementation from gradual modification.
Saunila <i>et al.</i> (2014)	Innovation capability as a set of interlinked routines in a company to perform a certain tasks

*Resources: Lin et al., (2010), Forsman & Rantanen (2011), Baregheh et al (2013), Toma et al. (2014), Saunila et al., (2014).*

From the definition of innovation capabilities above, it can be concluded in this research that "innovation capability is the managerial and technical ability in applying new ideas into work process to be more effective, efficient and productive that able to fulfil the customer requirements, competitive and able to increase sales".

### **b. The dimensions of innovation capability**

Innovation is not applied only in large companies, but also to the SMEs sector (Baregheh *et al.*, 2012). Various references and researchesthat are related to innovation capability have revealed multiple dimensions and indicators which are used by previous researchers that can be summarized as follows:

- **Lin et al., (2010):** *Innovation Produk, Innovation Process, Innovation Marketing, Innovation Service, Innovation adminstration*
- **Forsman & Rantanen, (2011):** *Capabilities for knowledge exploitation, Entrepreneurial capabilities, Risk management capabilities, Networking capabilities, Development capabilities, Change management capabilities, Market and customer knowledge*
- **Baregheh et al., (2013) :** *Product Innovation, Innovation Process, Innovation Position, Innovation Paradigm*
- **Toma et al., (2014):** *Product innovation, Innovation process, Innovation management, Innovation service, Innovation administration*
- **Saunila et al., (2014) :** *Participatory leadership culture, Ideation and organising structures work, climate and well-being, Know-how development, Regeneration, External know-ledge, Indivi-dual activity*

Based on the identification of innovation capabilityconcept as well as the observations of the phenomenon, the lack of innovation at the knitting center in Bandung, the dimensions used in this study are adopted from the research of **Forsman & Rantanen, (2011)** and **Saunila et al (2014)** i.e **leadership for innovation, individual knowledge and creativity, innovational climate and culture, networking and collaboration, innovation process, and innovation outcome**, since it is considered to be in accordance withboth internal and external conditions of SMEs where the research is conducted.

## **2.Value Creation**

### **a. The concept of valueandvalue creation**

In marketing, value is defined in its relation with the ownership of the goods whichcalled as a *trade-off* (exchange) between the benefits gained from ownership and the sacrifices made to possession (Anderson & Narus, 1999; Monroe, 1990; Zeithaml, 1988). The conception of value assumes the value contains in products and services, creates value related to uncover needs, design solutions, manufacture solutions and transfer the solutions to customers in exchange for something else (La Rocca & Snehota, 2014).

Furthermore, Lindman (2013; 40) defines value creation as the ability of a company to create and deliver value by an effective management from supply chain, shared network, or customer relations which forms the main source of value creation.

Some researchers analyze the value creation from what it is called as functionalist perspective. The basic premise underlying this approach is that the company can execute a series of functions that create value for its partners and consumers (Sanchez *et al.*, 2008). Kotler & Keller (2009: 136) confirms that the value perceived by customer (**CPV-Customer Perceived Value**) is the difference between the assessment of prospective customers to all the benefits and costs of an offer for the alternatives. **Total customer benefits** is a monetary value of economic benefits collection, functional and psychological expected by customer from a market supply which is caused by products, services, personnel and image involved. While **Total Customer Cost** is a collection of perceived costs that are expected by customers to be issued in evaluating, obtaining, using and discard a market supply including monetary cost, time, energy, and psychological.

### **b. The dimensions of value creation**

Various references of sources and studies related to value creation have revealed some dimensions and indicators used by previous researchers such as:

- **Kotler & Keller (2013):** *Benefit Customer, Bussines Area, Bussines Patner/Network*
- **Herskovits, Grijalbo, dan Tafur (2013):** *New Products & Services, Complementary & Leveraging Technologies, Virtuuous Ecosystem*
- **Craven & Piercy (2013):** *Market Sensing Capabilities, Customer Lingking Capabilities, Aligning Structure & Proses*
- **La Rocca & Snehota (2014):** *networked sales organisation, architecture of collaboration, distributed knowledge system*
- **Chung (2015):** *Quality capability, Service Capability, Cost control capability, Speed capability, Innovation capability*

The dimensions of value creation used in this study are taken from the opinion of **Kotler & Keller (2013)** i.e Benefit Customer, Bussines Area, Bussines Patner/Network since they are perceived to be suitable with the conditions where the study is taken place at the center of knitting industry in Bandung.

## **3. Marketing Performance**

### **a. Performance and Marketing performance**

Neely *et al.*, (2005) in Saunila & Ukko (2012) defines the measurement of performance as "the process of measuring the efficiency and effectiveness of an action". Performance measurement can also be defined as to measure the input, output or activity level of an event or process (Radnor & Barnes, 2007).

Furthermore, in different terms, Saunila & Ukko (2012) indicates the following requirements for performance framework measurement (Laitinen 2003):

- It should include all important perspectives
- The measurements must contain a sound logical collection
- The framework should be useful for decision-making
- The framework should be able to improve the performance
- The short-term measurements must able to predict the long-term measurements

From organizational point of view, Da Gama (2011) describes performance as something scalable, dynamic, relative and multidimensional. Keats *et al.*, (2008) in Da Gama (2011) defines marketing performance as organizations capability to transform themselves to face the challenges from the environment with long-term perspective.

### **b. The dimensions of marketing performance**

Based on the opinion of some experts on the indicators that used to measure the marketing performance, this study sought to combine two theoretical concepts based on the researchs of Da Gama

(2011), Mone *et al.*, (2013) and Kosan (2014) in order to measure the marketing performance of the center of knitting industry in Bandung.

The following list are the dimensions of marketing performance from several researches:

- **Green Jr, Inman, Brown, & Wilis (2005):** Market share growth, Percentace new product sales, ROI
- **Sullivan Don (2007):** Sales growth, Profitability, New product Success
- **Antonio Pimenta da Gama (2011): Marketing Performance** (Quality, Costumer Satisfaction, Customer Loyalty, Brand equity, Market Share), **Financial Performance** (Sales revenue, Profit margin, Cash Flow)
- **Mone et al., (2013): Financial output** (profits, sales, cash flow), **Non-financial output**(market share, customer satisfaction)
- **Levent Kosan (2014): Non Financial Out Put** (Market share, customer satisfaction, customer loyalty/retention, brand equity, innovation), **Financial Out Put** (Sales analyses, Market share analyses, The ratio of marketing and sales expenditure to sales)

The measurements of marketing performance used in this research are sales volume, profit and market share (Levent Kosan, 2014; Mone *et al.*, 2013; da Gama, 2011) since they are perceived to be suitable with the conditions where the study is taken place.

#### 4. Research framework and hypotheses

In order to fulfil the customer needs, product offerings must be adapted in accordance with the customers needs and demands. Each business has a different approach to implement innovative ideas. Things that determine an organization will be successful in implementing innovative plan which will depend how organizations approach new ideas (Urhuogo & Williams, 2011: 80).

Meanwhile, marketing performance is the measurement of the company's success represented by output achieved based on their ability to reach sales target, profit, sales and consumers growth. Sales growth through innovation capability of the company that sees the consumers as their source of income and be maintained by the creation of superior value for the realization of customer satisfaction and loyalty.

From the framework description above it can be concluded that market performance is affected by the innovation capabilities through the creation of superior value. This framework is based on various theories about the relationship between variables of several previous studies and the expert opinion which is further described as follows:

##### 1) The linkage between innovation capability and value creation

The relation between innovation capability to value creation can be seen from a number of empirical studies that have been conducted by previous researchers. Herskovits et al (2013) argues that there is a strong relation between innovation openness to value creation. It is also supported from the results of Shamah (2012) which aims to test the service supply chain management that is environment-oriented at the hotel to improve performance productivity and the innovation level for value creation. The research results have been gotten by promoting innovation in the service value chain which can create a positive and significant value.

Further the research of Grimaldi *et al.*, (2012), who examines the capacity of innovation community to improve the value creation process which also found a strong relation from innovation capacity to value creation. This finding is supported by Malik *et al.*, (2011) that aims to be a consideration in the organizational culture that organizational innovation and its impact on the role of cost management technique in value creation. The research sample in his research are 300 accounting management professionals from various industries in Pakistan. From his research it is found that innovation can effectively save the cost for value creation.

Thus, the hypothesis in this research can be formulated:

**Hypothesis 1:** There is a positive and significant correlation between innovation capability and value

creation

## 2) The linkage between innovation capability and marketing performance

The problem faced by Small Medium Enterprises (SMEs) in general lies in their ability to develop an innovative operational system in the company. According to Forsman & Annala (2011) most of SMEs are biased towards the development of incremental innovations that are produced in different types of innovation: products, services, processes, production methods and single function. As well as stated by Koc & Ceylan (2007) in Fernandes (2013) that an effective implementation of innovation has gained the level of recognition for sustainable competitive advantage to improve organizational performance.

The importance of innovation relation to performance is expressed by Saunila (2012), which is quoted from Alison *et al.*, (2007), as follow:

*“An organization’s competitiveness will be even more dependent on its ability to produce innovations in the future. Thus, it can be assumed that an organization’s performance is more and more dependent on its innovation capability (Allison et al., 2007)”.*

It also similar with the research conducted by Damanpour (2009) which cited by Baregheh *et al.*, (2012) said:

*“Innovation is increasingly recognised as having an important contribution to make to organisational success, performance and survival. Damanpour (2009) suggests that innovation is often driven by pressure from the external environment, including factors such as competition, deregulation, isomorphism, resource scarcity, and customer demand, and that it is associated with adaptive behaviour that changes the organisation in order to maintain or improve its performance”.*

The research conducted by Saunila *et al.*, (2013) at small and medium enterprises (SMEs) in Europe strengthens the opinion above. From the result’s findings, there is a positive and significant impact between innovation capabilities on performance is obtained.

Thus, it can be concluded that the innovation capability has linkage to the marketing performance and the hypothesis can be formulated as follows:

**Hypothesis 2:** There is a positive and significant correlation between innovation capability and marketing performance

## 3) The linkage between value creation and marketing performance

Company marketing is always directed to generate performance, either in the form of marketing performance (such as sales volume, market share and the growth rate of sales) or financial performance (Mone *et al.*, 2013). Almost every marketing studies links the value acceptance offered to customers as the basis of customer satisfaction in forming loyalty. A superior value offering is transformed into product in order to creates value for consumers. A customer satisfaction will improve the marketing performance of a company so that it can make a success of the undertaken business.

The research on value creation has conducted by Tournuis (2013), saw the customer value can establish marketing performance. The research resulted that value acceptance and customer satisfaction has a strong relation between cognitive and emotional customers to make purchase and improve the performance.

Further the research conducted by Da Gama (2011), that aims to form a model based on company marketing asset that includes quality, satisfaction and customer loyalty, as well as brand strength and market share to form marketing performance. The position of the proposed model itself function as a tool that allows condition measurement in determining good marketing practices and its contribution to value creation.

Therefore, the hypothesis can be formulated as follows:

**Hypothesis 3:** There is a positive and significant correlation between value creation and marketing

performance

#### 4) The linkage between innovation capability to marketing performance through value creation

Value creation can be seen as intermediary between innovation capability and marketing performance, where a superior value creation function as the outcome from a high innovation capability in order to improve marketing performance. Herkovits *et al.*, (2013) found that value creation is based on the openness of innovation.

This could happen since the company possess the ability to implement creative ideas into reality (Subramaniam & Mosleshi, 2013) then to change them into a new products (Baregheh *et al.*, 2012) that creates and delivers value to the customers (Lindman, 2013) and provides benefit to cutomers (Kottler & Keller, 2013), increasing the company's profit (Moneet *al.*,2013) and market share (da Gama, 2011; Moneet *al.*, 2013; Kosan, 2014) thus increasing the marketing performance as the result of the formation of a strong relationship between the cognitive and emotional aspects of the cutomers in making purchase (Tournuis, 2013).

Base on desription above, the hypothesis can be concluded:

**Hypothesis 4:** There is an influence of innovation capabilities on marketing performance through value creation

Based on the framework and findings from previous researches, a research model paradigm and hypothesis can be built that link all the variables suitable in this model study and can be described as follows:

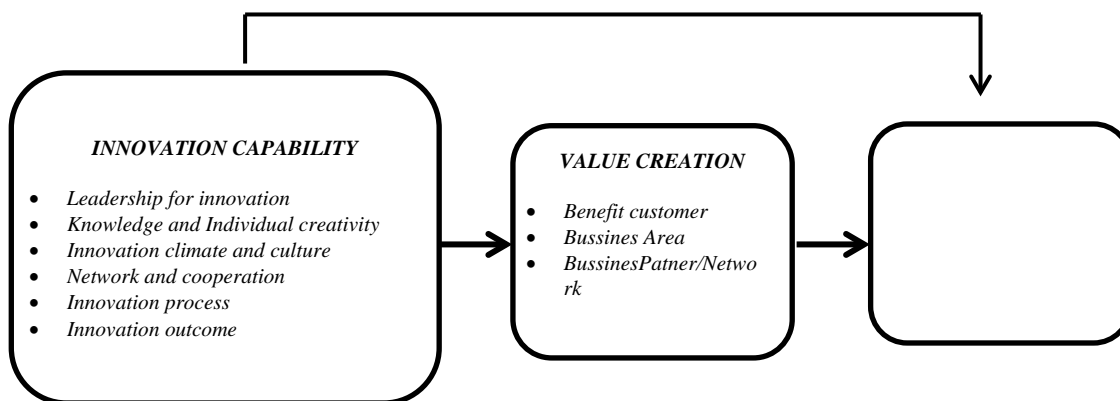


Figure 1 Research model

## RESEARCH METHODOLOGY

### 1. Population and Sampel

This research is uses sampling method conducted to 281 respondents of entrepreneurs incorporated at the center of knitting industry in Bandung and be processed using Structural Equation Modeling (SEM).

### 2. Measurement and variable testing

The average score of each indicators is measured using scoring method and LISREL 8.7 software to obtain the grand mean in order to find out the impact of each exogenous latent variable to the endogenous latent variable. Moreover, the Structural Model Equation (SEM) is also used as the relevant quantitative analysis to test each hypothesis in accordance with the aims of the research. In this research model, two types of models are formed, the measurements model to describe the variance proportion of each manifest variables that can be described in latent variable to find out which dimension is more dominant in reflecting the latent variable and the structural model in order to review the impact of each exogenous latent variable to the endogenous latent variable.

## DISCUSSION AND RESULT

### a. Descriptive Analysis

Based on the data obtained from the respondents the condition of each variable can be known. In order to be interpreted, categorization of the mean score of the respondents response is needed based on the spread between the maximum and minimum score divided with the number of the category.

#### 1). Innovation Capability

In order to obtain a comprehensive description of the innovation capability variable, the average score of the response from respondents on the 26 questions is calculated to obtain the grand mean value of 3,34. Thus, it can be concluded that innovation capability of the SMEs of Binong Jati and Margasari is sufficient.

#### 2). Value Creation

Three dimensions of value creation shows a good/high result with the value of grand mean of the average score of the respondents is 3,37 which means that most of the SMEs at Binong Jati and Margasari are quite capable to create value.

#### 3). Marketing Performance

The value of grand mean is 3,28 classified as sufficient. It means that most of SMEs at Sentra Rajut Binong Jati and Margasari already have a sufficient marketing performance.

### b. Hypotheses testing

#### 1). The partial influence of innovation capability to value creation

Hypothesis:

$H_0 : \gamma_{1.2} \leq 0$  Innovation capability partially has no positive impact to value creation of the SMEs of knitting industry in Bandung.

$H_a : \gamma_{1.2} > 0$  Innovation capability partially has positive impact to value creation of the SMEs of knitting industry in Bandung.

#### 2). The direct influence of innovation capability to marketing performance

Hypothesis:

$H_0 : \gamma_{22} \leq 0$  Innovation capability has no positive impact to marketing performance of the SMEs of knitting industry in Bandung.

$H_a : \gamma_{22} \neq 0$  Innovation capability has positive impact to marketing performance of the SMEs of knitting industry in Bandung.

#### 3). The partial influence of value creation to marketing performance

Hypothesis:

$H_0 : \gamma_{21} \leq 0$  Value creation partially has no positive impact to marketing performance of the SMEs of knitting industry in Bandung.

$H_a : \gamma_{21} \neq 0$  Value creation partially has positive impact to marketing performance of the SMEs of knitting industry in Bandung.



#### 4). The influence of innovaton capability to marketing performance through value creation

Hypothesis:

$H_0 : \gamma_{1.2} \times \beta_{2.1} = 0$  Indireclty through value creation, innovation capability has no positive impact to marketing performance through value creation of the SMEs of knitting industry in Bandung.

$H_a : \gamma_{1.2} \times \beta_{2.1} \neq 0$  Indireclty through value creation, innovation capability has positive impact to marketing performance through value creation of the SMEs of knitting industry in Bandung.

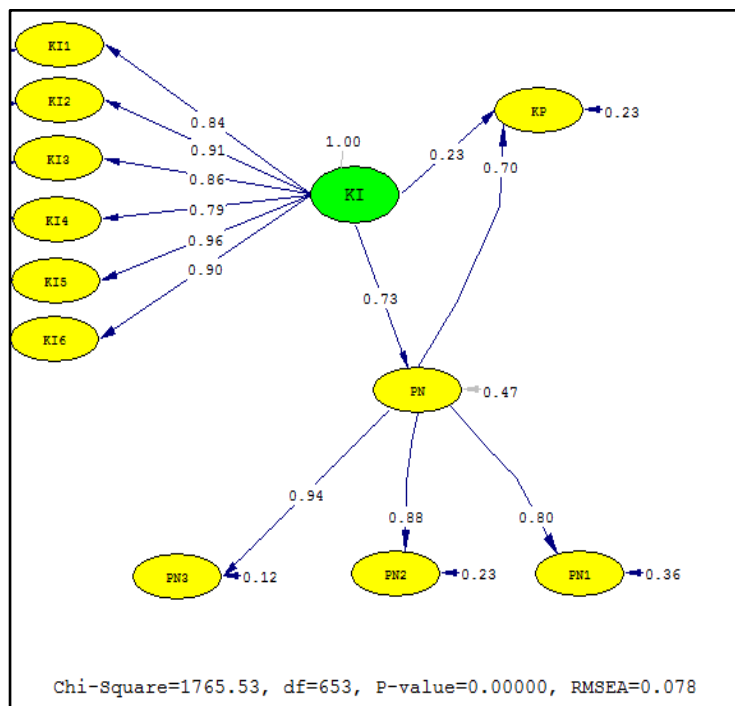


Figure 1  
 Structural Model

Tabel 2  
 Result of direct impact

Model	t statistic	Significant value	R <sup>2</sup>
PN = 0.73 * KI	9.33	Significant	53%
KP = 0.23 * KI	9.76	Significant	34%
KP = 0.70 * PN	8.73	Significant	57%

Tabel 3  
 Result of indirect impact

Model	t statistic	Significant value	R <sup>2</sup>
KP = 0.23 KI + 0.70 PN	5.10	Significant	77%

Based on table 2 and table 3 above, the impact of Value Creation (*Penciptaan Nilai/PN*) to Marketing Performance (*Kinerja Pemasaran/KP*) is higher than the Impact of Innovation Capability (*Kapabilitas Inovasi/KI*) to Marketing Performance (*Kinerja Pemasaran/KP*) with total impact of 77%. While the indirect impact Impact of Innovation Capability (*Kapabilitas Inovasi/KI*) to Marketing

Performance (*Kinerja Pemasaran/KP*) through Value Creation (*Penciptaan Nilai/PN*) is  $0,73 \times 0,70 = 0,51$ . Thus, total impact of Innovation Capability (*Kapabilitas Inovasi/KI*) to Marketing Performance (*Kinerja Pemasaran/KP*) is  $0,23 + 0,51 = 0,74$ .

## CONCLUSION

1. Based on calculation, The value of  $t_{\text{statistic}}$  on the variable of innovation capability is 9,33 higher than  $t_{\text{critical}}$  of 1,96. Thus with 5% error rate,  $H_0$  is rejected and  $H_a$  is accepted. Therefore it can be concluded that partially, innovation capability has a positive influence of 53% to value creation. This result gives empirical evidence that a higher innovation capability will increase the value creation of the SMEs of knitting industry in Bandung.
2. Based on calculation, The value of  $t_{\text{statistic}}$  on the variable of innovation capability is 9,76 higher than  $t_{\text{critical}}$  of 1,96. Thus with 5% error rate,  $H_0$  is rejected and  $H_a$  is accepted. Therefore it can be concluded that innovation capability has a positive influence of 34% to marketing performance. This result gives empirical evidence that a higher innovation capability will increase the marketing performance of the SMEs of knitting industry in Bandung.
3. Based on calculation, the value of  $t_{\text{count}}$  on the variable of value creation is 8,73 higher than  $t_{\text{critical}}$  of 1,96. Thus with 5% error rate,  $H_0$  is rejected and  $H_a$  is accepted. Therefore it can be concluded that value creation has a positive influence of 57% to marketing performance. This result gives empirical evidence that a higher value creation will increase the marketing performance of the SMEs of knitting industry in Bandung.
4. Based on calculation, the value of  $t_{\text{statistic}}$  on the indirect impact of the variable innovation capability is 5,10 higher than  $t_{\text{critical}}$  of 1,96. Thus with 5% error rate,  $H_0$  is rejected and  $H_a$  is accepted. Thus, it can be concluded that innovation capability has indirect impact of 77% to marketing performance of the SMEs of knitting industry in Bandung through value creation.
5. The findings in this research gives empirical evidence of a positive and significant impact of innovation capability and value creation as the exogenous latent variables to marketing performance as the endogenous latent variable. That eventually provides a basis for the SMEs at the center of knitting industry in Bandung to improve their marketing performance by increasing the value creation through the enhancement of their innovation capability.

This paper is expected to contribute to the literature with the establishment of a conceptual framework models that are customized to the phenomena that occur in the knitting center at Bandung city (Indonesia) particularly in Binong Jati and Margasari areas. The weak innovation capability of knitting entrepreneurs makes the lack of value creation for the customer, which of course will have impact on the marketing performance of knitting products. The research model framework is built upon a causal link both from the internal of SMEs itself and from the external environment that affect the company business, especially SMEs. To clarify the causal relation that happens, the research model is built from a combination of several posts related to the innovation capability, value creation and marketing performance. Some indicators of innovation capability variables that are designed are adjusted to the conditions of SMEs in the knitting industry at Binong Jati and Margasari and the author consideration.

Therefore, the writer suggest the entrepreneurs at the center of knitting industry in Bandung to improve their innovation capability by improving the leadership of the entrepreneurs through the openness of new ideas so that developing a friendly climate and culture for the improvement of innovation capability, developing the ability to absorb various information as well as technology, thus increasing the creativity in creating both superior products and methods compare to their competitor in order to improve the marketing performance.

In addition, many studies models of previous author only discussed in general for large companies, although there are for SMEs but it has not been into the knitting industry business. The problems at knitting industry in Indonesia, especially Bandung is unique compared to another existing SMEs industry, that in the future, it is expected to be conducted to similar industry in order to be able to generalize the model in this research.

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