

# Beyond Innovation: Relational Capabilities as Drivers of Brand Equity and Customer Loyalty in Industrial SME Markets

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## ABSTRACT

Marketing innovation is commonly regarded as a key driver of competitiveness; however, its effectiveness may vary across different market settings. In Small and Medium-sized Enterprises (SMEs) ecosystems, where long-term collaboration and interdependence are central, relational capabilities may play a more decisive role than innovation-driven differentiation. This research focuses on how Strategic Marketing Innovation, Service Quality, and SME Empowerment influence Brand Equity and Customer Loyalty. Drawing on the Resource-Based View and Relationship Marketing Theory, it explores whether relational capabilities provide a stronger foundation for brand development than innovation-oriented strategies. Data were collected from 200 SME customers within the industrial flour supply chain in Java, Indonesia, and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The results show that Strategic Marketing Innovation does not significantly affect Brand Equity, whereas SME Empowerment and Service Quality have significant positive effects. Brand Equity, in turn, strongly influences Customer Loyalty. These results imply that relational qualities, rather than just innovation intensity, are more important in determining brand success and customer loyalty in partnership-oriented industrial marketplaces. They also emphasize how crucial relational techniques are to bolstering community-based industrial ecosystems and SME sustainability.

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## **INTRODUCTION**

In many SME-driven industrial markets, sustaining competitive advantage is not as straightforward as it appears. Firms often operate in environments where price competition is intense and product differentiation is limited, making it difficult to rely solely on traditional competitive strategies.

While innovation has long been considered a key driver of firm performance, its actual impact may depend heavily on how well it aligns with customer needs and operational realities. In practice, SME customers tend to prioritize reliability, consistency, and business continuity over novelty. At the same time, relational aspects such as service quality and ongoing engagement are increasingly recognized as critical factors in shaping long-term partnerships. Recent studies in SME and industrial contexts also indicate that innovation, service quality, and relational engagement are often examined separately, resulting in limited understanding of their combined impact on brand equity and customer loyalty (Iglesias, et al., 2020), (Adriel, et al., 2024).

This issue becomes particularly important in the context of PT Sriboga Flour Mill, where SME customers act not only as buyers but also as intermediaries who shape end-consumer perceptions.

Drawing on the Resource-Based View (RBV) and Customer-Based Brand Equity (CBBE) theory, this study proposes that brand equity serves as a central mechanism linking firm capabilities to customer loyalty. Specifically, this research focuses on how strategic marketing innovation, service quality, and SME empowerment influence brand equity, which subsequently drives customer loyalty.

This study contributes to the literature in three ways. First, it brings together innovation, service, and empowerment within a single capability framework. Second, it highlights the role of brand equity as a central strategic asset in a Business-to-Business-to-Consumer (B2B2C) SME context, connecting firm capabilities with customer outcomes. Third, it offers empirical evidence from the Indonesian flour industry, which has received

limited attention in branding and SME research.

This study is particularly relevant to SME development since it shows how service quality and empowerment affect both the sustainability of SME ecosystems and business performance.

## **LITERATURE STUDY**

### **Theoretical Foundation**

The Resource-Based View (RBV) posits that firms achieve sustained competitive advantage through resources that are valuable, rare, inimitable, and non-substitutable (Barney, 1991; (Peteraf, 1993)). While early RBV research emphasized technological and innovation-based resources, recent studies suggest that relational capabilities, such as service quality and customer engagement, constitute equally critical strategic assets, particularly in business-to-business contexts (Kurniawan, et al., 2021). This perspective is further strengthened by the dynamic capability view, which highlights the firm's ability to reconfigure resources in response to changing environments (Teece, et al., 1997)

In addition, the commitment-trust theory of relationship marketing emphasizes that long-term business relationships are built upon trust and commitment, which are critical drivers of customer loyalty (Morgan & Hunt, 1994). In industrial SME ecosystems, these relational mechanisms play an essential role in translating firm capabilities into sustained performance outcomes.

Complementing this perspective, Customer-Based Brand Equity (CBBE) theory explains how firm-level capabilities are translated into customer perceptions, which subsequently drive behavioral outcomes such as loyalty (Keller, 1993). In industrial SME ecosystems, where customers act as both buyers and intermediaries, brand equity becomes a key mechanism linking operational capabilities to downstream market performance.

### **Strategic Marketing Innovation**

Strategic marketing innovation reflects a firm's ability to introduce new marketing approaches and adapt to evolving market dynamics (Hurley & Hult,

1998). While prior studies generally support its positive effect on firm performance (Kim & Lee, J., 2022), emerging evidence suggests that its effectiveness is context-dependent.

However, empirical findings remain mixed, as innovation does not always directly influence customer perception or brand evaluation (Dumitriu et al., 2019). In SME contexts, its effectiveness depends on alignment with operational and customer value creation processes (Rahmat, et al., 2024).

In SME-driven industrial markets, where customers prioritize operational reliability and cost efficiency, innovation may not directly translate into stronger brand perceptions. This indicates a potential boundary condition of RBV, where innovation alone may be insufficient without alignment to customer value creation processes.

H1: Strategic Marketing Innovation positively influences Brand Equity.

### **Service Quality**

Service quality has long been recognized as a fundamental driver of customer satisfaction and trust (Parasuraman, et al., 1988). In relational market settings, particularly B2B SME ecosystems, consistent service delivery reduces uncertainty and strengthens long-term partnerships.

Recent studies also confirm that service quality strengthens brand credibility and trust, particularly in industrial service ecosystems ( (Raddats, et al., 2024); (Taufik, et al., 2022)).

Unlike innovation, which emphasizes differentiation, service quality operates as a stabilizing mechanism that reinforces brand credibility. Empirical evidence suggests that service quality contributes to brand equity indirectly by shaping customer experiences and relational trust (Aesterina & Ong, L., 2024).

H2: Service Quality positively influences Brand Equity.

### **SME Empowerment**

SME empowerment extends beyond transactional exchanges by positioning customers as strategic partners. Through training, technical support, and capability development, firms enhance customers' business performance, thereby strengthening relational bonds.

SME empowerment has been shown to enhance trust, commitment, and long-term business sustainability, reinforcing its role as a strategic relational capability ( (Theresia, et al., 2025); (Widodo & Nugraha,D., 2025)).

From an RBV perspective, empowerment can be conceptualized as a market-facing capability that creates value not only within the firm but also across its customer network (Conger & Kanungo, R. N., 1988). This relational embeddedness increases switching costs and reinforces brand attachment, making empowerment a potentially stronger driver of brand equity than traditional marketing efforts.

H3: SME Empowerment positively influences Brand Equity.

### **Brand Equity and Customer Loyalty**

Brand equity represents customers' overall evaluation of a brand based on their experiences and perceptions ( (Aaker, 1991); (Keller, 1993)). In B2B2C contexts, SME customers act as intermediaries who transfer brand value to end consumers, amplifying the strategic importance of brand equity.

Prior research consistently shows that brand equity serves as a key antecedent of customer loyalty (Oliver, 1999). Rather than being directly influenced by operational capabilities, loyalty is often mediated by customers' perception of brand value.

H4: Brand Equity positively influences Customer Loyalty.

### **RESEARCH METHOD**

A quantitative explanatory approach is used in this study to examine the relationships among Strategic Marketing Innovation, Service Quality, SME

Empowerment, Brand Equity, and Customer Loyalty.

Data were collected from 200 SME customers of PT Sriboga Flour Mill across Java, Indonesia. Purposive sampling was employed to target business owners and managers who actively purchase and utilize the company’s products in their operations. This sampling technique was considered appropriate because the study required respondents with direct experience and understanding of the variables under investigation, particularly within long-term industrial partnerships in the flour supply chain. The sample size was considered adequate for PLS-SEM analysis, which is suitable for complex models and moderate sample sizes (Hair, et al., 2022).

The study employs Partial Least Squares Structural Equation Modeling (PLS-SEM) using SmartPLS 4. This method is appropriate due to its ability to handle non-normal data distributions and predictive-oriented models.

All constructs were measured using reflective indicators adapted from established prior studies. Strategic Marketing Innovation was adapted from (Hurley & Hult, 1998) and (Kim & Lee, J., 2022). Service Quality was measured based on the SERVQUAL (Service Quality) dimensions developed by (Parasuraman, et al., 1988). SME Empowerment indicators were adapted from (Conger & Kanungo, R. N., 1988) and recent SME

relational capability studies. Brand Equity was measured using Customer-Based Brand Equity (CBBE) dimensions derived from (Keller, 1993) and (Aaker, 1991), while Customer Loyalty indicators were adapted from (Oliver, 1999). All measurement items were adjusted to fit the SME-based industrial flour supply chain context.

To assess potential common method bias (CMB), a collinearity test was conducted using Variance Inflation Factor (VIF). All VIF values were below the conservative threshold of 3.3, indicating that common method bias is not a significant concern.

## RESULTS AND DISCUSSION

### Measurement Model Assessment

The measurement model demonstrates satisfactory reliability and validity. All indicator loadings exceed the recommended threshold of 0.70, confirming indicator reliability (Hair, et al., 2022). Composite reliability (CR) values are above 0.70, indicating strong internal consistency, while Average Variance Extracted (AVE) values exceed 0.50, confirming convergent validity.

Discriminant validity was assessed using the Heterotrait-Monotrait Ratio (HTMT). Although several construct pairs approach the threshold of 0.90, this reflects conceptual proximity rather than measurement issues, which is acceptable in theory-driven models.

**Table 1.** Measurement Model Evaluation

Construct	Indicator Loadings	Cronbach's Alpha	CR	AVE
SMI	0.731 – 0.883	0.773	0.869	0.690
SQ	0.896 – 0.928	0.892	0.933	0.822
SE	0.886 – 0.916	0.886	0.929	0.813
BE	0.863 – 0.918	0.874	0.923	0.799
CL	0.913 – 0.943	0.921	0.950	0.864

### Structural Model Assessment

The model explains 66.9% of the variance in Brand Equity and 78.1% in Customer Loyalty, indicating substantial explanatory power.

Additionally, effect size analysis shows that SME Empowerment has a moderate effect on Brand Equity, while Service Quality has a small effect, and Strategic Marketing Innovation has a negligible effect. Brand Equity demonstrates a very strong

effect on Customer Loyalty.

**Table 2.** Structural Model Results

Hypothesis	Path	B	t-value	p-value	Result
H1	SMI → BE	0.073	0.787	>0.05	Not Supported
H2	SQ → BE	0.331	3.637	<0.01	Supported
H3	SE → BE	0.460	5.266	<0.01	Supported
H4	BE → CL	0.884	35.851	<0.01	Supported

Interestingly, the findings reveal that strategic marketing innovation does not significantly influence brand equity in this context. This result may seem counterintuitive at first, given the strong emphasis on innovation in the existing literature. However, in SME-based industrial markets, customers are often more concerned with practical value than with novelty. From a managerial perspective, this finding reflects the operational realities of SME-based industrial markets.

One possible explanation is that innovation, when not directly linked to operational benefits, may not be sufficiently visible or meaningful to customers. This finding reinforces the idea that innovation alone is not always enough to shape customer perception, particularly in relationally embedded environments.

The findings offer several important insights into how capabilities translate into customer outcomes in SME-driven industrial markets.

A notable result is the non-significant effect of strategic marketing innovation on brand equity. Although innovation is often positioned as a primary driver of competitive advantage, its impact in this context appears to be limited. This may be explained by the nature of SME markets, where customers tend to prioritize operational reliability and tangible business benefits over novelty.

In contrast, service quality emerges as a more stable and influential factor. Consistent service delivery reduces uncertainty and strengthens trust, which are essential in long-term business relationships. This supports the view that value in

B2B contexts is built gradually through reliable interactions rather than one-off initiatives.

SME empowerment shows the strongest influence on brand equity, suggesting that capability development at the customer level plays a critical role in shaping brand perception. Unlike innovation, which may remain abstract, empowerment is directly experienced by customers, making its impact more visible and meaningful in daily operations.

Finally, the strong relationship between brand equity and customer loyalty reinforces its role as a central mechanism linking firm capabilities to behavioral outcomes. Rather than responding directly to firm initiatives, customers appear to base their loyalty on how they perceive the overall value of the brand.

### Contribution

This study offers four key contributions to the literature:

1. Reframing Brand Equity as a Network-Embedded Strategic Asset  
This study extends Customer-Based Brand Equity (CBBE) theory by conceptualizing brand equity as a network-embedded construct within B2B2C ecosystems, where SME customers act as intermediaries transmitting brand value to end consumers.
2. Identifying a Contextual Boundary Condition of Innovation Capability  
The findings challenge the universal

applicability of innovation-driven competitive advantage by demonstrating that strategic marketing innovation does not significantly enhance brand equity in SME-driven industrial markets.

3. **Extending RBV through Relational and Market-Facing Capabilities**  
This study advances the Resource-Based View by positioning SME empowerment as a relational, co-created capability that generates competitive advantage beyond firm boundaries.
4. **Extending the Study toward Macro-Marketing Perspectives.**

Beyond firm-level implications, the findings also contribute to broader macro-marketing perspectives by demonstrating how relational capabilities within SME ecosystems can strengthen economic resilience, collaborative value creation, and community-based industrial sustainability. In emerging markets, relational mechanisms such as service support and SME empowerment may play an important role not only in improving firm performance, but also in fostering inclusive economic development across interconnected supply chain networks.

### **Managerial Implications**

The findings provide strategic implications for firms operating in SME-driven industrial markets, particularly within the flour industry.

1. **Redefine Innovation Strategy Toward Practical Value Creation**  
Firms should shift from innovation for differentiation to innovation for operational relevance. Marketing innovation initiatives must directly support SME productivity, cost efficiency, and product application.
2. **Institutionalize SME Empowerment as a Scalable Growth Platform**  
SME empowerment should be embedded into structured programs, including

technical training, recipe standardization, and business coaching. These programs enhance customer capability while increasing dependency and long-term retention. By increasing SME competitiveness and resilience, strengthening SME empowerment benefits not only firm-level outcomes but also larger community development.

3. **Operationalize Service Quality as a System Level Capability**  
Service quality should be standardized across all customer touchpoints, supported by clear service protocols and response systems. Reliable service delivery becomes a key competitive advantage in price-sensitive markets.
4. **Manage Brand Equity as a Strategic Retention Mechanism**  
Firms should actively align marketing, service, and empowerment initiatives to strengthen brand equity. Strong brand equity reduces price sensitivity and protects customer loyalty against competitive pressures.

### **CONCLUSION**

The results of this study highlight that, within SME-based industrial markets, customer loyalty is more strongly shaped by relational capabilities than by innovation intensity alone. While innovation remains relevant, its contribution appears to depend on how well it supports practical customer needs. This reflects the realities of SME-based industrial markets, where relationships often matter more than differentiation.

From a managerial perspective, this suggests that firms may achieve more sustainable outcomes by strengthening relationships, building trust, and supporting customer development, rather than relying solely on innovation-driven differentiation.

### **Limitations and Future Research**

This study has several limitations. First, the study employed a cross-sectional design, which limits the ability to observe changes in customer perceptions

and loyalty over time. Second, the study focused specifically on SME customers within the Indonesian flour supply chain, which may limit the generalizability of the findings to other industrial sectors or geographical contexts.

Future studies are encouraged to validate the proposed model in other B2B manufacturing

industries and emerging market ecosystems to examine whether relational capabilities consistently outperform innovation-oriented strategies in shaping brand equity and customer loyalty. Longitudinal approaches may also provide deeper insights into the evolving dynamics of SME partnerships and relational value creation.

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