

# RECIPROCAL CO-CREATION FOR ENHANCING BUSINESS PERFORMANCE IN PANDEMIC COVID-19: PERSPECTIVE OF S-D-L THEORY

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**ABSTRACT**— The current purpose of this study is to determine a solution to the inconsistent gap existing between relational capability toward business performance through reciprocal co-creation and market responsiveness from the S-D-L perspective. Reciprocal co-creation is a form of mutual exchange collaboration that uses innovation to develop a new value. In this study, four hypotheses were developed and tested with 115 samples from the apparel industry in Central Java, Indonesia. This research highlights the important role of reciprocal co-creation, which is the ability to mediate the relationship existing between relational capabilities to improve business performance. Market responsiveness significantly affects reciprocal co-creation and relational capabilities, although it does not improve business performance.

**KEYWORDS:** Market responsiveness, relational capabilities, reciprocal co-creation, business performance

## 1. INTRODUCTION

The apparel industry is one of the largest contributors to the growth of manufacturing and creative industries in Indonesia and was valued at about 8.30 billion U.S dollars in 2019. Although the industry has experienced a decline in demand due to the pandemic, export opportunities for specific apparel remain available. An example is personal protective equipment (PPE), which is still needed in various countries, with the U.S offering the largest market. The garment industry contributes greatly to the national economy, and its rising value, according to the Indonesia Central Bureau (BPS), was \$37,256,567 in May 2020, meaning that the Indonesian garment industry still stands a chance on the international market [44]. However, a strong business network is required for the international market to be penetrated [27]. Furthermore, social relations are required to determine the appropriate response to global market changes [1]. Collaborative networks can also help companies discover new opportunities, gain knowledge, learn from new experiences, and benefit from synergy with other resources [15]. Through co-creation, relational capabilities can be improved, resulting in heightened business performance [17]. Co-creation is a mutually beneficial collaboration between companies so that they are able to cooperate with consumers, stake holders, suppliers or with fellow competitors. Indonesian apparel MSMEs' ability to build relationships on the international market is enormously owing to garments being one of the largest export commodities. Study [29] stated that value creation through the management of customer relationship can be used to develop the relational process, and according to research by [36], the performance of apparel in Indonesia can be improved through product innovation and building of relational capital. Study [45] believe new knowledge and innovations can improve the performance of MSMEs. However, it is assumed that the debate about relational capabilities does not affect business performance improvement.

According to research by [32], [28], [7] discovered that establishing personal relationships with buyers, providing quality product information, and building long-term relationships did not have any significant impact on the business performance of MSMEs companies. Constant changes occur in the market, environment, technology, and relationships, which are always evolving. This evolution means that the

company always has to respond quickly to the market (market responsiveness) because all changes are unpredictable, as seen in the current Covid-19 Pandemic [22]. The market response can be achieved by developing and codifying knowledge, increasing company competence, and meeting new consumers' demands [21]. Therefore, companies that have market knowledge and competence will be able to deal with change as a key factor affecting competitive resources and pioneering strategies [10]. Considering the inconsistent relationship between relational capabilities and business performance, this study aims to bridge this gap by adopting the theory of Service-Dominant Logic using co-creation, a method employed by companies to integrate resources by creating mutually beneficial values. S-D-L is a competent resource application that seeks to exchange services for mutual benefits through co-created, joint, and reciprocated actions between participants [24]. It is also an important marketing strategy pillar through which companies and consumers create new value collaborations using co-creation to generate service innovation [8]. Furthermore, this study aims to determine a method for building reciprocal co-creation contributions from the S-D-L perspective, bridging the gap between relational capabilities and business performance, arriving at different results from existing studies, and giving it a novelty value.

## **2. Literature Review & Hypothesis Development**

### ***2.1 Reciprocal Co-Creation***

Co-creation is still in its early stages and is considered a conceptual model. In the customer-firm realm, it is used to strengthen relationship management by creating business and customer strategies in line with specific values [29]. It is also part of the Service-Dominant Logic theory, which applies resources and expertise to interact and share useful knowledge. [38], [24]. One research stated that value co-creation results from the integration between consumers and companies through the implementation of co-development, co-design, and refining as a process mechanism [31], [11] clearly distinguishes between value creation and co-creation in the realm of Service-Dominant Logic – which refers to customer value in use and interaction, respectively. According to [42], when used in the context of service-dominant logic, all social and economic actors essentially do the same thing; create value through collaboration using the integration of existing resources and the provision of service. Reciprocal co-creation creates mutually beneficial interactions between stakeholders and other actors [40]. SDL can assist if the company's focus is customer-centric [13]. Co-creation refers to collaborative innovation, which is achieved by developing new values together in concept, solution, product, and service, as well as by sharing ideas and information.

### ***2.2 Hypotheses Development and Empirical Research Model Market Responsiveness and Reciprocal Co-Creation***

Market responsiveness is part of the company's action strategy to keep up with changes in the external and internal environment, keeping the company sustainably competitive [41]. Therefore, the combination of knowledge exchange increases innovation, joint ventures, and the firm's performance [3]. Market responsiveness covers the concept of external knowledge absorption through resources used to develop a company [5]. It increases network strength, which is influenced by the fluctuating market due to the differences in consumer preferences and competitive action [22]. Market knowledge competence is the ability to respond to the market correctly, increasing customer satisfaction and sustainability on behalf of the company through market information, speed of change in market response, new market expansion, and speed of approach to consumers, thereby increasing the company's co-creation.

H1: Market responsiveness has a positive effect on reciprocal co-creation

### ***2.3 Relational Capability and Reciprocal Co-Creation***

Relational capability creates co-creation interactions between two actors who have mutually beneficial resources that can be used to build collaboration [30], [39], [11]. Furthermore, relational touch creates co-creation in a marketing relationship [2], while relational capabilities affect the value of products built through business networking [33]. According to research, it is the integration of business communications that can create shared value in its external and internal configuration, which forms part of the dynamic capability to build the firm's resource with alliance partners [9]. Study [17] described it as a way of exploring information through the facilitation of interaction between partners and the ability to combine technologies while absorbing other parties' competencies.

H2: Relational capabilities have a positive effect on reciprocal co-creation

#### ***2.4 Relational Capability and Business Performance***

Relational supply chain practice improves performance by establishing trust, cooperation, and commitment, enabling the keeping of promises, sincerity, accurate information, as well as cooperation to bring about positive change, problem resolution, and no unfair advantage [6]. Therefore, relational capital refers to the quality form of relationships existing between humans in an organization [3]. This includes long-term relationship orientation, networking, and information technology, as inter-organizational communication improves performance between buyers and suppliers. According to [20], relationship commitment as part of a strategic advantage improves financial and non-financial performance. [23] related business performance to profitability and growth, where these factors explain the precedents, one being the aspect of capability.

H3: Relational capabilities have a positive effect on business performance

#### ***2.5 Reciprocal Co-Creation and Business Performance***

Study [26] explain that reciprocal value co-creation is a relationship between users and providers where values and services are shared. It is a transparent, open-ended social communication, including networking and sharing values from a managerial perspective [16]. Co-creation involves discovering networking solutions for potential links between the value processes of traders and their wider network, as well as integrating resources to achieve certain benefits [19]. The concept has both a positive and significant effect on the improvement of innovation performance [25] concerning incentive alignment, information access, collaborative communication orientation, goal congruence, relationship transparency, and its effect on the performance of firms [4]. [43] measure reciprocal value co-creation using financial and customer performance, internal process, learning, and growth.

H4: Reciprocal co-creation has a positive effect on business performance

### **3. Research Method**

#### ***3.1 Research Sample & Data Collection***

This study aims to build a network between traders in the apparel business and international market buyers. During the COVID-19 pandemic, there was a decline in industry sales; however, some apparel products experienced increased demand. By making innovations and seeing the changing situation of the market environment, SMEs managers are expected to build relational capabilities, observe market responses, and reciprocate co-creation to improve company performance in this period. This survey respondent were apparel SMEs located in Central Java, Indonesia, and purposive sampling was used to test the validity and reliability. The total sample was 115 respondents after going through Mahalanobis, and the data was taken from five apparel-producing regions in Central Java.

**Table 1.** Research Sample

Apparel Industry Area	Data Collected	Number of respondents processed	Percentage
Pekalongan	55	37	32%
Kudus	46	28	24%
Surakarta	42	21	18%
Pemalang	37	17	15%
Semarang	32	12	11%
Total	212	115	100%

Data: Source, 2021

**3.2 Measurement of the instrument’s validity and reliability**

This study’s measurement uses the variables and constructs from previous work, particularly personal ties with buyers, long-term relationships, information sharing, relational skills, partner knowledge, and internal communication obtained from [35]. According to [10], market responsiveness includes a speedy response to market conditions, product strategy, creating a unique product, and getting information. Reciprocal co-creation deals with collaborative relationships based on the reciprocal exchange used to build a shared value, adapted from Kim and Sullivan, including mutual exchange collaborative relationship, benefit, and risk. According to [42], creating value collaboration helps to integrate required resources while co-creation is concerned with sharing useful knowledge via collaborative relationships [24]. The measurement performance business is adapted by [18]. It records business performance using four constructs, namely degree of expected sales, customer growth, overall profitability, sales product increased, increased, increased product market share. All measurements are measured on a scale of 1-10.

**3.3 Measurement of validity and reliability**

The hypothesis testing uses SEM AMOS, which connects the variables of relational capability, market responsiveness, reciprocal capability, and business performance. Furthermore, its calculation is divided into two variables, known as the latent and non-latent variables. The latent variable stems from the theory and good-fit of NFI, CFI, TLI, RFI, GFI, AGFI, RMSEA. At the same time, AMOS is used for its capability compared to regression and the ability to provide a mediating effect [14]. [14] The data employed in measuring the validity and reliability are presented in Table 2.

The loading factor’s critical ratio is represented as  $\geq 2.0$ , meaning that it reflects the latent variable expressed in the regression weight, causing it to be accepted positively and significantly. Therefore, the variable accepted for convergent validity is measured by the cut-of value of acceptance, which is level 0.50 - 0.70 [12]. Table 1 provides information on the differences in the Measurement of Average of Variance Extracted (AVE) concerning several constructs, operational definitions, and questionnaire question items. The Lambda value or loading factor for constructs is more than 0.6 when the average Varian Extract (AVE) is more than 0.5. When the Construct Reliability is more than 0.7, the Discriminant validity is more than 0.7. The results of the calculation are valid and reliable by the predetermined cut points.

**Table 2.** Measurement of Average Validity, Construct Reliability, Discriminant Validity

Variable & Indicator	Reference	Lambda Value	AVE $\geq 0.50$	CR $\geq 0.70$	DV $\geq 0.70$
<b>Relational Capability</b>	[9]		<b>0.645</b>	<b>0.966</b>	<b>0.803</b>
Partner knowledge	the way the company uses	0.85			
Partner relational skill	resources by building integration, external and internal configuration and	0.88			

Sharing information about product quality	through the establishment of alliance partner relationships.	0.90	<b>0.775</b>	<b>962</b>	<b>0.880</b>
Long relationship oriented		0.85			
Personal ties with others		0.87			
<b>Market Responsiveness</b>	[5] [10]				
Speed response to market condition	market responsiveness is the company's ability to respond quickly to market changes.	0.85			
Speed response to change Product strategy		0.84			
Speed response to Create a unique product		0.88			
Speed response to get information		0.95			
<b>Reciprocal co-creation</b>		[20] [37]		<b>0.787</b>	<b>0.954</b>
Mutual exchange collaborative relationship	Co-creation is a collaborative form of mutual benefit that encourages the building of new values, sharing ideas and common risks for products creation, concept formulation, and lasting solutions.	0.93			
Mutual benefit		0.85			
Mutual Risk		0.88			
<b>Business Performance</b>	[18]		<b>0.830</b>	<b>0.978</b>	<b>0.911</b>
Degree of Expected sales	Business Performance is the result of operations carried out by external and internal companies as well as indicators of the degree of expected sales, sales growth, market share, overall profitability.	0.94			
Customer growth		0.98			
Overall profitability		0.93			
Sales product increased		0.86			
Increased product market share		0.84			

Data: Sources 2021

### 3.4 Hypothesis testing

The hypothesis was tested using AMOS software, and the initial test determined how well the Empirical results fit the AMOS Structural Equation Model analysis tool based on Maximum Likelihood Estimation. Overall, the results of the good fit model are CMIN / DF = 1.062, Prob. = 0.307 NFI = 0.942, CFI = 0.996, IFI = 0.996, TLI = 0.996 RFI = 0.931 GFI = 0.898 AGFI = 0.863 RMSEA = 0.023. CMIN / DF values are accepted when less than 2.0, meaning that CMIN / DF = 1.062 is acceptable, all lambda values above 0.7 indicate a moderate level.

Hypothesis testing was carried out with four variables; market responsiveness, relational capability, reciprocal co-creation, and business performance. Three variables produced positive and significant values, while the relationship between relational capability and business performance was insignificant. Secondly, measuring the indirect relationship using a single test calculation showed significant results, meaning that reciprocal co-creation can bridge the gap between relational capability and business performance.



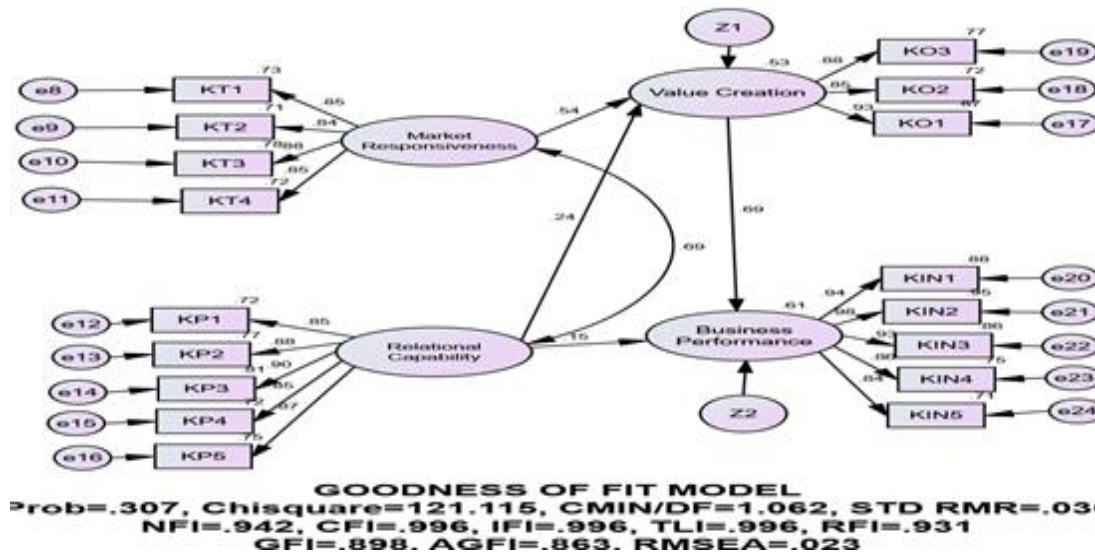


Table 3. Hypothesis Criteria

The Hypothesis relationship	Estimate	S.E	C.R	P	Label
H1: Market Responsiveness → Reciprocal co creation	.640	.137	4.659	***	Accepted
H2: Relational capability → Reciprocal co creation	.231	.107	2.153	.031	Accepted
H3: Relational Capability → Business Performance	.160	.095	1.679	.093	Rejected
H4: Reciprocal co-creation → Business Performance	.769	.107	7.219	***	Accepted
H5: Relational capability → Reciprocal co creation → Business Performance	<b>Full Mediation is confirmed and significant to the Sobel Test = 2.06 and two tail probability 0.03</b>				
<b>Goodness of Fit</b>	<b>Cut of Value</b>	<b>Result</b>	<b>Conclusion</b>		
Chi-square	Small	121.115	Not Fit		
Significance	≥0.05	0.307	Not Fit		
Goodness Fix Index GFI	≥0.90	0.898	Marginal		
Comparative Fix Index CFI	≥0.90	0.996	Fit		
Tucker Lewis Index TLI	≥0.90	0.996	Fit		
NFI	≥0.90	0.942	Fit		
IFI	≥0.90	0.996	Fit		
RFI	≥0.90	0,931	Fit		
AGFI	≥0.90	0.863	Marginal		
RMSEA - Root mean square error of approximation	≤0.08	0.023	Fit		

Data: Sources, 2021

The first hypothesis on market responsiveness to business performance supported that the results are statistically significant with a coefficient = 0.00,  $p < 0.05$ . The second hypothesis is the relational capability of reciprocal co-creation, and it supported that the result was statistically significant with a coefficient = 0.031,  $p < 0.05$ . The third hypothesis is the relationship between reciprocal co-creation on business performance, and it supported that the result is statistically significant with a coefficient value = 0.00  $p < 0.05$ . The fourth hypothesis, the relationship between relational capability on business performance, is not significant. the result of the statistical coefficient = 0.093  $p > 0.05$ . Finally, the fifth hypothesis of the relationship between relational capability, reciprocal co-creation, and business performance supported its significance with a coefficient of = 0.00.  $p < 0.05$ .

**4. Research conclusions and direction for future research**

#### **4.1 Research conclusion**

This study aims to build a conceptual model of how relational capability can improve business performance by bridging reciprocal co-creation synthesis. The hypothesis results conclude that co-creation power creates a market-driven by service-dominant logic as a strategy for building a network of mutual relationships between actors in the market [20]. It also provides value-oriented products and services by sharing information to help in the improvement of business performance. The two S-D-Ls fill the gap by establishing a strategic pathway aiding cooperation with international buyers, either directly or indirectly, in the aspect of customer relationships, which are very important for improving business performance. Other results conclude that market responsiveness has a positive effect on performance and can serve as an action strategy for creating external and internal company relationships [41]. It is regarded as a company's ability to adapt to an ever-changing environment [10], as seen during the COVID- 19 pandemics, where the apparel industry in Indonesia improved business performance using market responsiveness [44]. The relational capability positively affects reciprocal co-creation, where it deals with changes in business, information, and knowledge appearing in different contexts [34]. In the context of service-dominant logic, [42] highlights the positive effects on all socio-economic actors who are essentially doing the same thing – creating value through collaboration, reciprocal resource integration, and service provision. According to [33], [27], [32] relational capability does not affect business performance, even when combined with networking, it cannot cause an improvement, necessitating intervening variables in the apparel business during this pandemic. This requires further research in the field of Service-Dominant Logic.

#### **4.2 Managerial implication**

The results of this study contribute to the literature review of business networks with market responsiveness competencies. Its contribution is providing a strategic framework that includes reciprocal novelty co-creation as a solution and decision-maker in the company with special importance placed on a mutual network that will be beneficial for the apparel industry. Also, speedy market response improves business performance by focusing on the existing consumers and available marketplaces. Furthermore, the relational capability is significant to performance, providing an alternative solution for the accentuation of shared service values.

#### **4.3 Limitation**

One of this study's limitations is that the best fitting model on the GFI index is still worth 0.8 and does not meet the standard cut value. However, suggestions for the future can be included in new variables, or the sample being used enlarged. Secondly, the reciprocal novelty of creation is a relatively new concept that can be applied and linked by cross-modeling. The three relational abilities and insignificant business performance will provide new opportunities for other variables that mediate with other perspectives, such as the Social Exchange Theory.

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