

INNOVATION AND MARKET ORIENTATION: THE EFFECT ON COMPETITIVE ADVANTAGE AND MARKETING PERFORMANCE

(A STUDY OF NATURAL-BASED CRAFT INDUSTRY IN SEMARANG REGENCY, CENTRAL JAVA, INDONESIA)

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Abstract—Having the ability to innovate avoids business players from situations of declining competitiveness that are preceded by a comfort zone situation by past successes. Various studies related to the improvement of marketing performance in general and specifically for competitive advantage in small and medium enterprises have been carried out by relating it to innovation. In business phenomena, creative industry is unique in that it is largely supported by social, cultural, local wisdom, environmental sustainability factors and other uniqueness combined with science and technology. In Central Java, Indonesia, alone, there are several regions which have natural-based craft centers that are feasible to be further developed; one of which is Semarang Regency with the type of water hyacinth-based industry. This research seeks to explore the role of innovation and market orientation on competitive advantage and its impact on marketing performance of natural resource-based craftsmen in Central Java. This research intends to examine the model of researches that have been previously carried out empirically with regard to product innovation and competitive advantage to lead to optimal marketing performance. The analysis results of all hypotheses are supported and in line with several previous studies. Test of empirical analysis shows that innovation and market orientation has a positive significant effect on competitive advantage; similarly, competitive advantage has a positive significant impact on marketing performance. Business players in this natural handicraft industry stated that there is a collective awareness of the importance of

performing innovation and observing the market conditions as an effort to keep their business survive and developing, which further will give an impact on their marketing performance as measured by sales volume and the increasing number of customers.

Keywords—*Innovation, market orientation, competitive advantage, marketing performance*

I. INTRODUCTION

The increasing competition in the business world requires business to develop and create new values or innovations. Having the ability to innovate avoids business players from situations of declining competitiveness preceded by a comfort zone situation by past successes (Wirasasmita 2010). Product life cycle experiences acceleration in terms of time, innovation becomes the strength to distance entrepreneurs from expressions of *'Innovate now or pay later'* or *'Innovate or evaporate'*. Innovation is an effort for firms to achieve competitive advantage and is closely related to knowledge (Santos-Rodrigues and Dorrego 2010).

Nikoomaram et al. (2011) State that business players who do not have the ability to innovate are still able to invest time and resources in studying the market, but without the ability to practice it. Innovations that are able to meet customers needs and introduce new products or processes by utilizing information technology have turned out to be one of the important issues for firms to create sustainable market (Damanpour and Gopalakrishna 2001; Leong 2016b). Innovative capability is important for firms in developing new products, new processes, new organizations through modifications and

reconfigurations of resources, and overcoming the velocity of market changes (G.Alpay 2012; Retnawati and Irmawati 2017; Leong 2016a).

In business phenomena, since the 1990s, a new economic era has begun which intensifies information and creativity, known as popular creative economy, driven by creative industry sector. Handicraft products as part of this creative industry have gotten a place in some of the world markets. Data on Indonesian handicraft exports from January-December 2013 covered United States market (45.56%), Japan (11.56%), Britain (4.33%), Germany (3.77%), and Netherlands (3.10%). But overall, the revenue from Indonesian handicraft exports was decreasing in 2013-2014. Of the five export destination countries, only the United States market which still showed an increase in exports, while other markets experienced a decline compared to the previous years, data were obtained from the Association of Indonesian Handicraft Exporters and Producers (ASEPHI 2015). Data from the ministry of industry also showed a deficit in export performance during January-April which decreased by 6.43% compared to the previous year's performance (BPS 2015).

Creative economy in general and creative industry in particular becomes the foundation and potential source of economic growth in Indonesia today. Global market opportunities for creative works are expected to keep increasing along with improving global economy. The combination of resources availability and global market potential is driving the growth of creative industry as one of the new growth sources in the nation's economy. Indonesia actually has a variety of unique and superior products that can be exposed to the global level more strongly in the creative industry. In the creative industry, various SMEs in crafts have provided evidences as firms that are able to survive in the dynamics and challenges of existing competitive situations (Retnawati and Soekesi 2009).

In Central Java, there are several regions which have centers of natural-based crafts that are feasible to be further developed. Different regions in Central Java with the potential of natural-based handicrafts need to be developed related to constraints of developing the natural-based handicraft industry that may hamper the growth. The potential of natural-based craft centers in some regions of Central Java is constrained in: 1) the side of creative entrepreneurship which is still relatively lacking in the level of professionalism both in terms of skills and expertises and network accesses to other creative industry players at the local, national, and global levels; 2) the number of creative business is still relatively low compared to the number of countries with developed creative industries so that the quantity and quality of local creative enterprises must be increased; 3) although the uniqueness and creativity of the nation's work has begun to be recognized in the global market, the awareness to the products of

Indonesia's creative works is still low due to the product sustainability and and the ability to create brands, packaging, and diversity of environmentally friendly creative products are not yet optimal, and 4) the increasing innovation of market development by utilizing information technology and systems (RPJM 2014)

This research intends to examine the model of researches that have been previously carried out empirically with regard to product innovation and market orientation in competitive advantage to lead to optimal marketing performance. The urgency of this research is to provide theoretical contribution regarding the antecedents of forming innovations in enhancing competitive advantage and marketing performance for these natural-based creative products.

II. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

A. *Innovation: Capital in Facing the Dynamics of Change*

In his book *'The Theory of Economic Development'*, Schumpeter has introduced the meaning and its various applications, innovation is an effort of a new invention that can be applied in various ways including product innovation, production innovation, market innovation, input innovation, and innovation in production organization. The scope of innovation can be broadly applied in a variety of ways and is not limited to only making a new product as Schumpeter has suggested. Furthermore, Gaynor (2002) asserts that for innovation to occur, it requires supports of culture, sources, infrastructure, and processes. Innovation will be enabled to emerge with regard to these elements and innovation is used as an effort to solve the existing problems.

Innovation is not merely related to technical issues alone but also to aspect of organizational administration (Verganti and Öberg 2013). The tendency to always be actively involved in exploring new ideas, carrying out creative processes though may not equal to the existing standards, this attitude reflects the strength in exploring innovative ideas. Creative and innovative processes are supported with fresh ideas, willingness to experiment, which outputs can be in the forms of new products, new processes, new services, new markets, new segments target, or new techniques (Knight 2000). Firms tend to implement responsive and anticipatory marketing strategies (Covin and Miller 2014).

B. *Market Orientation*

Market orientation focuses on the creation of corporate image of its ability to receive sympathy from customers because the firm is able to provide what the customers want optimally; hence, customer satisfaction is manifested (Kohli and Jaworski 1990). Whereas, (Narver and Slater 1990) defines market

orientation as the most effective organizational culture in creating the behaviors needed to create superior value for buyers and provide superior performance for the organization. Different dimensions within market orientation are clearly expressed by Narver and Slater (1990), namely customer orientation, competitor orientation, and cross-functional coordination; while Kohli et al. (1993) on the dimensions of focus to customer and coordinated marketing.

C. Competitive Advantage

The definition of competitive advantage is the unbeatable corporate position so that the long-term benefits are gained and the competing firms are not easy to imitate the strategy and take over the position (Barney 1991). The source of competitive advantage is innovation. The added value gained will give difficulties for the competitors to take over the corporate position. Maintain the advantage requires resources that enable in assuring the superior position, readiness to accept changes; hence, the firm has a tendency to invest in order to limit the competitors' attacks. The dimension of competitive advantage can be in several respects such as cost advantage and differentiation, rare-valuable-not imitable-not substitutability (Barney 1991), managerial-position-image capabilities (Lin and Wu 2013), or innovation differentiation-marketing differentiation (Chen and Lee 2009).

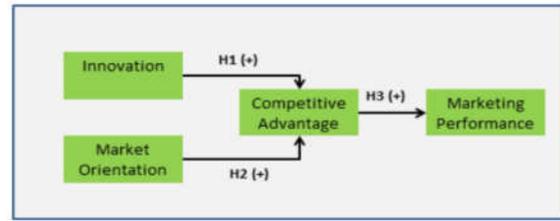
D. Marketing Performance

Corporate performance reflects the performances of various functional managements that perform well in the firm. In the functional management of corporate performance will be described in the human resources performance, production performance, marketing performance, and financial performance (Ferdinand 1999). The measurement of performances itself can be divided into two groups: measurement of financial performance and measurement of non-financial performance. From the non-financial performance, it can be observed how well is the level of human resources productivity, the level of creativity and innovation within the organization, the high quality of the products and services, the acquisition of market share is reflected, and profitability of marketing

The performance measurements for small and medium enterprises can be carried out by employing growth approach since small firms generally have unorganized financial statements and rather difficult to interpret. Some that can be measured from the marketing performance of small and medium enterprises can be observed from the sales value, sales volume, number of customer increase, and growth of market area.

Model of research developed in this article is as follows:

Research model can be illustrated as follows:



(Source: Model Development 2019)

Fig 1. Research Model

Hypotheses tested based on the elaborated literature review are as follows:

- H1: Innovation has a positive impact on competitive advantage
- H2: Market orientation has a positive impact on competitive advantage
- H3: Competitive advantage has a positive impact on marketing performance

III. METHODS

A. Research Subject and Research Location

In this country, the handicraft industry has a bright prospect given the availability of raw materials which have been provided by nature in this country. Only creative and innovative hands are needed to process the materials into products with high aesthetic artistic values and product safety standards required for global products. Natural fiber materials that can be used for unique craft materials include water hyacinth, pandan leaves, bamboo, coconut fiber, banana midrib, pineapple fiber, angel, mending, and corn husk. Subject of this research was natural-based craft SMEs. The location of this research was in Central Java, specifically in Semarang Regency. This location was chosen since the potential of natural-based Small and Medium Enterprises was high and the number of entrepreneurs within was quite large.

B. Population and Sample

Population of this research included SMEs entrepreneurs who engaged in the natural-based creative industries, particularly in Semarang Regency of Central Java. Since the official data of SMEs entrepreneurs' population were not available, samples of 30 entrepreneurs were then taken to represent the Semarang Regency. Sampling technique applied was purposive sampling, i.e. entrepreneurs of natural-based SMEs who have had at least one year of experience in order to obtain qualified information as needed based on research variable indicators.

C. Data Analysis Method

Construct development of innovation has often been measured in term of adoption of a new product or service earlier than the average, new product development and improvement of the product manufacturing process. Market orientation has been

measured by by incorporating three behavioural components are customer orientation, competitor orientation, and interfunctional coordination.

Competitive advantage consist of four items, the respondents are asked to indicate to what extent their efforts in providing superior regional product, giving product differentiation, making response adaptability, and developing sustainability. Marketing Performance consist of the customer retention , the growth of the new customers, wide market coverage, and sales profit.

The table below shows the test results of validity and reliability:

TABLE 1. VALIDITY AND RELIABILITY TEST

Variable	Vaility	Cronbach's Alpha	Keterangan
Innovation (X1)	Item 1-4 (> 0,6)	0,709	Reliabl e
Market Orientation (X2)	Item 1-4 (> 0,6)	0,800	Reliabl e
Competitive Advantage (Y1)	Item 1-4 (> 0,6)	0,781	Reliabl e
Marketing Performancae (Y2)	Item 1-4 (> 0,6)	0,725	Reliabl e

(Source: Primary Data, Processed 2019)

All of indicators are valid because r count for each item is greater than r table (0.312), and all variabel are reliable because all of them have Cronbach Alpha are greater than 0,6 as a required value.

Regression analysis was done to test the hypotheses proposed.

IV. RESULT & DISCUSSION

Descriptions of respondents in this research are summarized in the following table:

TABLE 2. DESCRIPTIONS OF RESPONDENTS

Basic of Classification	Classification	Total	Percentage (%)
Business Age	1 – 5 years	11	27.5
	6 – 10 years	16	40
	11 – 15 years	4	10
	16 – 20 years	6	15
	21 – 25 years	3	7.5
Gender	Male	21	52.5
	Female	19	47.5
Education	Elementary School	25	62.5
	Junior High School	11	27.5
	Senior High School	2	5
	Associate's Degree (D3)	1	2.5
Business Category	Small	29	72.5
	Medium	11	27.5

(Source: Primary Data, Processed 2019)

General descriptions obtained from the table are: most respondents are small-scale enterprises, dominated by male, business age ranges from 6-10 years, and the level of education is elementary shool. Whereas, the validity test of each variable meets the requirements and is declared to be valid; they are innovation, market orientation, competitive advantage, and marketing performance which exceed the required r table of 0.312. For the reliability of all variables shows Cronbach Alpha values higher than 0.6; i.e. Innovation 0.709, Market Orientation 0.8; Competitive Advantage 0.781, and Marketing Performance 0.725.

The testing results for hypothesis H1 and H2 with path analysis for independent market innovation and market orientation are shown in the following table:

TABLE 3. TESTING RESULTS OF HYPOTHESIS H1 AND H2

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	9,067	2,545		3,563	,001
	Innovation (X1)	,349	,166	,349	2,109	,042
	Market Orientation (X2)	,372	,139	,441	2,667	,011

^a Dependent Variable: Competitive Advantage (Y1)

Based on the table above, it can be concluded that: Innovation (X1) has a significant effect on Competitive Advantage (Y1) as indicated by significance level of 0.042 or smaller than 0.05 and Market Orientation (X2) has significant effect on Competitive Advantage (Y1) as indicated by significance level of 0.011 or smaller than 0.05.

TABLE 4. TESTING RESULT OF HYPOTHESIS H3

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7,296	2,175		3,354	,002
	Competitive Advantage (Y1)	,542	,086	,715	6,297	,000

^a Dependent Variable: Marketing Performance (Y2)

Based on the table, it can be seen that Competitive Advantage (Y1) has a significant effect on Marketing Performance (Y2) as indicated by significance level of 0.00 or smaller than 0.05.

V. CONCLUSION

The analysis results of all hypotheses are supported and in line with several previous studies. Test of empirical analysis shows that innovation and orientation have positive significant effect on competitive advantage; similarly, competitive advantage has a positive significant effect on marketing performance. Business players in this natural handicraft industry stated that there is a collective awareness of the importance of performing innovation and observing the market conditions as an effort to keep their business survive and developing, which further will give an impact on their marketing performance as measured by sales volume and the increasing number of customers.

As with most studies, this study has limitations. First of all, the survey is aimed in the natural based craft industry in Indonesia and therefore not be valid for other sectors. This would provide a potential source of bias to generalization. The small sample size is another limitation of this study. This would provide a potential source of bias to generalization. Further research may investigate the effect of the several factors on marketing performance concurrently using larger sample. Additionally, this study was based on quantitative approach only. Future research could use a qualitative approach.

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