

Market Orientation and Its Impact on Product Innovation and Marketing Performance of SMEs in Bali

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Abstract— The aims of this study was to analyze (1) the impact of market orientation on product innovation and marketing performance ; (2) analyze the impact product innovation on marketing innovation. This study was conducted with 100 owners of SMEs of wood craft in Gianyar regency, Bali, Indonesia. Data were collected using questionnaires, interviews, observations, and literature studies. The research model was built using the structural equation model and analyzed with smartPLS-3 software. The results of the analysis show that (1) there is a positive and significant impact of market orientation on product innovation and marketing performance ; (2) there is a positive and significant influence of product innovation on marketing performance. The suggestions that can be given to SMEs are: making a variety of product variations, increasing product quality and must produce in accordance with market demand.

Keywords— market orientation, product innovation marketing performance, SMEs

I. INTRODUCTION

Wood craft is one of the supporters of the tourism sector, and is a leading industry for the Gianyar area in terms of community economic empowerment. globalization has led to intense competition, and has had an impact on the ups and downs in sales volume as seen from the decline in marketing performance. Marketing performance is the company's achievement in marketing activities [1]. To win the competition it is very important to the company changing their strategy with market orientation, because of increasing global competition and changing inconsumer needs, companies must focus on market needs, in order to survive [2]. The information from customers, is very important, and according to [3] the emphasis on market orientation is related to increasing the introduction of new products to the world, and [4] market orientation is an important factor that allows companies to understand the market and to develop product and service strategies to meet customer needs. According to [5] many study found that companies that emphasize market orientation will improve their overall performance.

Market orientation needed an innovation, and innovation is the key to success in improving business competitiveness [6] and firms with strong product innovation will obviously have better performance [7]. Product innovation involves the differentiation of product quality and functionality,

which should attract more customers. In addition, product innovation can improve a company's competitiveness, improve market position and simultaneously improve market performance [8]. What about the wood craft SMEs in Gianyar Regency, is there a relationship between market orientation and product innovation and marketing performance? Thus the objectives of this study are: (1) to determine the effect of market orientation on product innovation and marketing performance; (2) to determine the effect of product innovation on marketing performance.

II. LITERATURE REVIEW

A. Market Orientation

Market orientation is very important to the company changing their strategy with market orientation, because of increasing global competition and changing inconsumer needs, companies must focus on market needs, in order to survive [2]. Market orientation is useful in selecting a variety of interesting products; it also increases the customer's market intelligence, which is positively related to performance in small companies [10]. Market orientation forms the core of an organizational culture, which strives to create superior business performance by focusing on providing added value for customers [11]. According to [12] Market orientation is a response to market changes, and can be measured from customer orientation, competitor orientation and coordination between functions.

B. Product Innovation

Accordint to [13] product innovation is all innovated product or service of a company, involving product innovation, modification or renewal of existing products, expansion of existing product lines, promotion of new product lines, new products with uniqueness, or high compatibility with customer experience and types of consumption. [14] states that product innovation refers to the development and release of goods or services based on customer needs or market demands. According to [15],[16] product innovation leads to superior performance, and has been considered one of the main drivers of value creation, and [17] states that value is determined by the customer, who is not buying the product, but the content with specific needs, which will change with different people, time, and space. Values are presented in various types and differ; practicality, quality, image, comfort, and after-sales service products can

create customer' value. According to [18] product innovation can be seen from a variety of products, replacement of old products, early market entrants, and quality enhancement of products.

C. Marketing Performance

According to [19], marketing success of marketing activity and competitiveness requires high market knowledge and sophistication, new product development. [1] argue that marketing performance is an achievement obtained by the company from the marketing activities carried out. Marketing performance is measured through a customer perspective, namely customer satisfaction, customer profitability, and acquisition of new customers. [20] suggests that the company that has a competitive advantage will be able to achieve a high marketing performance because marketing performance can be achieved either through competitive advantage or comparative and cooperative advantages. According to [21] marketing performance was captured with marketable innovative products like revenue, ratio of new product sales, and new product success rate. [22] states that operationalize marketing performance as innovative sales productivity, which is the ratio of sales attributed to new products divided by the total number of employees. Marketing performance is measured using innovative products' sales ratio, innovative products' sales per employeeand, and market expansion.

III. RESEARCH METHODS

This study was conducted with 100 owners of SMEs of wood craft in Gianyar regency, Bali Indonesia. The data were collected through interview, observation, questionnaire, and documentation, then analyzed using structure equation models with smartpls-3 software.

A. Conceptual Framework

Based on the theories and research findings that have been described above, and it was possible to describe a concept and the development of hypotheses in this study. The conceptual framework can be built as shown in Fig. 1 below:

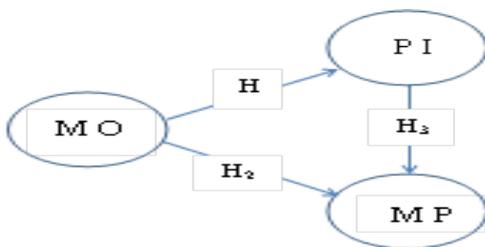


Fig. 1. Conceptual Framework

B. Hypotesis

- H₁ : market orientation (MO) will have a positive and significant effect on marketing performance (MP);
- H₂ : market orientation (MO) will have a positive and significant effect on product innovation (PI);
- H₃ : product innovation (PI) will have a positive and significant effect on marketing performance (MP)

C. Measurement of the Variables

There are 3 construct (latent variables) in this study, such as Market Orientation (X), Product Innovation (Y₁), and Marketing Performance (Y₂). Each construct consists of several measurable variables as shown in Table I.

Table I. Measurable of Variables

Construct (Latent Variable)	Measurable of Variables
1. Market Orientation (X)	- Customer orientation (X ₁)
	- Competitor orientation (X ₂)
	- Interfunctional coordination (X ₃)
2. Product Innovation (Y ₁)	- Variety of products (Y _{1.1})
	- Replacement of old products (Y _{1.2})
	- Early market entrants (Y _{1.3})
	- Quality enhancement of product (Y _{1.4})
3. Marketing Performance (Y ₂)	- Innovative products' sales ratio (Y _{2.1})
	- Innovative products' sales per employee (Y _{2.2})
	- Market Expansion (Y _{2.3})

IV. RESULTS AND DISCUSSIONS

A. Assessment of the Measurement (outer) Model

To determine the significance of each construct, it can be seen from the results of the validity and reliability tests.

a) Test of Validity: To see the validity of each indicator that forms a construct, it can be seen from the convergent validity value and determinant validity. The convergent validity of the measurement model is seen from the correlation between item / indicator scores and construct scores. Indicators are considered reliable in a study, and the are are still acceptable if the loading scales range 0.50 to 0.6. Table IV shows that all construct in market orientation (MO), product innovation (PI), and market performance (MP) were valid, because all indicators have a loading factor of greeter than 0.50.

TABLE II. OUTER LODING COEFFICIENT FOR EACH INDICATOR

	MO	PI	MP
X1.1	0.853		
X1.2	0.715		
X1.3	0.891		
Y1.1		0.765	
Y1.2		0.883	
Y1.3		0.864	
Y1.4		0.859	
Y2.1			0.811
Y2.2			0.868
Y2.3			0.811

By looking at the value of AVE, we can see the discriminant validity of each construct indicator. The model is considered good if the AVE value of each construct is greater than 0.50. Table V shows that the AVE value for all constructs in market orientation (MO), product innovation (PI), and market performance (MP) is greater than 0.50.

TABLE III. AVE VALUES

	AVE	Akar AVE AVE
MO	0.862	0.677
PI	0.908	0.712
MP	0.870	0.690

b) *Test of Reability*: The composite reliability and Cronbach alpha values of the indicator block are used to see the construct reliability. Constructs are reliable if the composite reliability and Cronbach alpha values are greater than 0.70. Table VI shows that all of the constructs: market orientation (MO), product innovation (PI), and market performance (MP) were reliable because the value of composite reliability and cronbach alpha are greater than 0.70

TABLE IV. COMPOSITE RELIABILITY AND CRONHBACH ALPHA COEFFICIENTS

	Composite Reliability	Cronbachs Alpha
MO	0.895	0.851
PI	0.888	0.811
MP	0.910	0.880

B. *Assessment of the Structural Model (Inner Model)*

R-square is a goodness-fit model test used to assess structural models. The analysis shows that the influence of market orientation (MO) on product innovation (PI) is 0.630 (63.0%); and the effect of product innovation (PI) on market performance is 0.445 (44.5%). The model of market orientation (MO) influence on market performance (MP) yields a value of 0.365 (36.5%) influenced by product innovation (PI), as shown in Figure. 2

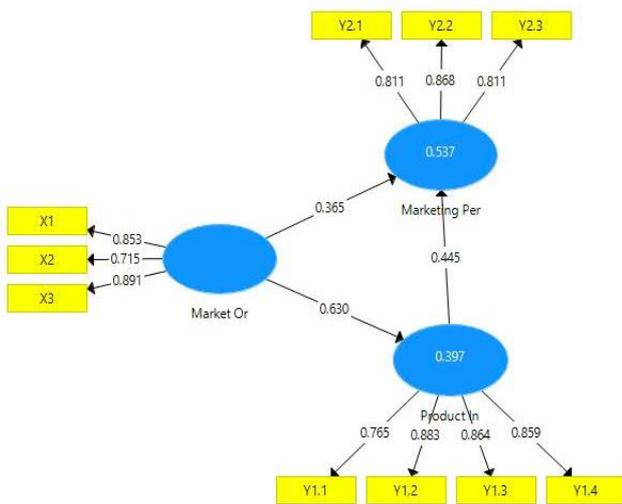


Fig. 2. Outer Loading and Path Analysis

C. *Hypotesis Testing*

The model developed in this study was conducted to examine: 1) the effect of market orientation (MO) of SMEs on product innovation (PI) and marketing performance (MP); 2) the effect of product innovation (PI) on marketing

performance. The significance of the effect of the each construct can be seen from the values of the statistical tests results as shown in Fig. 3 and Table V:

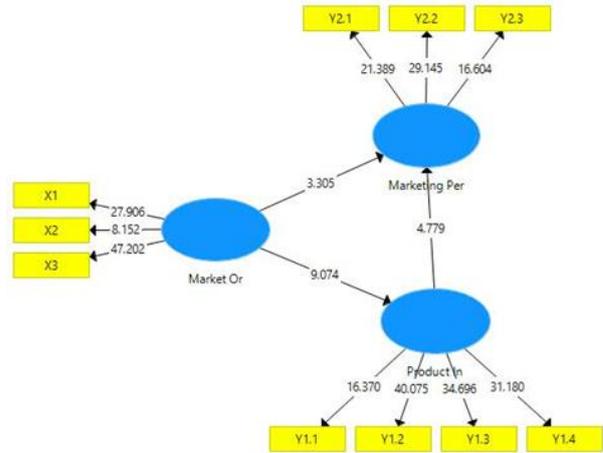


Fig. 3. Bootstrapping Model

TABLE V. PATH COEFFICIENTS (MEAN, STDEV, T-VALUES)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (O/STERR)
MO -> PI	0.260	0.287	0.108	0.108	2.399
MO -> MP	0.557	0.566	0.076	0.076	7.321
PI -> MP	0.474	0.479	0.061	0.061	7.772

Table VII shown that the relationship of market orientation (MO) on product innovation (PI) was positive and significant. This can be seen from the t-statistic value of 2.399 (> 1.96). Thus it can be concluded that there was a positive and significant effect of market orientation (MO) on product innovation (PI), and this means that the H₁ hypothesis was accepted, and market orientation will require product innovation, as stated by [6]

The relationship between market orientation (MO) on marketing performance (MP) was positive and significant. This can be seen from the t-statistic value of 7.321 (> 1.96). Thus it can be concluded that there was a positive and significant effect of market orientation (MO) on marketing performance (MP), and this means that the hypothesis H₂ was accepted, and by implementing market orientation, it will improve marketing performance, as stated by [5]

The relationship between product innovation (PI) and marketing performance (MP) was positive and significant. This can be seen from the t-statistic value of 7.772 (> 1.96). Thus it can be concluded that there was a positive and significant effect of innovation (PI) on marketing performance (MP), and this means that the H₃ hypothesis was accepted. This means to improve marketing performance SMEs must innovate products, as stated by [7].

The results of the analysis of the model described in the conceptual framework, it turns out to improve marketing performance, the SMEs must produce in accordance with market demand, namely by making various kinds of

innovations such as: making a variety of product variations, or by increasing product quality. With a wide variety of products, consumers have a variety of choices, and market share can be wider, as stated by [6],[7],[8], and according to [9] that are often cannot be implemented by SMEs.

V. CONCLUSION

Based on the analysis and discussion above, it can be concluded that: (1) there is a positive and significant impact of market orientation on product innovation and marketing performance; (2) there is a positive and significant influence of product innovation on marketing performance. The suggestions that can be given to SMEs are: making a variety of product variations, increasing product quality and must produce in accordance with market demand.

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