

The Role of Market Orientation and Innovation Capability to Create Superior Value

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Abstract— This research aims to excavate the impact of the market orientation and innovation capability to value creation in Small and Medium Enterprises (SMEs) of knitting industry located in Bandung, West Java Province. The descriptive and verification methods were used in this research while the data obtained from 281 respondents of entrepreneurs in Binong Jati Knitting Center (Sentra Rajut Binong Jati) in Bandung. The analysis tools used was Structural Equation Modeling (SEM) and the hypothesis was tested using LISREL 8.7 software. The result of this research indicates that both independent variables are having a positive and significant impact on dependent variable partially and simultaneously. This research is expected to have a positive impact as a useful input for entrepreneurs in Sentra Rajut Binong Jati to increase their market orientation and strengthen their innovation capability to embedded superior value in their products.

Keywords—Market Orientation, Innovation Capability, Value Creation, Superior Value, SMEs, Knitting Industry, Binong Jati

I. INTRODUCTION

The important role of superior value is based on the ability of Small and Medium Enterprises (SMEs) to improve their innovation capability and market orientation i.e understand their customers and competitors. SMEs plays major role in promoting economic growth is one of the essential factors in economic development both in developed countries and especially in developing countries as stated by Anigbogu [1]. SMEs (Small and Medium Enterprises) have an important role in absorbing workers so that they are considered the dominant factor in promoting economic growth and innovations both radical innovation and incremental innovation. In addition, SMEs also encourage diversification in the economy so that economic activities become diverse so as to minimize economic failure. Besides that, SMEs also play an important role in increasing exports and imports, thereby encouraging a surplus in the trade balance. The economic activities of SMEs are flexible and adaptive to market changes and increasingly dynamic changes in the environment. Thus overall , SMEs contribute significantly to the economy.

However, there are many challenges that SMEs must generally face. Tambi in his research in SMEs engaged in the textile industry stated that there are 5 (five) challenges for

SMEs in the textile industry [2], namely: (1) human, social and cultural resources (including family, culture and social problems or community); (2) logistics and finance, including among other things related to capital for machinery, electricity, water, machinery and equipment, transportation and supply; (3) managerial and marketing, which includes labor, health, strategy, and communication, and competition; (4) the level of technology and knowledge, such as *upgradation*, information, experience, and digitalization; and (5) government policies, which cover issues such as rebates (discount) and tax policies. Among these various problems, the most pressing problems faced by SMEs, especially in the textile industry, are lack of knowledge and lack of effective communication skills.

In Bandung, there are 2 (two) industrial centers engaged in the textile industry which are more specifically engaged in the production of knitted products. The industrial centers are Binong Jati Knitting Centers, and Sentra Rajut Margasari. Among them, Sentong Rajut Binong Jati is the largest knitting center in Bandung, even the largest in Indonesia and is one of the centers of a *home industry* that has great potential and contributes quite significantly to the economy in Bandung.

However, the existing dynamics, especially in the knitted product industry, have caused the pressure in the competition to be so tight. Rapid changes both in terms of technology, customer needs, and increasingly short product cycles cause the textile industry SMEs to constantly strive to increase the value of the products produced so as to meet the changing needs and desires of customers. Therefore, in further development, the problems faced include: (1) lack of capital; (2) obstacles in marketing; (3) organizational structure that does not support business development and unfocused work division ;(4) poor quality management capabilities ;(5) limited quality human resources ; (6) low product quality ;(7) no or weak financial reporting ;(8) weak legality aspects; and (9) low mastery of technology. These problems are classic problems for many small and medium enterprises.

The company's success in maintaining the continuity of its product sales lies in its ability to change the mindset and innovative nature of its owners regarding their ability to deliver value to customers. From here, the owners of the knitting industry in Bandung must be able to produce "uniqueness" so

that it will create superior value for its marketing performance. The choice of market orientation variables and innovation capabilities is based on the reason that these variables are the supporting factors for the creation of corporate value creation. This value creation will later produce the best performance for the company.

Therefore, based on this background, the formulation of the problem is how the market orientation, capability of innovation, and the Value Creation of SME knitting centers in Bandung and how market orientation and capability of innovation affect the creation of the value of SME knitting centers in Bandung alone or together.

Market orientation can be seen as the most efficient and effective organizational culture in building behavior that can be used as capital in creating superior value for customers (Narver & Slater) [3]. This view is different from the construct offered by Kohli & Jaworski that emphasizes more on behavioral elements that are built on three components, namely: (1) customer orientation; (2) competitor orientation; (3) functional coordination [3]. Meanwhile, Kirca *et al.*, cited by Njeru & Kibera view that market orientation is the implementation of marketing concepts by companies in order to achieve business goals and objectives through determining customer needs and desires as targets, as well as meeting customer satisfaction more efficiently and effectively than competitors [4, 5]. Various experts explained that market orientation has dimensions as can be seen in table 1.

TABLE I. DIMENSIONS OF MARKET ORIENTATION

Hussain et al., (2016)	Customer Orientation, Competitor Orientation, Inter-functional Coordination
Chung (2015)	Quality Capability, Service Capability, Cost control capability, Speed Capability, Innovation Capability
Njeru & Kibera (2014)	Customer Orientation, Competitor Orientation, Inter-functional Coordination
Craven & Piercy (2013)	Customer Focus, Competitor Intelligence, Cross-functional Coordination, Performance Implication
Serna, Guzman, and Castro (2013)	Customer Orientation, Competence Orientation, Inter-functional Orientation

Looking at these dimensions, this study uses 3 (three) dimensions, namely customer orientation, competitor orientation, and functional coordination elaborated from Chung, and Hussain *et al.*, based on the opinion of Narver & Slater [6-7] [3]. This is due to the lack of ability of SMEs in Binong Jati Knitting Centers to absorb and understand information regarding customers and competitors and distribute that information to all lines within the company.

Lin *et al.*, states that the capability of innovation is an implementation or new creation in the organization of technology that is applied to systems, policies, programs, products, processes or tools or services [8]. While Baregheh *et al.*, defined innovation capability as a multi-stage process where

the organization transforms ideas into new products/services/processes or develop that already exist in order to advance, compete and differentiate successfully in the marketplace [9]. Besides, Saunila *et al.* defined the capabilities of innovation as the ability of innovation consists of aspects that affect an organization's ability to manage innovation [10]. There are various dimensions of innovation capability in various literature and research as can be seen in table 2.

TABLE II. DIMENSIONS OF INNOVATION CAPABILITY

Lin et al., (2010)	Innovation Product, Innovation Process, Innovation Marketing, Innovation Service, Innovation administration
Forsman & Rantanen, (2011)	Capabilities for knowledge exploitation, Entrepreneurial capabilities, Risk management capabilities, Networking capabilities, Development capabilities, Change management capabilities, Market and customer knowledge
Nouman & Ali (2012)	Product-related, Processing technology-related, Nature of business, SME resources, Characteristics of SME owner/entrepreneur, supply side, demand-side, others
Baregheh et al., (2013)	Product Innovation, Innovation Process, Innovation Position, Innovation Paradigm
Saunila et al., (2014)	Participatory leadership culture, Ideation and organizing structures work, climate and well-being, Know-how development, Regeneration, External know-ledge, Individual activity

Dimensions in this study elaborated from the research of Lin *et al.*, Forsman & Rantanen, Baregheh *et al.*, and Saunila *et al.*, because the condition of small and medium enterprises where the research is conducted is in accordance with the conditions carried out in Bandung knitting centers both internal and external conditions where the education and expertise possessed are still relatively low so they have not been able to optimize the various capabilities of innovation owned [13-16].

Value in marketing is seen in relation to the ownership of goods and *trade-off* between benefits obtained from ownership and sacrifices made to obtain ownership. Conception of value contains assumptions from the values contained in products and services, creates related values through disclosure of needs, designs and produces solutions, and transfers those solutions to customers in exchange for something else [11]. Value creation is defined by Lindman as the company's ability to create and deliver value with effective management of *supply chains*, shared networks, and customer relations that are the main sources of value creation. Various dimensions quoted from experts regarding value creation can be seen in table 3 [12].

TABLE III. DIMENSIONS OF VALUE CREATION

Chung (2015)	Quality Service, Cost control, Speed Innovation Capability
La Rocca & Snehota (2014)	Networked Sales Organisation, Architecture of Collaboration, Distributed Knowledge System
Herskovits, Grijalbo, & Tafur (2013)	New Products & Services, Complementary & Leveraging Technologies, Virtuous Ecosystem
Craven & Piercy (2013)	Market Sensing Capabilities, Customer Linking Capabilities, Aligning Structure & Process
Kotler & Keller (2013)	Benefit Customer, Bussines Area, Bussines Patner/Network

Dimension values in this study were drawn from the opinion of Kotler and Keller [17], namely the *customer benefits*, *Business Area*, and temporary *Business Partners* for their measurements tend to be quoted from Chung's research [18]. This is because the dimensions used are considered to be in accordance with the conditions in the research location, namely in the knitting industry center in Bandung, where the technology used is still relatively simple so that efficiency in terms of product manufacturing is still not optimal. Meanwhile, business areas are limited to the local market, so the benefits received by customers are still relatively limited.

1) The Relation between market orientation and value creation.

Based on the findings of previous research and the opinions of experts, it can be seen that the close relationship between market orientations is partially with value creation as shown in fig 1.

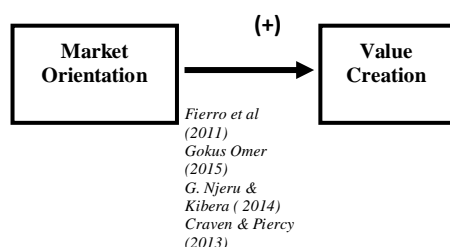


Fig 1. The Relation between market orientation and value creation

Thus, the hypothesis 1st is formulated as follows:

1st Hypothesis: there is a positive and significant impact between market orientation and value creation at Sentra Rajut Binong Jati.

2) The Relation between innovation capability and value creation at Sentra Rajut Binong Jati.

Based on the findings of previous research and the opinions of experts, it can be seen that the close relationship between the capabilities of innovation partially with value creation as shown in Figure 2.

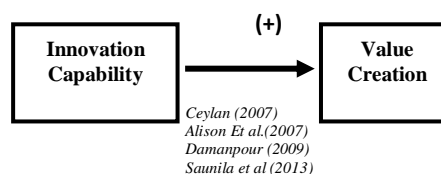


Fig 2. The Relation between innovation capability and value creation

2nd Hypothesis: there is a positive and significant impact between innovation capability to value creation at Sentra Rajut Binong Jati.

3) The Relation between both Market Orientation and Innovation Capability to Value Creation at Sentra Rajut Binong Jati.

Based on the findings in previous studies and the opinions of experts, it can be seen that the close relationship between market orientation and innovation capability simultaneously towards value creation as shown in Figure 3.

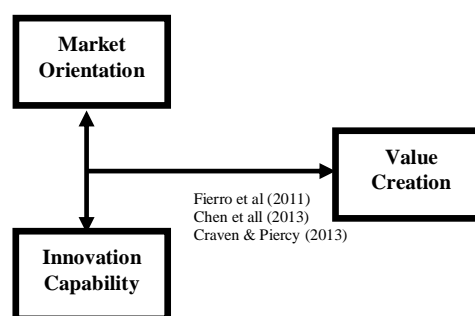


Fig 3. The Relation between market orientation and innovation capability and value creation

3rd Hypothesis: there is a positive and significant impact of both market orientation and innovation capability to value creation at Sentra Rajut Binong Jati.

Based on the framework of thought, as can be seen in pictures 1, 2, and 3 then the models of research can be constructed to connect each variable in the study of this, as can be seen in figure 4.

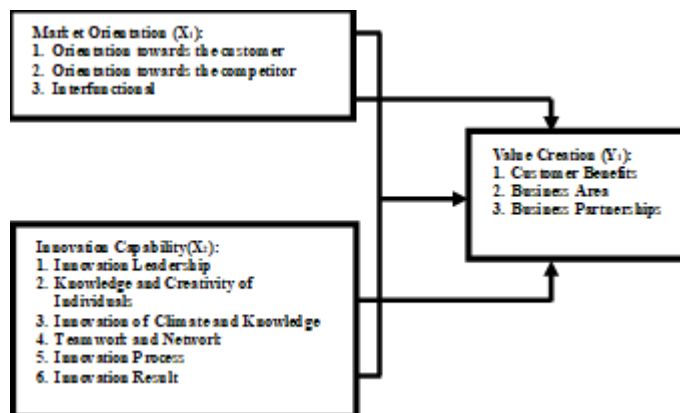


Fig 4. Research Model

II. METHODS

Mechanical collection of samples that are used in research this is the census or sample saturated in which the entire population that consists of 281 entrepreneurs at the Center Knitting Binong Jati used as a sample. The data obtained then calculated by using Structural Equation Modeling (SEM). While Grand Mean value obtained from the score of the average of each indicator by using the lisrel software 8.7. The Grand Mean value is useful to calculate the effect of each exogenous latent variable indicator. While quantitative analysis to test each hypothesis in accordance with the objectives of the study using Structural Equation Modeling (SEM). The purpose of this research was to find out the impact of market orientation and innovation capability both partially and simultaneously to value creation at Sentra Rajut Binong Jati Bandung.

The method implemented in this research was the descriptive and verification methods obtained from questionnaire collected from 281 entrepreneurs at Sentra Rajut Binong Jati. The data then processed using Structural Equation Modeling (SEM) to determine the level of impact of the independent variables to dependent variable. The positive impact to the entrepreneurs at Sentra Rajut Binong Jati by understanding the impact of both independent variables to the dependent variable was to put more attention on understanding their customers and competitors and put more effort in their innovation capabilities to create superior value for their customers.

III. RESULTS AND DISCUSSION

Descriptive Analysis

Perception of entrepreneurs who are members of the Sentra Rajut Binong Jati on the market orientation, capability of innovation, and the Value Creation can be seen from the response that is given in the questionnaire. The questionnaire

contains 50 questions to the next can be calculated the value of the Grand Mean by category average, as can be seen in Table 1.

TABLE IV. AVERAGE CATEGORIZATION GUIDELINES FOR RESPONDENTS RESPONSE SCORES

Interval	Categories
1,00 - 1,79	Very Bad / Very Low
1,80 - 2,59	Not Good / Low
2,60 - 3,39	Sufficient
3,40 - 4,19	Good / high
4,20 - 5,0	Very Good / Very High

Based on the above categories, the answers from respondents showed the Grand Mean value of the variable market orientation amounted to 3.39 are included into the category quite well. Therefore, it can be concluded that the entrepreneurial Sentra Rajut Binong Jati has a capability that is enough to understand the market. The Grand Mean value for the variable capability of innovation is at 3.40 and included into the category of high. By because it can be concluded that the entrepreneurial Sentra Rajut Binong Jati has the ability to do innovation. Moreover, the Grand Mean value of the variable Value Creation is at 3, 38. Values are included into the category of pretty good or fairly high. Then it can be concluded that the entrepreneurial Sentra Rajut Binong Jati quite able to create value for the products are produced.

Hypotheses testing

1. The partial Influence of Orientation Market to the Value Creation in the Sentra Rajut Binong Jati.
2. The partial Influence of Capability Innovation to the Value Creation in the Sentra Rajut Binong Jati.
3. The simultaneous Influence of Market Orientation and Innovation Capability to the Value Creation in the Sentra Rajut Binong Jati.

Based on calculations using Structural Equation Modeling (SEM) then gained influence of variables exogenous well as partial or as simultaneous as follows:

TABLE V. EFFECT OF EXOGENOUS VARIABLES ON ENDOGENOUS VARIABLES

Relations	Total Influence
OP-PN	13,4%
KP-PN	31,6%
OP, KP-PN	63,5%

From table 2, it can be seen that between the two exogenous variables, the capability of innovation has a greater influence on value creation than market orientation, which is equal to 31.6%. While the influence of the market orientation towards the Value Creation for the entrepreneurs of SMEs knitting centers in

Bandung only provide contributions amounted to 13.4%. So, it can be concluded that the ability to perform the innovation both radical and incremental (capability of innovation) have a more substantial role in the Value Creation that is superior compared to just understand customers, competitors, and disseminate information (market orientation). The influence of the market orientation and the capabilities of innovations both in partial and is simultaneously can be seen in fig 5.

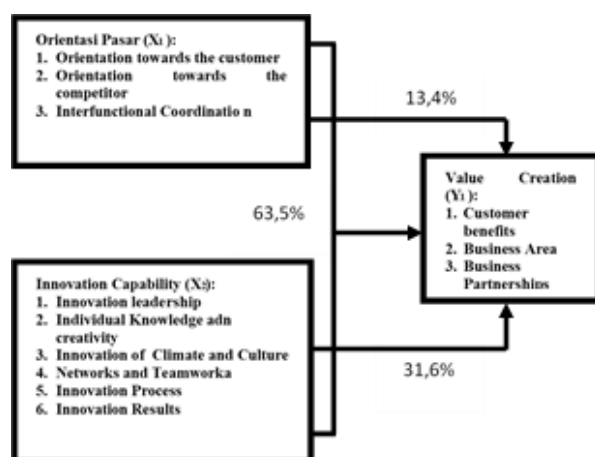


Fig 5. Structural Model

IV. DISCUSSION

Based on the perceptions of entrepreneurs in Binong Jati Knitting Center regarding market orientation, innovation capabilities, and value creation can be seen that the entrepreneurs at the Sentra Rajut Binong Jati has a capability which is quite good in understanding the needs and desires of customers. However, as the entrepreneurs at the Sentra Rajut Binong Jati still less able to understand the ability of competitors and has not been optimal in exploring the strengths and weaknesses of competitors. Besides that, the entrepreneurs at the Sentra Rajut Binong Jati is still not up to disseminate information that to all lines in the company [19].

The capability of innovation is in a capable condition. Then it can be concluded that the entrepreneurial Sentra Rajut Binong Jati on have the ability to do innovation. However, still there are weaknesses in the digging capability (capability) innovation are embedded in themselves they are, so the potential that already exist still less optimal for empowered. Besides that, the entrepreneurs at the Center Knitting Binong Jati has not been fully able to build a network and work together with parties external such as network marketing, suppliers, association business, or government [20].

Value Creation is in a high condition. It is demonstrated SMEs in Sentra Rajut Binong Jati still less able to find a method that is

more than competitors, is still not fully accept input from subordinates, and yet have a complete picture in the use of network-related network such as suppliers, customers, associations, private, and the government for the benefit of its business [11].

The calculation using SEM showed that market orientation and innovation capability influence positively and significantly as partial to the Value Creation. Both the market orientation and the capability of innovation is partially influenced positively to the Value Creation for entrepreneurs SME centers of knitting. However, thus influence the capability of innovation is more substantial than the market orientation is partial to the Value Creation. It is proved that the orientation market right is not much use to create value that is superior without supported by the capabilities of innovations are inadequate [5] [19] [21] [22].

Furthermore, the market orientation and the capabilities of innovations influence positively and significantly in conjunction together towards the Value Creation. This shows that the better the market orientation and capability of innovation results in an increasing increase in value creation. The Capability Contribution of Innovation to the Value Creation of SME knitting centers is greater than the contribution of Market Orientation to the Value Creation of SME knitting centers. This shows that the Capability of Innovation is more instrumental in shaping the value creation of SME knitting centers. While the biggest contribution of Market Orientation lies in the dimensions of customer orientation. [19- 25].

The market orientation and the capabilities of innovations have the effect that positively and significantly to the Value Creation in the Sentra Rajut Binong Jati either be partially or in simultaneously. However, it partially can be seen that the capability of innovation is more influential to the Value Creation compared with the market orientation. So it can be concluded that maximize the ability to conduct innovation is more important than to simply understand the needs and desires of customers in Sentra Rajut Binong Jati.

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