

The Conceptual Model of the Influence of External Marketing Environment and Market Orientation on Marketing Performance with the Mediation of Product Innovation

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ABSTRACT

The objectives of this study are to build a mediation model and to assess the indirect effect of external marketing environment, market orientation, and marketing agglomeration partnership on marketing performance through product innovation. This qualitative study was conducted through library research to produce models. Later, this study quantitatively assesses survey data that were previously completed and refined by preparing questionnaires based on the dimensions that have been presented in each research variable definition. The produced research conceptual model is the output of this qualitative study, which is used as the foundation should the study proceeds to quantitative nature.

Keywords—External Marketing Environment, Marketing Orientation, Marketing Performance, Product Innovation, Mediating

I. INTRODUCTION

Micro, small, and medium-sized enterprises (MSMEs) are a business sector with sound economic resilience because they can endure unstable economic conditions. Therefore, they can support national economic system stability. Their contribution is crucial in economic development particularly in Gross Domestic Product (GDP), workforce absorption, and export. The data of the Ministry of Cooperatives and MSMEs show their increasing contribution in the last five years to GDP from 57.84% to 60.34%, as well as to workforce absorption from 96.99% to 97.22% during the last five years (Indonesian Central Statistics Agency, 2019).

To improve their contribution to the nation's economy, government interventions are necessary to address strains in 1) working capital, 2) marketing, 3) access to financial institutions, 4) skill, information technology, and management, and 5) business network. Amidst the setback in their development, a group of MSMEs establishes themselves into successful ones by innovating their products.

Industrial centers are relevant with the concept of economic agglomeration, an economic spatial model based on economic scale, economic localization, and economic urbanization (Par, 2002). They are demanded to make an economic approach that requires value creation through product innovation and effective and efficient processes.

The theoretical approach based on the research results shows that marketing performance plays a vital role in the management of MSMEs. Several influential variables other than product innovation are external environment and market orientation (Slater dan Nerver)

Previous studies created research gaps. Navarro et al. (2014) found a positive and significant relationship between external environment and business performance, but Balas et al. (2014) found that there is no significant relationship between them. Gruber-Mueck dan Hofer (2015) found a significant and positive relationship between market orientation and business performance, but Theodosiou et al. (2012) mentioned that the relationship between the two is not significant. The variations in the said findings indicate that the aforementioned results are not generalizable.

Based on the current business phenomenon and the research gap, this study tries to build a conceptual framework to identify the direct and indirect effect of external marketing environment and market orientation on the marketing performance of traditional micro, small, and medium-sized creative industry with product innovation as the mediator.

II. LITERATURE REVIEW

A. Marketing Performance

Marketing performance is the result of marketing plan designed by companies to meet business goals. The plan includes sales volume, sales growth, customer growth,

market share, purchase decision, consumer satisfaction, repeated purchase, customer loyalty, profitability, and return on investment (Voss and Voss, 2000; Zhou et al., 2005)

B. Product Innovation

Product innovation is the novelty of product attributes that lead to product characteristics such as trendy, aesthetic, and different from competitors. The products are made to fulfill customer's needs, desires, and expectations for the attainment of marketing goals (Salavou and Avlonitis, 2008; Subiharto et al., 2015).

C. The Relationship between External Marketing and Marketing Performance and Product Innovation

External marketing environment is located on the outside of company policies; it consists of macro environment (technology, economy, social and culture, demography, politics, and regulation) and micro environment (suppliers, intermediaries, buyers, replacement product, and competition intensity) which are expected to improve marketing performance (Ferrell and Hartline, 2008; Jackson and Wood, 2013).

External marketing environment consists of macro and micro environments that are expected to increase marketing performance (Jackson and Wood, 2013; Dragnic, 2014). Managerial and external environmental factors have a strong influence on the performance of small and medium companies (Hasen and Wernefelt, 1989).

External marketing environment consists of macro and micro environments (Kotler, 2014) with their seven dimensions (suppliers, buyers, competitors, public in general, universities, government, and companies) that positively influence product innovation comprised from product variations, replacement products, competitor's products, and product quality improvements (Lee et al., 2016).

D. The Relationship between Market Orientation and Marketing Performance and Product Innovation

Market orientation is company's policies whose focus are on value creation for customers, on competitors, and on the relation between functions within the company to improve long-term marketing performance (Gruber-Mueck and Hofer, 2015).

Gruber-Muecke dan Hofer, (2015) examined the relationship between market orientation (with the dimension of focus on customers and competitors) and business performance that incorporates profit, employee addition, and market share attainment and found that the relationship is positive. Smirnova (2011) found that market orientation with the dimensions of customer orientation, competitor orientation, and coordination between functions positively influence business performance with the dimensions of sales growth, adaptation, and customer satisfaction.

Studies on market orientation are generally referring to the dimensions stated by Slater and Narver (1990); they are customer orientation, competitor orientation, and coordination between functions. Innovation can be measured

and based on market expectation, technological turbulence, competition intensity, and the proportion of new product sales gain. Therefore, market orientation influences innovations (Wang and Chung, 2013; Song and Wang, 2015).

E. The Relationship between Product Innovation and Marketing Performance

Product innovation obviously influences a product's physical features, information, and reputation offered to customers as marketing resources (Barney, 1991; Mahoney, 1995). Optimally delivered marketing resources will be responded well by customers. Their responses may be reflected in sales volume, customer satisfaction, and customer loyalty, which are the indications of marketing performance success (Eusebio et al., 2006).

F. The Mediation of Product Innovation on Marketing Performance

Njanja Ougutu and Pellisier (2012) studied about the effect of external environment with the dimensions of globalization, technology, macroeconomy, regulations, incentives, and organization's policies on managerial strategy and found that there was direct effect of external environment on performance, indicating the presence of mediators. Chadee and Roxas (2013) stated that there is a strong influence of external environment and innovation on firm performance. Innovation is significant in mediating the influence of institution on form performance.

Chang et al. (2011) assessed the effect of market orientation on financial performance with the mediation of innovation. The effect of competitor orientation on performance is fully mediated by radical innovation. Salavou (2005) added that technological orientation directly and significantly influences product innovation.

Perint et al. (2016) proposed that external and internal social networks are parts of partnership in industrial centers. Radical innovation is important in the relationship between internal social network and performance. In this study, the mediation of product innovation is essential in establishing the direct relationship between partnership in industrial centers and marketing performance.

G. Research's Conceptual Model

Referring to the theoretical reviews above, the conceptual model of this study is depicted in the following Figure 1.

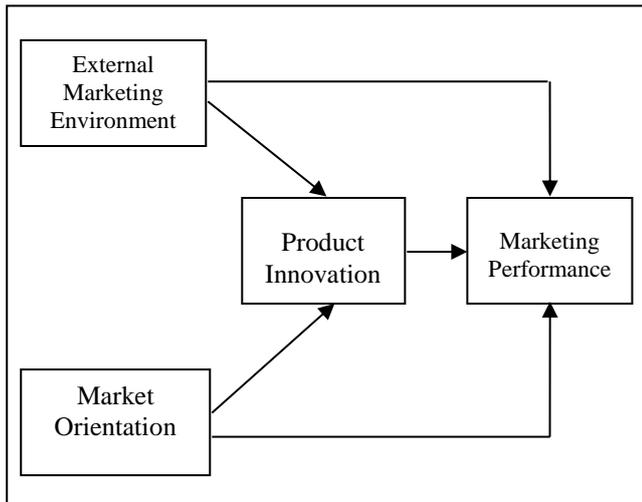


Figure 1. Research's Conceptual Model

III. CONCLUSION

Based on the results of qualitative research, which refers to several articles, this study produces the following conclusions:

1. External marketing environment and market orientation have a positive and significant impact on marketing performance
2. Product innovation mediates the direct influence of the external marketing environment and market orientation on marketing performance.

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