

# The Effect of Market Orientation and Product Innovation on Competitive Advantages of *Gedogan* Weaving MSME

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**Abstract** — Micro, Small and Medium Enterprises (MSME) are one of the foremost advancements of economic development. MSME is one of the fields in employment which is very significant. At the time of globalization in which competition is increasingly fierce, many companies will go bankrupt if the company does not have any preparations in the current competition. Competitive advantage can be seen from the perspective of market orientation and product innovation owned by SMEs. The purpose of the research was to analyze the effect of market orientation and product innovation on competitive advantage in the *Gedogan* Weaving MSMEs in the City of Bima. The data used are primary. The sample consisted of 90 Management of the *Gedogan* Weaving MSMEs Group in the City of Bima. The analytical tool used in this research is multiple linear regression. The results of this research indicate that Market Orientation affects competitive advantage in SMEs *Gedogan* Weaving and Product Innovation influences the competitive advantage of *Gedogan* Weaving MSMEs in the City of Bima.

**Keywords** — *market orientation, product innovation, competitive advantage*

## I. INTRODUCTION

Competition in the business world is something that cannot be avoided by MSMEs. In 2019 many new MSMEs created a variety of products and were supported by sophisticated technological advancements. For this reason, every MSMEs is required to understand the market and consumer's needs, as well as various changes in the business environment, so that they can compete with MSMEs which has similar products [1]. Many MSMEs have developed in Indonesia, one of which is a business engaged in the weaving convection. One of the weaving businesses that has been developing for quite a long time in the province of West Nusa Tenggara is weaving MSMEs located in the city of Bima.

Micro, Small, and Medium Enterprises (MSMEs) are one of the pillars that strengthen and contribute to the Indonesian economy. The strength of MSMEs is proven during the monetary crisis that hit Indonesia in 1997-1998. In fact, when other economic sectors are restructuring their business foundations in the aftermath of the crisis, MSMEs

have made a significant contribution to the nation's economy [2]. With the increasing number of MSMEs, there is also competition improvement among MSMEs entrepreneurs ranging from producing, gaining a competitive advantage to providing expected value to their customers [3].

Companies that are oriented to the market will always adapt and create more expected value for their customers to create a competitive advantage and provide long-term benefits for the company. The importance of market orientation is closely related to the results of the products offered to the customers. The product produced must be attractive and unique in order to excel in the competition.

In the city of Bima, there is a variety of unique products that become the mainstay for MSMEs, one of them is woven products. The process of making this product is relatively traditional since it does not use sophisticated equipment and thus this makes the production volume is also limited. Even though it is a product that has its characteristics, competition to meet customers' needs for nonwovens is unavoidable. This is due to the market orientation applied by each MSMEs still homogeneous and undirected, in which MSMEs are limited to producing based on their habits and orders without seeking information on consumer expectations and without digging up information about competitors either from trends in motives or marketing strategies.

The ability of MSMEs Weaving to survive and progress depends on the ability of MSMEs to create and foster competitiveness, as well as the ability to adapt toward changes in the environment. It can be seen in the current era, high competition is not only felt by large companies, medium companies such as weaving also experience very tight competition. The company's progress in the weaving industry is entirely dependent on the company's ability to create and grow competitiveness that can adjust quickly to the changes. The purpose of this research is to analyze the effect of market orientation and product innovation on competitive advantage in the *Gedogan* Weaving MSMEs in the City of Bima.

## II. RESEARCH METHOD

This research is associative research which was conducted in the City of Bima from April to June 2019. The data in this research are primary quantitative data with three variables, namely Market Orientation, Product Innovation and Competitive Advantage which were collected directly using a questionnaire. The population in this study was all owners and managers of *Gedogan* weaving MSMEs registered in Cooperative & MSMEs Service of Bima with a total of 1,534 MSMEs Weaving. The number of representative samples is dependent on the number of indicators multiplied by 5 to 10 [4]. Number of samples = number of indicators (9) x 10 = 90. Regarding the calculation of the minimum number of samples and consideration of the total population, the number of samples chosen is 90 Management of the *Gedogan* Weaving MSMEs group in the City of Bima. The sampling technique used was purposive sampling technique that was taken with certain considerations to answer the issues raised in this research, namely the management of MSMEs that have been registered at the Cooperative and MSMEs Office of Bima and already have a target market that is to have regular customers which monthly receive *Gedogan* fabric orders. The research used multiple linear regression with the help of SPSS version 20 for windows. The hypotheses in this study are:

H1: Market Orientation affects competitive advantage in *Gedogan* Weaving MSMEs in the City of Bima.

H2: Product innovation affects competitive advantage in *Gedogan* Weaving MSMEs in the city of Bima.

## III. RESULTS AND DISCUSSION

### A. *The Relation of Market Orientation with Competitive Advantage*

Market orientation is a business perspective that focuses on customers as a central point of view for the company's overall operations. Basically, the company must be market-oriented, so that it needs a systematic and comprehensive operation to sustainably commit in creating a competitive advantage. In order to do so, several things need to be included such as superior organizational skills, especially in understanding and satisfying customers to fulfill the market orientation formula, information gathering about customers, competitors and the market. A company will be able to continuously monitor the changes in customer needs and desires quickly and accurately by using market orientation [5].

Market orientation can be interpreted as implementing an organizational perception that puts customers as the axis of the company's management strategy process. Integration between functions in an organization requires resources, especially the knowledge and expertise of each worker so that it may support the organization in presenting the best value to its customers. Indicators that influence market orientation are: a). Customer orientation is the company's willingness to understand the needs and desires of its customers, b). Competitor orientation is the company's willingness to monitor the strategies implemented by its competitors and c). Market information is the company's

effort to find information about industrial market conditions [6].

Competitive advantage is expected to be effective in achieving profits that have been planned, increasing market share, increasing customer satisfaction, and maintaining the survival of a business [4]. There are three indicators used in measuring competitive advantage, namely: product differentiation, market segmentation and market entry [7]. Market orientation that is targeted by the weavers shows that strategic steps are a must in order to produce a competitive advantage with the competitors. Winning the market is by knowing the market conditions, in this case is customers' needs.

The variable test indicates that the t-test is higher than the t-table ( $2.986 > 1.987$ ) with a significance value of 0.004 less than 0.05 ( $0.004 < 0.05$ ). This means that the hypothesis "Market Orientation affects competitive advantage" is accepted. If *Gedogan* weaving MSMEs want to increase competitive advantage then they must conduct market orientation and fundamentally establish the principle of corporate behavior regarding customers, competitors and internal functions. By using market orientation, MSMEs are capable of understand and respond to the needs and expectations of customers, and able to find out the strengths and weaknesses of their competitors as well as coordinating company resources so that they can ultimately improve competitive advantage.

Market orientation provides good prospects for further improvement and as a choice of strategies related to customer establishment and satisfaction by continuously assessing customer needs and wants. The application of market orientation leads to the improvement of competitive advantage in the company. The results of this study are in line with the results of previous research which stated that market orientation influences competitive advantage [8].

### B. *The Relation of Product Innovation with Competitive Advantage*

Product innovations are basically intended to meet market demand and can be seen as one of the tools used as a competitive advantage. Innovation creates new ideas to make a better product. In corporate organizations, innovation is divided into two forms namely Product and Process innovation. Product innovation produces new goods services, or improvements from existing ones. While process innovation produces new ways of doing a process [9].

Innovation is an idea, discussion, practice or object that is realized and accepted as something new by a person or group to be adopted. Innovation can also be interpreted as a creative way that can generate ideas for companies [10]. Product innovation creates different qualities that can be accepted by consumers and fill their satisfaction. Regarding Product Indicators, it is divided into three, namely: Product Expansion, product imitation and new products [11].

The variable test indicates that the t-test is higher than the t-table ( $5.376 > 1.987$ ) with a significance value of 0.000 less than 0.05 ( $0.000 < 0.05$ ). This means that the hypothesis "Product innovation affect competitive advantage" is accepted. This result indicates product

innovation is, alongside market orientation, the main key to the success of the product to be accepted by consumers and contributes to the possibility of winning the competition.

#### IV. CONCLUSION AND SUGGESTION

Market orientation directly influences the competitive advantage of the *Gedogan* Weaving MSMEs in the City of Bima. It means that it is very relevant for Weaving entrepreneurs to always consider and improve market orientation in order to create a sustainable competitive advantage. Weaving MSMEs need to observe market orientation, especially regarding customer orientation, competitor orientation, and market information which may improve competitive advantage among existing MSMEs. Product innovation directly affects the competitive advantage of the *Gedogan* Weaving MSMEs in the City of Bima. This is because product innovation is, alongside market orientation, the main key to the success of the product to be accepted by consumers and contributes to the possibility of winning the competition. It means that it is very relevant for weaving entrepreneurs to continue to develop and improve product innovations that can create competitive advantages over these products.

Weaving MSMEs need to observe market orientation, especially regarding customer orientation, competitor orientation and market information in order to increase competitive advantage among existing MSMEs. Weaving MSMEs need to implement product innovation in the form of perceptions, techniques, and administration in order to create a competitive advantage. For further researchers, it is expected to develop and expand the scope of this research, by adding other independent variables that are not yet included in this research such as competitor orientation, product design and product distribution channels.

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