



Market-Based Innovation Capability: A Perspective of Resource Advantage Theory of Competition

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Abstract. Highly competitive environment requires a company to explore any market opportunities for it to maintain its business quality. Company's capability to identify market opportunities will raise its sustainability and competitive advantage, which may potentially improve its performance. Competitive advantage is an organization's capability to develop its resources. With its capability enhanced, a company may potentially produce innovative products. The purpose of this research was to examine the gap between entrepreneurial opportunity and marketing performance with Market-Based Innovation Capability as the variable to improve marketing performance. The research samples were business owners in the creative industry in Central Java. The results show that market-based innovation capability as the mediating variable was capable of improving marketing performance, and market penetration power was also capable of improving marketing performance.

Keywords: Entrepreneurial exploration opportunity · Market-based innovation capability · Market penetration · Marketing performance

1 Introduction

A competitive market requires a company to develop its resources to continuously explore any market opportunities and produce innovative products [1, 2]. The purpose is for the company to survive and improve its business quality [3]. In addition, company's capability of mobilizing all human resources is required to build and integrate internal and external resources' competence for competitive advantage [4, 5]. Exploring business opportunities and developing knowledge may effectively and efficiently improve innovativeness [6–8]. Multiple studies state that innovation significantly contributes to improving marketing performance [9–11]. However, other studies state that company's innovation is not directly related to marketing performance [12, 13].

Innovation requires resources that are capable of exploring opportunities [1]. Opportunities are ideas that are found or created which may potentially develop business and improve company performance [14], company's speed of exploring market information

and determination of strategies to win competition [15]. With the speed at which a company develops internal and external resources, it may potentially develop new products and enter new markets [16].

Several studies state that company's capability of exploring opportunities influences marketing performance [17, 18]. The research [19–22], however, state that entrepreneurial opportunity does not contribute to marketing performance. The objective of this study was to mediate the relationship between entrepreneurship opportunities and marketing performance with market-based innovation capability as the variable.

Market-Based Innovation Capability in the Perspective of Resource Advantage Theory of Competition is used to build organizational strategies to win market competition [23] and achieve high performance in a competitive business environment [24–27]. Therefore, the company will produce distinguished products [28] and consistently develop new products and face competition [29]. Resource-Advantage Theory is an evolution of the resource-based theory in corporate competition's perspective [30].

Company's capability to manage and develop products serves as the variable to mediate organization's learning ability and product innovation performance [31, 32]. Company's capability of managing and developing products serves as the variable to mediate organization's learning ability and product innovation performance [33]. Product design with functional and aesthetic characteristics positively contributes to consumer loyalty [34, 35] and enhances business excellence and performance [36].

2 Hypotheses Development

2.1 Market-Based Innovation Capability

Valuable, diverse and competent human resources contribute to encouraging a company to achieve its competitive advantage. Having competent resources will lead to production of innovative products. The study [37] states that company's competent capital resources may develop and produce market-based innovative products [38, 39]. Market-oriented innovation capability drives increased performance and creates value for customers [40, 41]. Market-oriented innovation enhances business performance in the long run [42, 43]. Company's capability to continuously develop market-based products will have the company survived any dynamic business environment [44].

2.2 Entrepreneurial Opportunity and Market Based Innovation Capability

Company's drive to creatively explore market opportunities is one key to improving business performance [21, 45]. Exploring market opportunities is related to company's capability to collect information of what the market needs and any changes in it [46, 47]. Therefore, the company will be capable of providing solutions to market-based needs and demands [48, 49] and produce market-based innovation products [50].

Courage is required in a competitive environment to take any risks and consistently create innovative products [5, 51, 52], which will affect how new businesses grow and are created [53, 54]. This conforms to Shane & Venkataraman [21] that company's main focus is on its capability to find and evaluate sources of opportunities in order to generate out of the ordinary and distinct ideas [55].

The research conducted by Foss [54] states that any difference in entrepreneurs' perspective in seeing and creating opportunities will affect the company's willingness to develop resources. Competent resources will have good viewpoint in creating products that follow market trends and provide superior value to the company [46, 56]. The study [54] states the difference in entrepreneurs' perspective, that a hypothesis can be proposed that their viewpoint in seeing and creating opportunities will affect the company's willingness to develop resources. That competent resources will have good viewpoint in creating products that follow market trends and provide superior value to the company [46, 56], the hypothesis below was proposed:

H1: Entrepreneurial opportunity exploration positively affects market-based innovation capability.

2.3 Market Based Innovation Capability and Marketing Performance

A competitive environment drives company to focus on innovation and consistently develop new products [57, 58]. Reliable resources are therefore needed to explore consumer's market-based needs [59]. With superior capability of collecting and processing market information, resources will quickly understand any changes in market needs [60]. Market based innovation is the key to differentiating a company from its competitors and serves as customer preference [61]. The study [62] states that innovation is company's power in anticipation of competitors and maintaining the market. In line with this, the study [63] states that the objective of innovation is to build business power and it is part of company's response to market changes. Innovation is derived from company's capability of processing information and responding to consumers [59]. Some studies state that company's capability of developing resources' knowledge positively affects and enhances its marketing performance [7, 64]. The dimensions of measuring marketing performance cover sales growth, customers growth, and sales volume [65]. Based on this, the following hypothesis was proposed:

H2: Market based innovation capability positively affects marketing performance.

2.4 Market Based Innovation Capability and Market Penetration

Company performance is measured through its production of high valued innovative products compared to its competitors with support of reliable resources and strategies of entering the market [66, 67]. The competitive power is derived from unique products or ones with distinct design from any other products in consideration of comparative and competitive advantages [68, 69].

Market penetration allows company to catch any opportunities and quickly make decision so that it can enter the market early and anticipate incoming competitors better [70], requiring superior resources to generate preferred products and also serving as the company's main power [71, 72]. Market penetration requires continuous sources of information related to sales performance and product's selling value in the market [73]. Internal resources cannot be affected by the market, even if company must adapt to market condition. For non-confusion of the concerned resources, Mathews & Zander [74] argues that resource can be defined as company's productive asset. Through activities carried out for company's advantages, customer orientation is the key to marketing,

that company's interaction with customers is determined by its capability of building mutually benefiting trust and dependence [75, 76].

The study Rigtering, Kraus, Eggers, & Jensen [77] states that company's capability of penetrating into and developing the existing market to be a new market segment may extend its scope. Moreover, according to the study [78], company responds to market changes and demands by extending the scope and opening new market segment. Market penetration strategy is expected to drive and enhance marketing performance [79]. The following hypothesis is proposed accordingly:

H3: Market based innovation capability positively affects market penetration

H4: Market penetration positively affects marketing performance

3 Research Method

3.1 Sample and Data Collection

The research's 300 samples were comprised of business owners or managements of furniture industries in Jepara and Klaten Regencies. The non-probability sampling technique was used since the population size was not known for certain, and purposive sampling technique was used, where the samples were based on certain criteria in a population [80], such as minimum three years of business operation under assumption that the companies had had competitive experience in the market. The number of 250 samples referred to the study [81], that 100–200 samples had exceeded the estimated maximum likelihood and been over 10 times of the number of whole indicators.

3.2 Instrument Validity and Reliability Measurement

The indicators below were used in the operation of variables:

3.2.1 Entrepreneurial Opportunity Exploration

The items used to measure Entrepreneurial Opportunity Exploration were adopted and developed from the studies [8, 14, 82, 83] with 5 inquiry items: Company resources are capable of exploring new business opportunities, Our company is capable of anticipating market changes into opportunities, We share various kinds of knowledge in exploration of opportunities, Our resources have the competence to develop opportunities into products, Technology use helps us explore business opportunities.

3.2.2 Market-Based Innovation Capability

The items used to measure Market-Based Innovation Capability were adopted from [68, 69, 84] with 5 inquiry items: We are capable of making differentiated product design from competitor's product, We are always capable of adapting to changes in the market condition or changes in consumer's desire, We are capable of developing our company's product materials, We are capable of producing products which are difficult to imitate, and We are capable of developing new ideas.

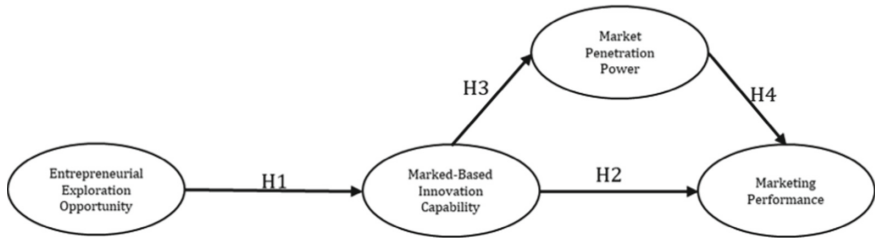


Fig. 1. Model empiric.

3.2.3 Market Penetration Flexibility

The items used to measure Market Penetration flexibility were adopted from Hannu & Hannu [85]; Jacobs & Swink [86, 87] with 5 inquiry items: We have the power to enhance our commercialized volume, We have the power to extend our marketing area, We have the power to reach new market segment, We have the power to add the number of products in the market, and We have the power to enter alternative distribution lines.

3.2.4 Marketing Performance

The items used to measure Marketing Performance were adopted from Leiponen & Helfat [7]; Voss & Voss [65]; Wu [64]. The dimensions of measuring marketing performance cover sales growth, customers growth, and sales volume with 5 inquiry items: We have our sales significantly increased in the last 1 year, we have our profit significantly increased in the last 1 year, We have our customers significantly increased in the last 1 year, and We have our products distribution significantly increased in the last 1 year.

3.3 Study Model

The conceptual model of this research is shown in Fig. 1, consisting of four variables.

4 Analysis

4.1 Measure Reliability and Validity

Before questionnaire distribution to the respondents, a pilot study was carried out with 40 colleagues to ensure that all questions in the instrument were well understood. Test was carried out afterwards. The results show Corrected Item-Total ≥ 0.05 and Cronbach's Alpha ≥ 0.7 . Questionnaire was then distributed and Reliability test was carried out to ensure the extent of consistency of the instrument of a concept [80]. The test results in loading factor ≥ 0.5 , Cronbach's Alpha ≥ 0.7 [88] and CR value ≥ 0.7 [89]. The test results in Table 1 show that all results are valid and reliable since they meet the requirements and feasible for further test.

Table 1. Measurement validity and reliability

| Indicators | Items | Standardized loadings | Cronbach's alpha | Composite reliability | Explanation |
|---|-------|-----------------------|------------------|-----------------------|--------------------|
| Entrepreneurial Exploration Opportunity | EEO1 | 0.717 | .853 | 0.904 | Valid and reliable |
| | EEO2 | 0.774 | | | |
| | EEO3 | 0.788 | | | |
| | EEO4 | 0.778 | | | |
| Market-Based Innovation Capability | MBIC1 | 0.749 | .824 | 0.924 | Valid and reliable |
| | MBIC2 | 0.756 | | | |
| | MBIC3 | 0.756 | | | |
| | MBIC4 | 0.623 | | | |
| | MBIC5 | 0.698 | | | |
| Market Penetration Power | MPP1 | 0.698 | .771 | 0.884 | Valid and reliable |
| | MPP2 | 0.758 | | | |
| | MPP3 | 0.717 | | | |
| | MPP4 | 0.582 | | | |
| Marketing Performance | MP1 | 0.720 | .841 | 0.894 | Valid and reliable |
| | MP2 | 0.770 | | | |
| | MP3 | 0.770 | | | |
| | MP4 | 0.640 | | | |

Table 2. Results of goodness-of-fit indices

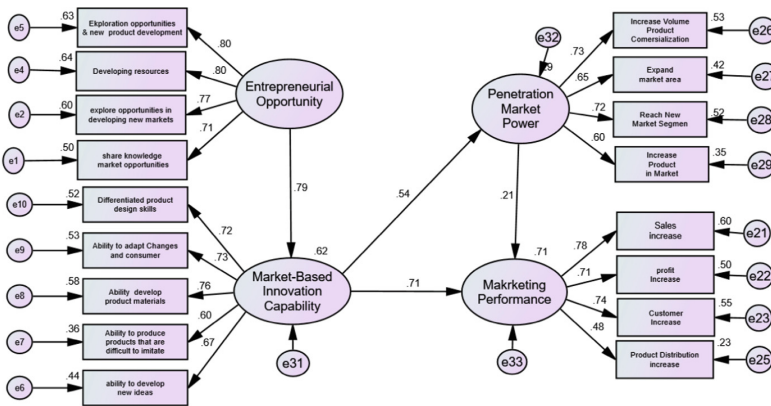
| Goodness of Fit Parameter | Cut Off Value | Testing Results | Explanation |
|---------------------------|---------------|-----------------|-------------|
| Probability | $\geq 0,05$ | .230 | Fit |
| CMIN/DF | $\leq 2,00$ | 1.094 | Fit |
| GFI | $\geq 0,90$ | .938 | Fit |
| AGFI | $\geq 0,90$ | .918 | Fit |
| TLI | $\geq 0,95$ | .991 | Fit |
| CFI | $\geq 0,95$ | .993 | Fit |
| RMSEA | ≥ 200 | .021 | Not Fit |

4.2 Model Fit

The recommended values are AGFI ≥ 0.90 [90], GFI > 0.90 , TLI > 0.90 [91], CFI > 0.95 (Bentler), and RMSEA < 0.08 (Browne and Curdeck in Rigdon [92]). The model fit test results are Probability value (.230), CMIN/DF value (1.094), GFI value (.938), TLI value (.991), CFI value (.993) and RMSEA value (.021), as presented in Table 2. In

Table 3. Results of hypotheses testing

| Hypothesis | | | Standardized estimate | Critical ratio | p-value | Result |
|---|---|------------------------------------|-----------------------|----------------|---------|---------------|
| Entrepreneurial Eexploitation Ooportunity | ← | Market-Based Innovation Capability | .088 | 7.81 | *** | Supported |
| Market-Based Innovation Capability | ← | market Power Penetration | .111 | 5.58 | *** | Supported |
| Market-Based Innovation Capability | ← | marketing Performance | .103 | 7.21 | *** | Supported |
| Market Power Penetration | ← | Market-Based Innovation Capability | .073 | 2.66 | .008 | Not Supported |



UJI HIPOTESIS FULL MODEL
 Chi-Square =125.844 - Probability =.230 - MIN/DF =1.094 - TLI=.991 - GFI =.938- CFI=.993 - AGFI=.918 - IFI=.993, RMSEA =.021 - PGFI=.705

Fig. 2. Full structural equation model.

full model in Fig. 2, we may conclude the test results that all of the construct parameters meet the defined criteria and the model meets the fairly good standard goodness of fit (Table 3).

4.3 Hypothesis Test

The research data were analyzed using statistic software Structural Equation Modeling (SEM) AMOS 24.0 to identify the measurement model and analyze the causal relationship and the regression and for good fit of the model [91]. Figure 1 shows conceptual model which may be used as the base to test the four hypotheses in the research. From

the results of modeling as presented in Fig. 2, it is found that three hypotheses are supporting and one hypothesis is not supporting. The research findings show that orientation exploration opportunity significantly, positively affects market-based innovation capability ($\beta = 0.88$, $p < 0.05$), Market based innovation affects market penetration power ($\beta = 0.111$, $p < 0.05$), and Market based innovation affects marketing performance ($\beta = 0.103$, $p < 0.05$), but market penetration power does not significantly affect marketing performance ($\beta = 0.008$, $p > 0.05$).

5 Discussion and Conclusion

Company must be capable of taking actions in response to market changes by exploring any opportunities and taking risks [93]. Company's courage to take risk is reflected in how it develops its resources to create innovative products as per market demand [94]. Company must be engaged in exploration of customer demand based product development for it to be leading in competition and improved business performance [95].

Based on the existing literatures, market changes and dynamic competition serve as company's driver to move its resources to explore market opportunities and create market based product innovation, rendering it capable of competing and maintaining its business performance [22, 95, 96]. Market based innovation capability is the mediating variable chosen to solve the research gap between entrepreneurial exploration opportunity and marketing performance. The RA-Theory is used in this research as company's capability of enhancing its market-based innovation and part of the premise to provoke market imbalance through innovation. Market based innovation capability is developed to respond to market's dynamic needs which may potentially enhance market performance [97].

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