

## The role of innovativeness-based market orientation on marketing performance of small and medium-sized enterprises in a developing country

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### ABSTRACT

The aim of this study was to determine whether the innovativeness variable can mediate the influence between market orientation and marketing performance in the culinary industry in West Java Province, Indonesia. More specifically, this study analyzes the relationship among market orientation, innovation and marketing performance in the single mediation model by placing mediation variable of innovation. The samples involved a total of 209 culinary industries under the auspices of the agency of cooperative and SME services. By using a simple linear regression analysis with SPSS and AMOS v. 23 we understand that innovativeness had the ability to mediate the influence between market orientation and marketing performance. Likewise, market orientation has a positive influence on performance. The implication of this research is that entrepreneurs can improve their innovation capabilities to improve the SME performance. This study recommends that government policies should encourage innovation in SMEs and encourage SME managers to pay more attention and manage innovations to improve their operational performance.

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## 1. Introduction

Marketing performance is the most important thing in developing a company since without a high marketing performance the survival of the company will be very much by the innovations made (Zhang et al., 2018), and also by the effectiveness of the creativeness, innovation, and industry experience from a company (Hallak et al., 2018). There are presently many studies about company performance and firm ownership (Anderson & Reeb, 2003; Douma et al., 2006; Martinez et al., 2007). The marketing performance greatly affects the firm performance which would lead to competitive advantage (Flynn et al., 1995; Jennings & Beaver, 1997). There are many studies associated with marketing research which would lead to increased company performance and there are various ways carried out in order to increase the role of research to improve marketing performance (Rangone et al., 2000; Rauch, Wiklund et al., 2009). Marketing research plays a significant role in increasing marketing innovation which, in turn, improves company performance through various methods which are suggested. Other research shows that this is moderated by the level of product innovation from the company itself (Cascio, 2011). In the marketing, research process plays an important role to improve company performance, therefore it is important that companies increase the amount of fund allocation that is directly related to the development of existing parts in the company in order to improve

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the performance of all workers in the company which will ultimately contribute positively on organizations (Ayuba & Kazem, 2015). Various creativities and innovations carried out by entrepreneurs have positive influences in increasing the development of a country and categorizing the country into a developed country (Ari Riswanto, 2016b). The development of Micro, Small and Medium Enterprises (MSMEs) and large enterprises in Indonesia in 2012-2013 has progressed. The largest business unit development in the year was contributed by Medium Enterprises by 6.35% units and 21.7% by person labor. Statistics shows that Indonesia as one of the developing countries tends to become a country that has a high population of entrepreneurs or entrepreneurs, so it is possible to improve welfare and alleviate poverty (Ari Riswanto, 2016a). There are some development of both business units and labor in the small, medium and large industries of West Java Province in 2009-2012. However, the development is getting lower in terms of the number, which is problem for further in-depth study related to the industry specifically related to with small and medium industries in this case Micro, Small and Medium Enterprises (MSMEs). Specifically, the development of micro and small business units in West Java has been significant compared with the number nationally reported over the period 2013 - 2015 which reached 489,760 (14.33%); 498,063 (14.21%) and 480,240 (13.09%), respectively. West Java has the third position on the island of Java seen from the average development of Micro Small Business at 13.88% after Central Java Province at 25.18% and East Java Province at 19.76% (Table 1).

**Table 1**  
Number of Micro and Small Business Units in Java Island 2013-2015

Province	2013		2014		2015	
	Micro	Small	Micro	Small	Micro	Small
Jakarta	20.738	19.172	15.110	22.748	28.378	6.616
West Java	382.899	106.861	437.985	60.078	421.881	58.359
Central Java	650.115	160.148	766.782	65.690	934.814	95.560
Yogyakarta	67.454	13.306	73.266	7.313	52.907	4.758
East Java	539.320	89.786	608.774	39.932	771.185	49.659
Banten	71.736	7.424	75.760	5.652	108.235	9.313
Indonesia	2.887.015	531.351	3.220.563	284.501	3.385.851	283.022

Source: Statistics Indonesia, 2018

Table 1 shows that West Java as a province continues to strive to develop SMEs. Therefore, it is necessary to be supported by strategies to maintain and enhance the development of SMEs activities and become better in the future. The performance of the application needs to receive important attention in developing and advancing the company or organization that is run and avoiding the risk of bankruptcy. Establishment of business is to maintain the business life cycle and have the ability to compete with other business organizations. Marketing performance of SMEs will affect the company's performance. In addition, this research was conducted in the culinary industry which is part of SMEs that are getting more attention from the government. It is assumed that government-backed SMEs are more likely to adapt with business uncertainty and firm financial and managerial capability (Pudjiarti & Suharnomo, 2018). Therefore, it is necessary to have a marketing strategy to enhance the elements in management which in turn affect overall company performance. The novelty of this research is to place innovativeness variable as a mediating variable between the influence of market orientation with marketing performance. This is compared to previous studies which examine those related to market orientation or innovativeness variables with marketing performance, also between market orientation and innovativeness.

## 2. Method

The aim of this study was to determine whether the innovativeness variable can mediate the influence between market orientation and marketing performance in the culinary industry in West Java Province, Indonesia. Significant increase occurred in 2010 both in business units and in the number of workers, this year there was an increase of 2.309% from 2009, as well as the number of workers increased by 84.911% from the number of 2,280,375 in 2009 to 4,216,671 in the following year. As for the increase in the following year, although not as much as the previous number, each year there was an increase in the data of the increase in the number of units and labor in 2011 and in 2012 respectively as follows: the number of business units increased 0.124% and 0.053% while the number of workers work reminds 0.109% and 0.003%. (West Java Provincial Industry and Trade Office, BPS 2018). The instrument was a questionnaire distributed to 209 research respondents, namely the culinary industry in West Java Province, Indonesia. The measurement model is tested using Confirmatory Factor Analysis (CFA) as well as a test tool for the validity and reliability of research instruments, so that the proposed measurement model is a CMM (Congeneric Measurement Model) on condition that the measurement model is fit with the sample data. Furthermore, after a fit model is generated, an analysis will be conducted using the Product of Coefficient Strategy with Single Mediation Model using Normal Theory Approach (Baron & Kenny, 1986; Hayes, 2013; Pituch, Keenan A & Stevens, 2016; Preacher & Hayes, 2004; Randolph & Myers, 2013; Tabachnick & Fidell, 2001). Analysis was conducted by using simple linear regression analysis with SPSS and AMOS version 23.

## 3. Results

Testing the model that will be used using Confirmatory Factor Analysis (CFA) with the aim of validating the proposed instruments and models (Table 2). The result of the fit test of the measurement model for marketing performance research. Fig. 2 shows that the calculated value for chi square is 224,055; df = 51; p value = 0,000; the value of Root Mean Square Error of

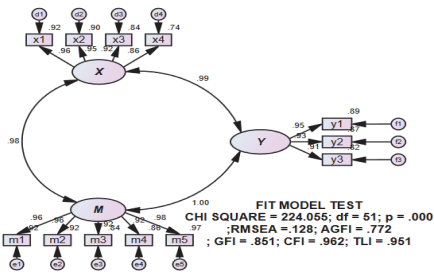
Approximation (RMSEA) = 0.128. The results of the output count in the estimate of standardize Regression Weight section, overall the tested indicator has a value of > 0.50 so that the item is considered valid and can test the thing tested.

**Table 2**  
Validity and Reliability Testing

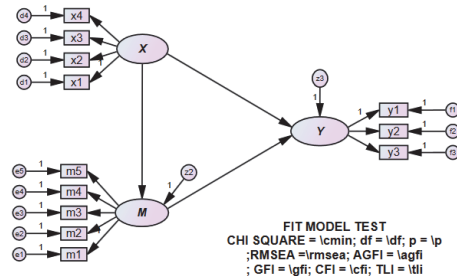
Variable	Questionnaire	Item Number	Invalid Item Number *	Alpha coefficient **
MO	MO Scale	1 – 4		0,958
I	DMC Scale	5 – 9		0,977
MP	BP Scale	10 – 12		0,949

\* The Estimate of Standardize Regression Weight <0.50.

\*\* Testing is done after an invalid item has been dropped.

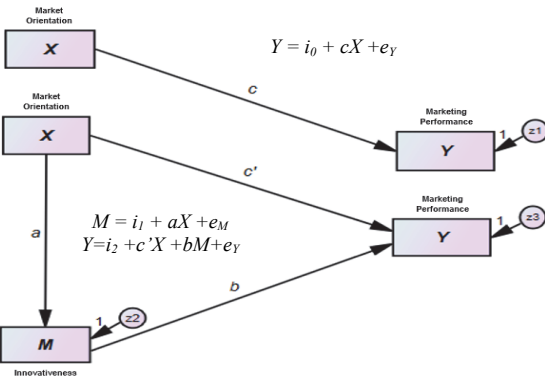


**Fig. 1.** Measuring Model Test (All Items)

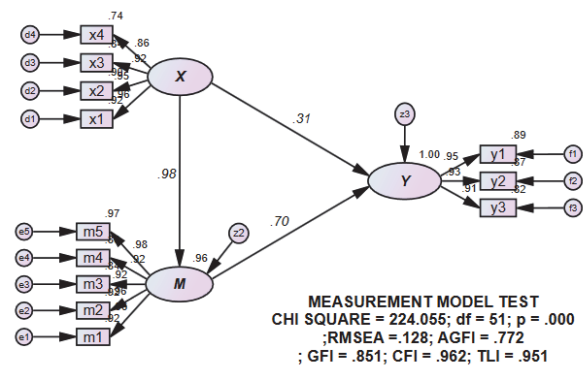


**Fig. 2.** Fit Marketing Performance Model

Table 2 shows the results of the validity test using Confirmatory Factor Analysis and reliability using SPSS version 23. For the X (Market Orientation), M (Innovativeness) and Y (Marketing Performance) variables, the research items are all included in the valid category and respectively each has a coefficient value of alpha of 0.958, 0.977 and 0.949. Both of these results fall into the category of very high reliability values. Fig. 2 shows the test results of the measurement model produced a model for measuring the performance marketing. The results of the analysis of the influence of market orientation on marketing performance mediated by innovativeness variables can be seen in the Fig. 3.



**Fig. 3.** Simple Mediating Models (innovativeness)



**Fig. 4.** Analysis Model

Fig. 3 shows the research model that innovativeness functions as a mediating variable between market orientation and marketing performance, while the results of the research analysis are in Fig. 4.

**Table 3**  
Summary of research analysis results

Antecedent		Consequent						
		M (I)			Y (MP)			
		Coeff.	SE	p		Coeff.	SE	p
X (MO)	a	1.2156	0.0269	< .0001	c'	0.1706	0.0380	< .0001
M (I)					b	0.4181	0.0298	< .0001
	i <sub>1</sub>	0.5045	0.3729	< .1775	i <sub>2</sub>	1.2693	0.1605	< .0001

$R^2 = 0.9081$   $R^2 = 0.9469$   
 $F(1,207) = 2046.0004, p < .0001$   $F(2,206) = 1834.9304, p < .0001$

Table 3 shows that the coefficient  $c = 0.1706$  ( $p = 0.0001 > 0.05$ ) is statistically significant. According to the results of the analysis, it can be concluded that M (Innovativeness) mediates incompletely X (Marketing Orientation / MO) to Y (Marketing Performance). The magnitude of indirect effect X (Market Orientation) on Y (Marketing Performance) =  $ab = (1.2156 \times 0.4181) = 0.5083$  ( $p < 0.0001$ ). The finding is in line with previous research demonstrating the relationship between marketing capabilities and performance (Czinkota et al., 2015; Martin & Javalgi, 2016; Merrilees et al., 2011; Moore & Fairhurst, 2003; Morgan, Katsikeas, 2016; & Vorhies, 2012; Murray et al., 2011; Morgan et al., 2003; Zou et al., 2003; Vorhies et al., 2011). This study also found market orientation and management ability to act as a mechanism that allows to build marketing capabilities, which in turn will improve company performance in marketing. Market orientation has a positive influence on company performance (financial and marketing) and market orientation has a significant influence on marketing performance. Findings reveal that market orientation and competitive strategy affect marketing performance, which is a competitive strategy having a greater influence than market orientation in influencing marketing performance. However, the findings confirm the effect of market orientation on new service development and marketing performance. However, Rezvani and Fathollahzadeh (2018) show that there is a weak positive correlation between marketing orientation and value creation, and the relationship between marketing strategic competence and SME performance. The results indicate low adoption and marketing orientation practices and knowledge about innovative marketing among SMEs. It is therefore recommended that investing in a SME operator training project in the marketing orientation and process objectives will be very beneficial for SMEs since it will help them improve SME performance (Omodafe & Nwaizugbo, 2017; Pudjiarti & Darmanto, 2020). The results show that value creation includes creating value for customers through products and services, and marketing and technology activities have the greatest impact on innovative performance. Innovation includes innovative strategies, management innovation, and uses new methods to carry out activities. Among the factors, resource leverage, which includes financial and human strength, has the least influence on innovative performance (Ozigbo, 2016). In addition, other research shows that there is a relationship related to between product innovation on company performance involving other variables, namely dynamic marketing capabilities (Riswanto et al., 2019; Susilo, 2018). These findings also indicate that the market orientation has a more tangible effect on the implementation of market orientation for subsidiaries of SMEs. In addition, this study shows that the possible cultural distance between the host countries of the subsidiary of SMEs for export-oriented SMEs strengthens the positive effect of competitive intensity on the implementation of market orientation. As such, this study addresses important concerns among researchers and managers about how to improve market orientation and, thus, the performance of their subsidiaries located abroad. The findings indicate that there is a positive change in market orientation and that market orientation is significantly and positively related to return on investment and customer retention. This is line with previous findings (Alrubaiee, 2013; Frösén et al., 2016; Handoyo, 2016; Julian, 2010; Kirca et al., 2011; Merrilees et al., 2011; Prasetya, 2002; Putri, 2016; Singh, 2003; Riswanto et al., 2019).

The results also provide evidence that the development of new services has a positive and significant impact on marketing performance. In addition, the indirect effect of market orientation on marketing performance through the development of new services as a mediator is also verified. However, this result shows the dual role of market orientation as a direct contributor to marketing performance and as an indirect contributor through the development of new services. Market orientation (MO) and marketing performance measurement (MPM) are two of the most widespread strategic marketing concepts among practitioners. However, some questions on the benefits of extensive investments in MO and MPM are raised. More importantly, little is known about the optimal combination of MO and MPM in ensuring high business performance. In line with previous research, this study found that MO was an important determinant of business performance. However, to get the benefits, managers need to complete it with the appropriate marketing performance measurement, varying levels and focus in various companies.

#### 4. Conclusion

The results of this study found that there was a positive influence between the variable of market orientation with innovativeness. There was also a positive influence between innovativeness and marketing performance. In this study, a research model was produced that links the Market orientation, marketing performance and innovativeness variables, which placed the innovativeness as a mediating variable to bring up new models which are examined. The findings provide insightful overview to the innovation research and practice as a mediation on the influence of market orientation with the performance of the cooking in the culinary industry under the auspices of the Ministry of Cooperatives and SMEs. This has shown that the innovation variable can mediate the influence of market orientation with the performance of the cooking in the culinary industry. Likewise, market orientation has a positive influence on performance. Meanwhile, the implication of this research is that entrepreneurs can improve their innovation capabilities in this case innovation so that it can improve the performance of the ongoing marketing industry. This study has found that there was a positive correlation between variables, and different patterns of technological innovation had a significant impact on industrial performance. This study recommends that government policies should encourage innovation in the industry by reducing tax for SMEs to boost the innovation and encourage SME managers to pay more attention to and manage innovations to improve their operational performance. This study is limited in generalizability for similar samples and locations. In the context of the object of study, SMEs have a variety of types, sizes and products to allow for differences in characteristics between each cluster on innovation and performance. In addition, SMEs in developing countries, such as Indonesia, will have different capabilities and capacity for innovation and export compared to SMEs from developed countries. Future studies are expected to empirically examine the effect of innovation on performance

in a wider sample size, and different types of SMEs. In addition, an analysis of the capabilities of SMEs in entering the export market and the adoption of green products is also worthy of serious attention.

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