
The Negative Effect of Market Orientation on SMEs' Marketing Performance in The Creative Economy Sector, and How Innovation Mediating it

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Abstract:

There are problems with the performance of SMEs in the creative economy sector in Indonesia. At least about 34% to 35% of SMEs in the creative economy sector experience problems related to marketing and demand. So, this study aims to prove the effect of market orientation on the SMEs' marketing performance of the creative economy sector and to prove the mediate roles of innovation. By using a sample of 200 respondents, and Structural Equation Modeling (SEM - AMOS) analysis technique, surprising results were obtained. The results are that market orientation affects marketing performance negatively. However, product innovation and process innovation can be a solution for this.

Keywords: Market orientation, Marketing erformance, Product innovation, Process Innovation, SMEs

1. Introduction

One of the business sectors that is growing rapidly in Indonesia is the creative economy sector. The creative economy is predicted as a new Indonesian economic force in the future. It is has seen by three indicators, there are business growth, employment, and the contribution to Indonesia's GDP. The values of the three indicators are better than several other business sectors in Indonesia (Indonesian Creative Economy Board, 2019a, 2019b). Opposite from macroeconomic data, from the micro side, there are problems with the performance of SMEs in the creative economy sector in Indonesia. At least about 34% to 35% of SMEs in the creative economy sector experience problems related to marketing and demand (Himam, 2020). This condition is confirmed from data published by the Indonesian Creative Economy Board (2019a) related to the number of creative economy production, of which 34% of business actors did not experience an increase in business production from previous years.

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Ropega (2011) stated that many SMEs died caused by the actions of their customers, competitors, and suppliers, which is accommodated in the components of market orientation, namely customer orientation, competitor orientation, and coordination between functions (Narver & Slater, 1990). Many studies have proven that market orientation can positively affect business performance (Brik et al., 2011; Buli, 2017; Charles et al., 2012; Hilman & Kaliappen, 2014). But on the other hand, several previous studies found that market orientation did not affect business performance (Alizadeh et al., 2013; Shehu & Mahmood, 2014; Takata, 2016). Even Irwan et al. (2019) found that market orientation can negatively affect business performance. Given that there are still inconsistencies in the results of several previous studies, it is necessary to find a variable that can mediate the relationship between market orientation and business performance. In this study, innovation will be used as the mediating variable. Based on argue of Kajanus et al. (2011) stated that innovation is needed in today's increasingly competitive business environment, which is characterized by rapidly changing customer needs, which means the product life cycle will be shorter.

In addition, the selection of innovation practice as a mediating variable is also based on several previous studies that have proven that market orientation affects innovation practice (Liu & Su, 2013; Newman et al., 2016). Other studies also have proven that innovation affects business performance (Atalay et al., 2013; Eggert et al., 2014; Tajeddini, 2016). For this reason, this study aims to prove the importance of market orientation as an antecedent of SME business performance and to prove whether innovation practices (product innovation and process innovation) mediate the research gap that occurs in the study of the effect of market orientation on company business performance. This study focuses on business performance from the marketing side.

2. Theoretical Background

Market Orientation and Innovation

Narver and Slater (1990) define market orientation as a culture to create superior value for customers through three behavioral components, namely customer orientation, competitor orientation, and coordination between functions. Market orientation is believed to be a source of a competitive advantage, which is an important factor for company performance (Njeru & Munyoki, 2014). and one of the strategies that can be done is to innovate, be it product innovation or process innovation. One of the strategies that can be done is to innovate, be it product innovation or process innovation. By adopting a market orientation, companies will be able to identify the desires of their consumers, which at this time can change very quickly. In addition, with one component of market orientation, namely competitor orientation, companies can also adapt to their competitive environment. The good knowledge about customers and their competitors, then the company is expected to be able to respond with the right strategy, and one of these strategies is to practice

innovation. Many studies state that innovation can be used as a strategy to respond to changes that occur (Geschka, 2015; Zartha et al., 2016). Several studies have proven that market orientation has a positive effect on product innovation (Liu & Su, 2013; Verhees, 2011). Haryanto & Haryono (2015) also found that market orientation affects process innovation.

Hypothesis 1: Market orientation positively affects product innovation.

Hypothesis 2: Market orientation positively affects process innovation.

Market Orientation and Performance

Good information and understanding of customers and competitors is a basic goal to be achieved in market orientation theory because the strengths of customers and competitors are part of the market factors that are important for the success of an organization or company. The hope is that all of this information can be distributed to all functions of the company so that the right decisions and full commitment can be made to respond to the information held to assist companies in improving their business performance. Mainstream research examining the effect of market orientation on business performance finds that market orientation is one of the most influential factors in improving business performance (Brik et al., 2011; Charles et al., 2012; Jyoti & Sharma, 2012; Hilman and Kaliappen, 2014; Lee et al., 2015; Buli, 2017). While the influence of market orientation specifically on marketing performance is still little found in the literature. We only managed to find one study conducted by Riswanto et al. (2020) who reported the influence of market orientation on the company's marketing performance.

Hypothesis 3: Market orientation positively affects marketing performance.

Innovation and Performance

The basic idea at the beginning of the development innovation theory presented by Schumpeter (1934) is to increasing entrepreneurial competitiveness, which makes innovation the foundation of the life of a company. Companies that innovate have the opportunity to benefit from an innovation premium (Helmert and Rogers, 2010). The benefit is in the form of a monopoly on the sale of new products (Fontana and Nesta, 2009) to improve their performance. This means, with the adoption of innovation strategy carried out by SMEs in the creative economy sector, they will be able to improve their business performance. This relationship has been proven by several previous studies, both innovation in general (Van Hemert et al., 2013; Jimenez & Valle, 2011; Karabulut, 2015), product innovation (Eggert, 2014; Nguyen et al., 2016; Tajeddini, 2016) and process innovation (Atalay et al., 2013). In addition, several other studies have found the influence of innovation specifically on marketing performance (Pramuki & Kusumawati, 2020; Farida, 2016).

Hypothesis 4: Product innovation affects marketing performance positively.

Hypothesis 5: Process innovation affects marketing performance positively.

As previously explained, this study will also examine the mediating effect of innovation in the relationship between market orientation and business performance. Although many studies in the literature discuss the performance of SMEs, innovation, and market orientation simultaneously, there are still few studies that explicitly state testing the mediating role of innovation on the effect of market orientation on a company's business performance. In the literature, we have found only four studies examining the mediating role of innovation. Two studies evaluate the effect of mediation only based on the opinion of Baron & Kenny (1986), without being supported by the results of statistical tests, namely the research of Anim et al. (2018) and Mahmoud et al. (2016). One study only focuses on product innovation, namely the research of Baker & Sinkula (1999). One other study used the innovation outcome variable, namely the research conducted by Leal-Rodríguez & Alborn-Morant (2016).

Hypothesis 6: Market orientation affects marketing performance if mediated by product innovation

Hypothesis 7: Market orientation affects marketing performance if it is mediated by process innovation

The conceptual framework of this research is as follows:

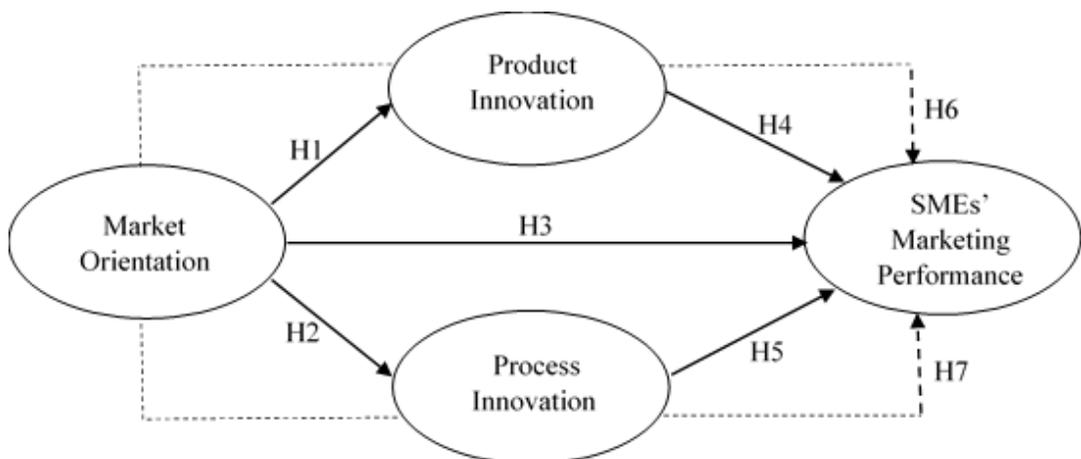


Figure 1. Research framework

3. Methodology

Analysis Techniques

The analytical technique used is Structural Equation Modeling (SEM - AMOS). SEM is an analytical technique that combines factor analysis and regression or path analysis (Hox & Bechger, 1999). SEM is used to verify the relationship between causal theoretical frameworks, which consist of some exogenous and endogenous variables (Shaheen, et al., 2017). As for the indirect effect, there is a mediating role of innovation, then the analytical technique used is the Sobel test. The Sobel test was carried out using the Sobel calculator on the website of quantpsy.org/sobel/sobel.htm.

Measurement

Data was collected using a 5-point Likert scale questionnaire. We use two measurement indicator items adopted from Narver & Slater (1990) for the market orientation construct, there are customer orientation and competitor orientation. For the product innovation construct, we use three measurement items adopted from Jimenez & Valle (2011), and Rajapathirana & Hui (2018), namely efforts to develop new products/services, efforts to increase product/service value and quantity new products/services introduced. We used measurement items from Karabulut (2015) and Rammer (2016), such as efforts to use new technologies/techniques/methods better, changes in the operation/production process, changes in processes to reduce production time, changes in processes to reduce production/operation costs. Finally, for the marketing performance construct, we adopted several measurement items from Hudson et al. (2001), namely an increase in income, a decrease in the number of complaints, and an increase in customer satisfaction.

Data collection method

Hair et al. (2010) suggested that the number of samples used for Structural Equation Modeling (SEM) should be between 100 and 200 samples. We use the upper limit of this opinion, then the number of samples used in this study is 200 samples. The sampling technique was carried out using a simple random sampling method, precisely with the lottery method from the data on the number of small and medium enterprises available from the relevant agencies. The respondents' demographic profiles collected are summarized in Table 1.

Table 1. Demographic profiles of respondents

Demographic	Category	Frequency	%
A. Business profile			
Age (year)	1 – 4	85	42.5
	5 – 10	75	37.5
	11 – 15	23	11.5
	16 -20	12	6.0
	> 20	5	2.5
	Total	200	100
Annual Turnover* (USD)	20.689,66 – 172.413,79	190	95
	>172.413,79 – 3.448.275,86	10	5
	Total	200	100
B. Personal profile			
Status/position	Owner	179	89.5
	Manager	21	10.5
	Total	200	100
Age (year)	< 30	55	27.5
	31 – 50	138	60.0
	> 50	7	3.5
Gender	Male	122	61.0
	Female	78	39.0
	Total	200	100
Education	Elementary School	1	0.5
	Junior High School	3	1.5
	Senior High School	77	38.5
	Diploma	13	6.5
	Undergraduate	95	47.5
	Graduate	11	5.5
Total	200	100	

Note: (*) 1 USD = 14,500.00 IDR

4. Empirical Findings/Result

Before hypothesis tests, it is necessary to ensure that the research model is feasible to use. The research model on SEM consists of a measurement and structural model. The feasibility of the measurement model was tested by confirmatory factor analysis (CFA), with loading factor, construct reliability, and variance extracted values. The three values can be seen in Table 2.

Table 2. The result of the measurement model analysis

Construct and items	Standardized loading
Market Orientation (CR = 0.808, AVE = 0.678)	
Customer Orientation	0.818
Competitor Orientation	0.829
Product Innovation (CR = 0.810, AVE = 0.596)	
Efforts to create new products/services	0.916
Efforts to increase the value of products/services	0.551
Number of new products/services introduced	0.803

Process Innovation (CR = 0.923, AVE = 0.750)	
Efforts to use new technologies/techniques/methods	0.877
Changes in operations/production processes	0.886
Changes in the process to reduce production time	0.810
Changes in processes reduce production/operating costs	0.889
SMEs Marketing Performance (CR =0.950, AVE = 0.864)	
Increased income	0.984
Decreased number of complaints	0.924
Increased customer satisfaction	0.878

Notes: CR = composite reliability; AVE = Average Variance Extracted

The loading factor value of all measurement items has met the requirements, which must be greater than 0.5 (Fornell & Larcker's, 1981). Likewise, the CR and AVE values obtained have also met the requirements. Lee et al. (2005) stated that the required value for the CR > 0.7. While the requirements for the AVE value, Wu et al. (2007) stated that it must be greater than 0.5.

Furthermore, to test the feasibility of the measurement model, the Goodness of Fit value from the AMOS output is seen. Most of the Goodness of Fit test indicators obtained have met the requirements, as shown in Table 3.

Table 3. The result of the measurement model analysis

Index	The research Model	Required	Source
Chi-square (X2)	96.016		
Degree of freedom (DF)	49		
Probability (p)	0.000		
GFI	0.929	≥ 0.90	Hox & Bechger (1998)
RMSEA	0.069	< 0.08	Schermelleh-Engel, et al. (2003)
X2/df	1.960	< 5.00	Hooper, et al. (2008)
TLI	0.964	≥ 0.90	Hox & Bechger (1998)
NFI	0.947	≥ 0.90	Hox & Bechger (1998)
CFI	0,973	≥ 0.95	Hooper, et al. (2008)

After confirming the measurement and structural models are feasible to use, then hypothesis testing is carried out. The result is summarized in Table 4.

Table 4. The result of the direct effect test

	Path	Coeff.	CR	Std. Error	P- Value	Decision *
H1	Market Orientation – Product Innovation	0.541	6.951	0.078	0.000	Supported
H2	Market Orientation – Process Innovation	0.330	3.509	0.094	0.000	Supported
H3	Market Orientation – Marketing Performance	-0.371	-2.587	0.143	0.010	Not Supported
H4	Product Innovation –	1.043	6.417	0.162	0.000	Supported

	Marketing Performance					
H5	Process Innovation – Marketing Performance	0.267	2.934	0.091	0.003	Supported

Note: (*) Sig. Value p <0.05.

The study accepted H1, H2, H4, and H5, because the p-value obtained is smaller than 0.05, and the effect direction meets the hypothesis. As for H3, although the p-value obtained is smaller than 0.05, the coefficient obtained is negative. It means that market orientation affects marketing performance negatively. Because the direction of the effect obtained is opposite to the hypothesized one, then H3 is rejected.

For testing hypotheses 6 and 7, we used the Sobel calculator provided by the website of quantpsy.org/sobel/sobel.htm was used. The results obtained are summarized in table 5.

Table 5. The result of the indirect effect test

	Path	T Statistics	Std. Error	P Value	Decision *
H6	Market Orientation – Product Innovation – SMEs’ Marketing Performance	4.176	0.119	0.000	Supported
H7	Market Orientation – Process Innovation – SMEs’ Marketing Performance	2.251	0.039	0.024	Supported

Source: quantpsy.org/sobel/sobel.htm

Sobel test results show that H6 and H7 are also accepted because the p-value obtained is smaller than 0.05. Based on the opinion of Baron and Kenny (1986), it can conclude that both product innovation and process innovation have a partial mediating effect because market orientation has a significant direct effect on marketing performance. However, if initially, market orientation affected marketing performance negatively, then by being mediated by innovation, the direction changes to be positive. Based on this condition, we conclude that both product and process innovation have a fully mediating role in the relationship between market orientation and SME marketing performance.

5. Discussion

The important findings of this study are the negative effect of market orientation on marketing performance. Mainstream empirical studies of the effect of market orientation on business performance found that market orientation is one of the most influential factors in improving business performance (Brik et al., 2011; Charles et al., 2012; Jyoti & Sharma, 2012; Hilman & Kaliappen, 2014; Lee et al., 2015; Buli, 2017), but instead, the results of this study found the opposite direction of influence, which is a negative effect. It means, the better the information and understanding

possessed by SMEs in the creative economy sector-related their customer and competitor can reduce their marketing performance.

This is inseparable from the business characteristics of the creative economy sector, which is generally produce based on orders following their customers' needs. Of course, each customer has unique and different desires, so that information held from a customer cannot be responded to by a general strategy, as is the case with the generic competitive advantage strategy proposed by Porter (1980). Likewise, to respond to the competitors' actions. For example, if any competitors offer low prices for their customers, then for the same product/service, it can't be immediately to respond by lowering prices, because it can harm business performance. In many cases, customers in the creative economy sector are willing to pay higher prices to get products that meet their tastes and aesthetics. This reason is reinforced by other findings from this study related to the role of product and process innovation as mediating variables, which emphasizes the importance of information and understanding related to customers and competitors to be responded to by creating something new and different.

Market orientation is only related to a company's knowledge about its customers and competitors. This knowledge will not be useful without real action taken by the company, especially if the company is in the highest competitive industrial environment. In other words, the knowledge related to customers and competitors owned cannot immediately affect the marketing performance of a company. Although in certain sectors and industrial environments, founded that market orientation can affect marketing performance positively, but it's not for the SMEs of the creative economy sector, the object of this study. The only study we found in the literature that is in line with this study is the study conducted by Irwan et al. (2019). Their study also found a negative influence of market orientation on the business performance of SMEs in the city of Bukit Tinggi (Indonesia), which is also known as a warehouse for creative economy entrepreneurs.

6. Implications

This study has several theoretical and practical implications. Theoretically, this study provides new insights and views related to knowledge management, namely how businesses that operate based on orders should manage their information and knowledge about the market. This study also has practical implications for SME entrepreneurs in the creative economy sector not to be careless in responding to customer and competitor information they have. It is better if the unique needs of each customer are also responded to by innovating their business. In addition, another reason why innovation needs to be made a culture in the company is that the creative economy sector is very sensitive to changes that occur, be it changes in the environment, technology, science, social life, and culture. Therefore, for innovations to be carried out on target, it is necessary to know their customers and

competitors. It would be even better if the innovations carried out were based on a plan to have a competitive advantage in the long term.

7. Conclusions

This study aims to examine the mediating role of innovation to mediate research gaps related to the inconsistency of the results of previous studies that empirically examine the effect of market orientation on business performance in general, and on market performance in particular. The results of this study found that product innovation and process innovation have a mediating role. Of the two types of innovation, the mediating role of product innovation is stronger than the mediating role of process innovation. Another purpose of this study is to prove the importance of market orientation as an antecedent of marketing performance, but the test results found the opposite. For the scope of the creative economy SMEs which are the object of research, it was found that market orientation cannot be used as a factor that can improve marketing performance.

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