

Responsive-proactive market orientation towards creative business performance

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Abstract. Product innovation leads to sustainable competitive advantage in line with the shifting global market landscape. This has the potential to improve industrial performance, especially SMEs in the handicraft sector. The purpose of this study is to examine how proactive and responsive markets to market trends affect product innovation and craft industry performance. Using a quantitative approach, the study involved a sample size of 100 managers from craft SMEs. Data was analyzed using SmartPLS 4.0. The findings show a favorable correlation between proactive and responsive market orientation and product innovation, which in turn positively impacts overall industry performance. In contrast, both product innovation and proactive market orientation show adverse effects on industry performance. The data collection process has been hampered due to instability caused by the post-pandemic industrial environment. In future investigations, there is potential to expand the scope of research and develop entrepreneurial variable constructions through the innovation dimension.

Keywords: Innovation, Market Orientation, Performance.

1 Introduction

In recent years, SMEs have played a significant role in the Indonesian economy due to their contribution, especially in the formation of gross domestic product and employment. Based on data from the Ministry of Cooperatives and SMEs, the number of SMEs in 2019 reached 65.47 million units. The figure increased by 1.98% compared to the previous year of 64.19 million units. The number of large-scale businesses was 5,637 units, micro businesses were 64.6 million units, small businesses were 798,679 units, and medium-sized businesses were 65,465 units [1]. With so many SMEs in Indonesia, craftsmanship also contributes to the growth of the nation. Based on data from the Creative Economy Agency, craft commodities are ranked third in the creative economy industry with a contribution of 15.7%. It is no wonder that craft is one of the drivers of the creative economy sector and a means of preserving the customs and culture of the country. One of the globally recognized craft enterprises is batik, chosen for its significant contribution to the national economy.

One of the keys to the success of a batik craft SME is influenced by various market aspects, including market orientation, product innovation, and industrial performance. Market orientation is a variable that supports the performance of SMEs, SME managers implement market-oriented strategies, it produces reactive and innovative market behavior. Market

orientation serves as a measure of behavior and activities derived from the application of marketing concepts [2]. Innovation plays an important role in the survival of the company [3]. Innovation is shown by transforming ideas or concepts into new systems, processes, or products [4]. This study uses Resource-Based Theory (RBV), which is used to develop core resources to maximize firm value. The literature shows that company resources can be an important factor in maintaining competitive advantage and achieving superior performance, only if they have certain characteristics. According to the findings of prior studies, it was discovered that product innovation exerts a positive and significant effect to influence on the marketing performance of these Craft SMEs[4]. However, according to previous research, market orientation does not have a positive effect on innovation. Based on the results of previous research

2 Literature Review and Hypothesis

2.1 Theoretical Foundation

The Resource-Based View (RBV) theory was first pioneered by Wernerfelt (1984) [5]. The Resource-Based View (RBV) theory contends that a company's resources and capabilities hold pivotal importance, serving as the bedrock for its competitive prowess and overall performance. The RBV framework has garnered substantial interest across various disciplines including strategic management, economics, organizational theory, and even fields like intellectual capital, in the last decade. Resources are commonly defined as either assets or capabilities. Assets, which can manifest as tangible or intangible entities, are possessed and managed by the company [6]. Meanwhile, capabilities encompass a set of intangible skills and accumulated knowledge that are enacted through organizational routines [7].

2.2 Market Orientation Responsive

Responsive companies should adjust their understanding of the segment structure and tailor their products and services to consumer needs. Companies with a responsive market orientation will adjust strategies to encourage product innovation for SMEs. Consumer needs change due to the macroeconomic environment, retail competition, and evolving consumer goals. This is in line with previous research which shows a positive effect of responsive market orientation on product innovation [8]. Marketing performance will improve when companies consistently respond to the market quickly, quickly capture market developments, and understand current consumer desires. With a responsive attitude to market changes, a company's marketing performance will show how well its marketing strategy is running. This is in line with research which states that responsive market orientation exerts a positive influence on performance [9].

H1: Market orientation responsiveness has a positive influence on product innovation.

H2 : Market orientation responsiveness has a positive influence on performance.

2.3 Market Orientation Responsive

Proactive market orientation refers to the strategic approach adopted by firms to anticipate and address not only current but also future customer demands. Companies that adopt a proactive market orientation allocate resources and invest capital strategically to encourage an environment where innovation flourishes. This aligns with research indicating that proactive market orientation has a positive effect on product innovation [9]. Moreover, market orientation exerts a positive and substantial influence on the marketing performance of MSMEs specializing in Batu City fruit chips. The higher the level of market orientation within these MSMEs, the greater their marketing performance. Consistent with earlier studies that suggest market orientation has a positive and significant role in enhancing business performance in the beauty salon and spa service industry in the city of Pekanbaru [10].

H3: Market orientation Proactive has a positive influence on product innovation.

H4: Market orientation Proactive has a positive influence on performance.

2.4 Innovation Product

Currently, SMEs are making great efforts to emphasize the latest product innovations. The quality of the products provided and the meticulous creative production process contribute to the company's market reputation, there by improving the market performance. Several studies suggest that product innovation mediates between market orientation and performance Product innovation effectively acts as a mediator for the impact of orientation on marketing performance. There are also research findings indicating that within Batik SMEs, market orientation's significant influence on marketing performance is contingent upon the mediation of innovation. This implies that the marketing performance of Batik SMEs is intricately linked to both the company's innovation level and the degree of market orientation that directly affects innovation [10].

H5: Product innovation has a positive effect on performance.

H6: Product innovation mediates Proactive market orientation on performance.

H7: Product innovation mediates Responsive market orientation to performance.

2.5 Perfomance

Product innovation requires a business context that becomes a network relationship process to improve marketing performance. The performance achieved from the ability to appreciate innovation in the collaboration of resources that are managed effectively and efficiently based on the theory of resource-based view is a good business strategy. Performance can be achieved from action. Together as a marketing strategy developed through the need for innovation. The need for new innovations can be concluded that performance is a result of the work achieved by a person in accordance with their respective responsibilities based on the requirements of the work performed [11].

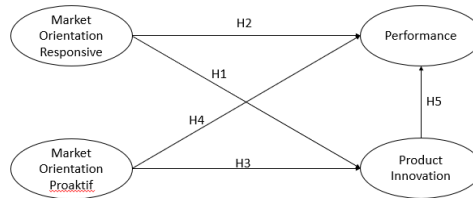


Fig.1. Conceptual Framework

3. Research Method

This research utilizes a quantitative approach with the population is the manager of craft SMEs in Indonesia. The sampling method is non-probability, specifically purposive sampling. using primary data used was collected through questionnaires filled out directly by SME owners/managers. The measurement scale utilized in this study is a Likert scale, designed to assess the degree of agreement or disagreement among the participants. Scale one is the lowest scale with a statement of strongly disagree (STS), the second scale states disagree (TS), the third scale states neutral (N), the fourth scale states agree (S), and the fifth scale states strongly agree (SS).

4. Results and Discussion

4.1 Respondent Characteristics

This research focuses on variables of interest to gain direct insight. Based on the survey that I met, I got 120 batik craft SME managers who responded favorably to my research, but only 100 respondents could meet the requirements of respondents described by age and gender. Judging from the age group, the largest percentage appears to be in the age range of 31-40 years (49%), then for gender criteria shows that (81%) are women and (19%) are men. Which was then analyzed using the Smart PLS 4.0 application.

4.2 Measurement Models

The assessment of the measurement model in this study involved utilizing loading values, internal reliability, convergent validity, and discriminant validity, as detailed in Table 1. For each construct, namely responsive and proactive market orientation, product innovation, and SME performance, the loading factor value exceeded 0.7, signifying a satisfactory level of reliability. Internal reliability assessment followed the composite reliability criteria, with each construct achieving a value surpassing 0.7, indicating strong reliability. Furthermore, the evaluation of convergent validity utilized the Average Variance Extract (AVE), where the value should exceed 0.5. In Table 2, the AVE values for each construct were found to be above 0.5, satisfying the criteria for convergent validity.

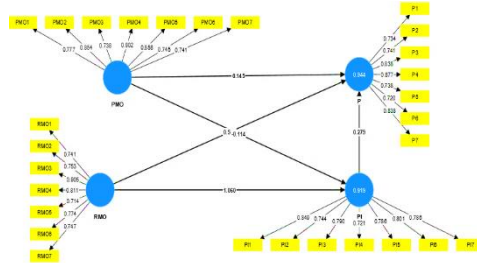


Fig. 2. Smart-PLS outer model data results

Table 1. Measurement Model Table

Variable	Composite Reliability	AVE	Description
Market Orientation Responsive	0,896	0,609	Valid
Market Orientation Proactive	0,900	0,623	Valid
Product Innovation	0,899	0,614	Valid
Performance	0,900	0,617	valid

Furthermore, variable measurement or reliability test, with the calculation of Cronbach's Alpha. 0.70, which indicates that the variables used to measure the concepts in this study are quite reliable.

Table 2. Cronbach's Alpha

Variable	Cronbach's Alpha	Description
Market Orientation Responsive	0,891	Reliable
Market Orientation Proactive	0,899	Reliable
Product Innovation	0,895	Reliable
Performance	0,895	Reliable

Furthermore, the validity and reliability the constructs were evaluated, as presented in Table 2. The responsive market orientation variable shows a Cronbach's alpha of 0.891, the proactive market orientation variable shows a Cronbach's alpha of 0.891, the product innovation variable shows a Cronbach's alpha of 0.895, and the performance variable shows a Cronbach's alpha of 0.895. The results obtained show that the results of each variable show the Cronbach's Alpha reliability criteria of more than > 0.70 so it can be concluded that the results of this reliability test value show good high quality.

4.3 Structural Models

Model Feasibility Analysis (Goodness of Fit). This test is conducted to ascertain the appropriateness of the constructed model for the research objective or not base on the results of the conducted research:

Table 3. Results of R-squared values on Smart-PLS Data

Variabl e	R-Square	R-Square adjusted
P	0.944	0,942
PI	0.919	0, 917

Derived from the outcomes of data analysis within the study, Table 3. The R-squared value shows that the variables included in the model are capable of elucidating 94.4% of the variation in company performance. This indicates that the constructs measured in this study make a significant contribution in explaining the level of performance in batik SMEs. The close similarity between the R-squared and Adjusted R-squared values indicates that the model is not much influenced by the number of variables and observations in the sample. The R-squared value for product innovation indicates that the variables within the model can account for 91.9% of the variability observed in product innovation. Subsequently, the assessment of goodness of fit involves employing Q-square, calculated as follows:

$$Q \text{ square} = 1 - [(1 - R^2_1) \times (1 - R^2_2)] \quad (1)$$

$$\begin{aligned} Q - \text{Square} &= 1 - [(1 - R^2_1) \times (1 - R^2_2)] \quad (2) \\ &= 1 - [1 - 0,944] \times [1 - 0,942] \\ &= 1 - [0,056 \times 0, 34 \times 0,058] \\ &= 1 - 0,114 \\ &= 0,886 \end{aligned}$$

Based on the Q-square formula above, the predictive relevance result is 0.886, indicating that the extent of model variation is reflected in the predictive relevance value of 0.886. This indicates that the model that was developed can elucidate approximately 88.6% of the variability in performance, product innovation, and market orientation responsiveness. And the remaining 11.4% is still influenced by other factors. Therefore, based on these findings, it can be concluded that the research model demonstrates a satisfactory level of goodness of fit.

4.4 Hypothesis and Discussion

As will be explained by table 3. Testing of structural models carried out using the t test with the selection to test direct and indirect effects or testing mediating variables. Direct testing contains path coefficients and indirect effects. Through the P value results obtained if the P value on each variable <0.50 then H0 is rejected, the positive effect can be seen from the original sample.

Table 4. Test results

Path Coefficients	Hypothesi s	Original sample	T- statistics	P value	Description
RMO → PI	H1	1.060	18.419	0,000	Significant Positive
RMO → P	H2	0.569	4.667	0,000	Significant Positive
PMO → PI	H3	0.114	1.847	0,065	Significant negatives
PMO → P	H4	0.145	2.315	0,021	Significant Positive
PI → P	H5	0.279	3.125	0,002	Significant Positive
RMO → PI → P	H6	0,295	3,020	0,003	Significant Positive
PMO → PI → P	H7	0,032	1,518	0,129	Significant negatives

The findings from Table 4, can be determined the results of hypothesis testing. which can be seen from the P Value value which summarizes the results of hypothesis testing as follows:

Based on the results of hypothesis testing, 5 positive hypotheses are significant and 2 positive hypotheses are insignificant. In responsive market orientation supported by product innovation variables (P-value = 0.000), performance (p-value = 0.000). If the higher the market orientation, the resulting product innovation can develop [12]. In addition, the responsive market orientation conveys information to solve customer problems so as to increase the performance of SMEs.

On the value of proactive market orientation states that it is not supported by product innovation (P-value = 0.065) [13]. This happens because, craft SME managers are seen from the low attention of consumers to product innovation. In addition, proactive market orientation is stated to be supported by performance (P-value = 0.021). That is, the better craft SMEs can understand the market, the performance is able to understand the needs that consumers want.

Product innovation is stated to be supported by performance (P-value = 0.002). This happens because of improved performance that can create product innovation so that it attracts customer attention.

Furthermore, responsive market orientation mediated by product innovation is supported by performance (P-value = 0.019). This happens because of a responsive market orientation that is able to quickly respond to customer desires so as to increase the performance of SMEs. In addition, Proactive market orientation mediated by product innovation is not supported by performance (P-value = 0.003). It states that a proactive market orientation does not always understand the desires of customers who are trying to innovate a desired product.

5 Conclusion

This research explores how the involvement of market orientation affects the performance of batik SMEs, with product innovation acting as a mediator. Using the Smart-PLS method, the analysis shows that increased market orientation participation leads to improved product innovation and company performance. In addition, market orientation positively affects innovation products, encouraging efforts to create interesting innovations. Proactive market orientation has no significant effect on product innovation. In addition, innovative products have a significant impact on company performance. Product innovation has also not been able to significantly mediate the effect of responsive market orientation on marketing performance. Conversely, product innovation is able to mediate significantly to marketing performance. These findings underscore the importance of market orientation in shaping product and innovation performance, which is supported by Resource-Based View theory. The study contributes to understanding the exciting innovations in batik craft SMEs, and emphasizes the need to improve market orientation to obtain positive results. Stakeholders can leverage these insights to develop effective strategies for customer satisfaction and engagement. This research offers a foundation for future research, urging the exploration of additional variables that affect firm performance, specifically focusing on specific market orientation characteristics and theory integration. It is important to note that the data collection process is constrained due to the instability caused by the post-pandemic industrial environment. In future research there is potential to expand the scope of research and develop entrepreneurial variable construction through the innovation dimension.

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