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The Influence of Market Orientation on Marketing Performances in Micro Small and Medium-Sized (MSMEs) Coconut Sugar Enterprises: The Role of Innovation

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Abstract

Coconut sugar have a huge potential to be developed in Indonesia, unfortunately the welfare of the producers is still lack due to the inability of the products to be marketized on modern and international markets. The products could not meet the needs and wants of those markets. This study aims to investigate the influence of market orientation on marketing performances in MSMEs. The samples are 100 coconut sugar producers, in Banyumas, Central Java, Indonesia. The tool used to analyze this study is structural equation modelling by AMOS program. The study result shows that customer orientation have a positive influence on product and process innovations, competitor orientation have a positive influence on product innovation but have no influence on process innovation, and product and process innovations have positive influences on marketing performances.

Keywords: market orientation; marketing performance; micro, small and medium-sized coconut sugar enterprises; innovation.

1. Introduction

Some previous researches have already investigated the relationship between market orientation and marketing performances (Al-Ansari, 2013; Raju, 2011; Tutar, 2015; Sok, 2013). MSMEs play an important role in Indonesian economy for several reasons; they could survive through the monetary crisis during 1998, the huge amounts compared to big companies, and the amount of labors hired. Small-scale industries in Indonesia provide more than 65% of total manufacturing employment (Burger *et al.*, 2011). One of important MSMEs for Indonesian economy is micro, small and medium-sized coconut sugar enterprises regarding their annual production amount bringing Indonesia as the largest coconut producer in the world, which is up to 120,000 tons (Mustaufik, 2010). Micro, small and medium-sized coconut sugar enterprises are very potential to be developed in Indonesia; because a) they have a big market potential, b) Indonesia has the largest coconut plantation in the world, and c) coconut sugar industry is an industry which does not need a sophisticated technology and advanced skills, so it can hire huge amount of labours (Suliyanto, 2013).

Even though Indonesia is the largest coconut sugar producer in the world, the welfare of the producers is still lack. Kameo (1999) state that characteristic of coconut sugar in Indonesia is marginal activity that is carried out by poor households that lack access to better opportunities and the profit is indeed low. The poor welfare of Indonesian coconut sugar producers is caused by several problems which they have. One

of the problems in coconut sugar industry in Indonesia is marketing problem (Suliyanto *et al.*, 2012). They are unable to market their products to the modern market and international markets (Suliyanto, 2013). This inability may be caused by the lack market orientation of coconut sugar producers in Indonesia, then the generated products do not meet the needs and wants of those markets.

To make them be able to meet those needs and wants, the coconut sugar producers need to know the needs and wants in market to the market orientation. According to Narver and Slater (1990), market orientation is an organizational culture focusing on consumers and competitors. Through the application of market orientation, a company is expected to understand the condition, characteristic, and desire of the market completely both from the perspectives of consumer and competitor (Tushman and Anderson, 1986). Based on the information gathered, a company can provide solutions adjusting the needs and wants of in the market, by higher valued- product. Furthermore, a company may formulate the right strategy in form of an innovation. Through an application of innovation, a company may increase its profits (Tutar, 2015).

This article explains the influence of market orientation on innovation, and the influence of innovation on marketing performances in micro, small and medium-sized coconut sugar enterprises. In which the market orientation is classified to customer orientation and competitor orientation (Narver and Slater, 1990), and Innovation is classified to product innovation and process innovation (Cooper, 1998).

2. Literature Review and Hypothesis Development

2.1. Market Orientation

Narver and Slater (1990) define the market orientation as an organizational culture with a wide focus, which does not only focus on consumers but also focus on competitors. Tutar *et al.*, (2015) state that market orientation is a culture stimulating the finding of value inside the market aimed to get the competitive advantages. Additionally, Narver and Slater (1990) underline the importance of coordination among the functions inside the organization in order to satisfy the customers. In line with the perspective of Narver and Slater (1990), Sorensen and Slater (2008) state that market orientation consists of customer orientation and competitor orientation constructs. Lengler *et al.*, (2013) argue that consumer and competitor orientation functions inside the organization will create the higher value of product toward the consumers. Zhou and Li (2007) state that competitor orientation can improve the capability of company in analysing and responding the competitor strategy, in which it will impact the different product innovation offered, compared to the competitors. Conversely, Desphande and Farley (1998) argue that customer orientation is process and cross-functional activity which is directly aimed to satisfy the consumers through the sustainable measurement of consumer needs; they do not consider the importance of competitor orientation existence.

According to Kotler (2000), if a company wants to apply the customer orientation, they need to: (1) determine the primary need of buyers who will be met and served; (2) select a certain group of buyer as the targeted market; (3) determine the product and the marketing program; (4) conduct a market research on consumers, to measure, assess and define their desires, attitudes and behaviours; (5) determine and execute the best strategy among the options, whether prioritize the high quality, low price, or interesting design.

Narver and Slater (1990) state that competitor orientation might be applied by: (1) observing the strategy executed by the competitors, (2) observing the production process established by the competitor, and (3) comparing the strength and weakness of company products to the ones of competitor. When a company can develop the result of competitor orientation, then they can collect the more intact information from the market and provide a better solution to consumers (Lengler *et al.*, 2013). Putting an attention on the market orientation will make the company understand the industry game rules and it will improve the company performance in the end (Lengler *et al.*, 2013).

2.2. Innovation

The narrowest definition of innovation is similar to invention, thus in this context, innovation is defines as creative process involving the ideas implementation to create the best solution (Nasution, 2005). According to Drucker (2003) innovation means the understanding of the company in adapting the tool, policy, program, process, product, or service which is perceived as something new in the company. Innovation strategy is when a company can turn the innovation idea into a product served to the market then it can create the new market and has competitive advantages (Tutar, 2015). Sok *et al.*, (2013) define the innovation as a process inside the company to facilitate and implement the development, evolution, and execution of a successful product innovation. Sok *et al.*, (2013) also state that the innovation role is one of ways which the company uses to improve the marketing performance. Innovation is different with creativity; creativity is new ideas, while innovation is executing those new ideas or alters the new ideas into a business success. According to Huang *et al.*, (2012), to attain the competitive advantages, a company needs to adapt the innovation in their business. Innovation, according to Thomspson in Hurley and Hult (1998), is defined as the implementation of new ideas, product and process. Meanwhile Hurley and Hult (1998) define

the innovation as a company mechanism to adapt in dynamic environment. Therefore, a company is required to create new ideas, process, and products to meet the consumer needs. In finding an innovation, a company may explore it internally and externally (Huang *et al.*, 2012).

The explanations related to product and process innovations referring to some experts (Cooper, 1998; Cumming, 1998; Knox, 2002) in marketing are as follow:

a. Product Innovation

According to Cooper (1998), product innovation reflects the product and service transformations offered to the market. While Knox (2002) classifies product innovation into two dimensions: new product to company and new product to customers. These two dimensions are classified into six categories: new-to word invention, new-to product line, product improvement, product line expansion, cost reduction and product repositioning in the market. The new-to word invention and new-to product line are high risk innovations, product improvement and product line expansion are relatively low cost innovations; while cost reduction and repositioning are low risk product development (Nasution, 2005).

b. Process Innovation

Cooper (1998) defines the process innovation as the transformation inside the organization regarding the way how to produce products and final service of company. It is in line with the notion by Cumming (1998), it states that there are three factors in implementing the process innovation: quality, cost, and time. The quality means, by the existence of innovation, company will improve the production quality so it adjusts to customer expectation; the cost means, by the existence of innovation, company will be more efficient so it can generate the products faster.

2.3. Market Orientation and Innovation

Narver and Slater (1990) postulate that market orientation does not only focus on customer orientation; the competitor orientation is involved too. Based on the research by Han *et al.*, (1998), the activity level of market orientation inside the company has a correlation with the innovation level of company. In line with Han *et al.*, (1998), Low *et al.*, (2007) state that innovation of a company is positively correlated to market orientation consisting of customer orientation and competitor orientation. Raju *et al.*, (2011) state that market orientation has a positive influence company capability in innovating, and Wang (2015) state that market orientation has positive effect on innovation performance. Based on the prior literature reviews, the hypothesis formulated as follow:

H1: The Customer Orientation influences the Product Innovation

H2: The Customer Orientation influences the Process Innovation

H3: The Competitor Orientation influences the Product Innovation

H4: The Competitor Orientation influences the Process Innovation

2.4. Innovation and Marketing Performances

Marketing performance is a measurement indicator of organization performance based on the performance in marketing function. According to Voss and Voss (2000), marketing performance is measured by using the indicators such as sales, market growth, sales growth, and profit level. Innovation of a company is expected to increase the profit and competitive advantages which will give an impact on the company performances. Hine and Ryan (1999) state that innovation can increase value on small service firms, and (Talke *et al.*, 2011).referring to the research by Al-Ansari *et al.*, (2013), innovation has a positive influence on business performance of MSMEs in Dubai. In line with the arguments by Talke *et al.*, (2011) and Al-Ansari (2013), Raju *et al.*, (2011) postulate that a

company innovation will improve the company performance. Based on the review of prior literatures, then the hypothesis formulated as follow:

H5: The Product Innovation influences the Marketing Performance

H6: The Process Innovation influences the Marketing Performances

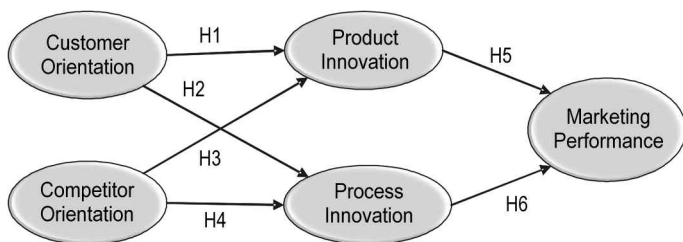


Figure 1. Research Model

3. Research Method and Data Collection

The respondents of this research are 100 coconut sugar producers in Banyumas, Central Java, Indonesia. Banyumas is a region with the largest coconut sugar production in Indonesia. Sampling technique used in the study is simple random sampling.

To measure the market orientation consisting customer and competitor orientations, this study adapts the questionnaire by Narver and Slater (1990) and Kotler (2000). To measure the innovation consisting of product and process innovations, this study creates a set of questionnaire adapting Cooper (1998). Marketing performance is measured by using questionnaire adapting Voss and Voss (2000) with the indicators of gross profit, net profit, sales growth, and marketing scope. All those variables are measured by using the Likert scale (1-10). The value of 1 shows the strongly disagree respond and the value of 10 shows the strongly agree respond.

The data analysis of this study will be conducted by structural equation modeling (SEM) analysis by AMOS program. The measurement of research variables is based on the perception or respond of the respondents on the all indicator variables constructed in research model. The answer of respondents will be valued by Likert scale, 1 for the lowest score and 10 for the highest score.

4. Results

4.1. Characteristics of Respondents

The respondents of this study are 100 producers. To those 100 samples, there are some characteristics used; gender, age, production experience, education level, and amount of employees. Based on the characteristic of respondent age, it shows the respondents are on the age of 24 to 77 years old, with most of them are aged 41 to 50 years old who represent the 42 percent of respondents. Based on the characteristic of gender, the respondents are dominated by males who represent 94 percent of respondents. The average of production experience of respondents is 14 years. For the level of education, most of the respondents are elementary school graduates who represent 78 percent of respondents, while junior high school graduates are 13 percent of respondents, and senior high school and university graduates are up to 9 percent of respondents. The amount of employees hired is mostly less than 5 persons which represents up to 81 percent of respondents, 14 percent of respondents hire 6 to 11 employees, and 5 percent of respondents hire 12 to more than 24 employees.

4.2. Validity and Reliability Tests

The validity on SEM is tested by looking at the value of factor loading resulted from the standardized loading for each indicator

(Ferdinand, 2005). An indicator is valid and appropriate as a composing construct if it has the factor loading of > 0.40 (Hair, 1998).

The reliability of constructs framing the model is analyzed by using construct reliability and variance extract. The requirement of minimum value for construct reliability is at least 0.70, and for variance extract is at least 0.50 (Ghozali, 2008).

Variable	Indicator	Factor Loading	Validity
Customer Orientation	X1	0.94	Valid
	X2	0.97	Valid
	X3	0.93	Valid
	X4	0.62	Valid
	X5	0.83	Valid
Competitor Orientation	X6	0.83	Valid
	X7	0.88	Valid
	X8	0.72	Valid
	X9	0.75	Valid
Product Innovation	X10	0.86	Valid
	X11	0.68	Valid
	X12	0.74	Valid
Process Innovation	X13	0.79	Valid
	X14	0.90	Valid
	X15	0.71	Valid
Marketing Performances	X16	0.73	Valid
	X17	0.47	Valid
	X18	0.90	Valid
	X19	0.66	Valid

Table 1. Validity Test

Variable	Construct Reliability	Variance Extract	Conclusion
Customer Orientation	0.99017	0.9872	Reliable
Competitor Orientation	0.98166	0.9714	Reliable
Product Innovation	0.96481	0.9416	Reliable
Process Innovation	0.97656	0.9645	Reliable
Marketing Performances	0.94079	0.8929	Reliable

Table 2. Reliability Test

4.3. Goodness of Fit Test

Goodness of Fit Index	Analysis Result	Cut-off Value	Model Evaluation
X ² Chi-Square	274.2672	<187.53	Marginal
Probability	0.000	>0.05	Marginal
CMIN/DF	1.8915	<2.00	Good
GFI	0.7869	>0.90	Marginal
AGFI	0.7207	>0.90	Marginal
TLI	0.8818	>0.95	Marginal
CFI	0.8998	>0.95	Marginal
RMSEA	0.0944	<0.08	Marginal

Table 3. Goodness of Fit Test

The tested research model may be categorized as a good model, if the Chi-square value is low. The lower value of Chi-Square reflects the greater research model (Ferdinand, 2005). The value of Chi-Square of this research model is 274.2672, which is greater than the value of table Chi-Square of 187.53, with the margin of error is 1% and degree of freedom of 145. The value shows that the tested model is accepted at the category of marginal. The resulted probability value is 0.000 which is lower than its cut-off value of 0.05, so the model is accepted at the category of marginal. The value of CMIN/DF of this research model is 1.8915 which is lower than its cut-off value of 2.00, thus

it indicates that the model is accepted at the good category. The resulted value of GFI in this research model is 0.7869 which is lower than 0.90. The value indicates that the degree of the weighted proportion-fit from the variance of sample covariance matrix which is explained by estimated population matrix; is accepted at the category of marginal. The value of AGFI of this research model is 0.7207 which is lower than the cut-off value of 0.90. Thus, the model can be accepted at the category of marginal. The goodness of fit test result shows that the value of TLI is 0.8998 which is lower than the cut-off value of 0.95 so the model

is accepted at the category of marginal. The value of CFI in this research model is 0.8998 which is lower than the cut-off value of 0.95 so the model can be accepted at the category of marginal.

4.4. Hypothesis Testing

P-value is used to consider the hypothesis. A requirement in accepting the hypothesis is the p-value of < 0.05 . The below table is the summary of the causal relationship result between variables in this study.

Causal Relationship	C.R.	P	Conclusion
Customer Orientation → Product Innovation	4.314	>0.001	Supported
Customer Orientation → Process Innovation	3.589	>0.001	Supported
Competitor Orientation → Product Innovation	2.316	0.0205	Supported
Competitor Orientation → Process Innovation	1.185	0.2360	Not Supported
Product Innovation → Marketing Performance	2.890	0.0038	Supported
Process Innovation → Marketing Performance	3.205	0.0013	Supported

Table 4. Regression Weight for Hypothesis Testing

Based on the table above, it can be seen that the p-value of the first, second, third, fifth, and sixth hypothesis is lower than the statistic value of alpha of 0.05 in which it indicates that the hypothesis are accepted. For the fourth hypothesis, it can be seen that the p-value of 0.236 is greater than 0.05, then the fourth hypothesis is rejected.

5. Conclusion and Discussion

This research is conducted through the sampling of 100 micro, small and medium-sized coconut sugar enterprises from Banyumas, Central-Java, Indonesia. The result of the study shows that the customer orientation has an influence on product innovation. To be accepted by the modern and export markets, firstly, a company has to investigate the product specifications needed by the markets. A company which has a depiction of the product adjusting to the market needs and wants, will create an innovation in form of products meeting the needs of targeted market. The second hypothesis of this study states that the customer orientation influences the process innovation. A company which realizes to the potential of a product will find a way to produce the similar product. The thing they can do is transforming the production process they used to have.

The next result of this study shows that the competitor orientation influences the product innovation. It can be an indicator that the MSMEs have a willingness to compete among the others. When a MSME produces a new product or a different product than they used to produce, it will stimulate the other MSMEs to produce the similar product. The fourth hypothesis on this study tells that the competitor orientation does not influence the process innovation. Considering the competitor with a new product, possibly that competitor will not leak and spread their production process. The results of this study support the previous researches by Han *et al.*, (1998), Low *et al.*, (2007), and Raju *et al.*, (2011) finding that market orientation has a

positive influence on the product innovation of company, but it does not has on innovation process.

Lastly, the study result shows that the product and process innovation can improve the marketing performances. On this context, the MSMEs believe that when they can produce the product with the quality expected by the market; it will increase their profit, sales, and market share. The innovation of company can improve the marketing performances as the result of previous researches by Talke *et al.*, (2011), Al-Ansari (2013) and Raju *et al.*, (2011).

6. Implication

To enter the modern and export markets, the MSMEs are expected to implement the cultures of market orientation and innovation. The culture of market orientation may be applied in order to know the product standard needed by the market; e.g. in terms of taste, quality, durability, model, and colour. Competitor orientation may be applied by benchmarking the successful enterprises which already entered the modern and export markets. The next step is by implementing the results of market observation either in form of product or process reforms. A company which successfully applies the market orientation and innovation will be able to increase their sales and expand their market including to the modern and export markets.

This research is conducted on micro, small and medium-sized coconut sugar enterprises which are sole proprietorship-company which does not have inter-distribution so that the coordination dimension among the departments in term of market orientation could not be tested. Therefore, the further study needs to do the research on micro, small and medium-sized coconut sugar enterprises which already have departments with the division based on function. Additionally, the further study needs to add the variable of competition intensity as the moderating variable.

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