Analysis The Effect of Market Orientation toward Company Performance through Product Innovation on SMEs

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Abstract

Although there are many studies on the issue of market orientation, only a few authors propose an integrated model of market orientation. Even if the product innovation is often referred as a key element in converting the market orientation to company performance, there is no consistent view about the role of these variables. This paper attempts to explain the important points with the proposed research on SMEs, the measurement model and structural model for the determinants of market orientation. In this model, the mediating effects of product innovation on company performance is tested and validated. In addition, measurement instruments are used as the determinant variables of market orientation, product innovation and company performance is conformed.

Keywords : *Market orientation, Product innovation, Company performance, SMEs*

INTRODUCTION

Current era of globalization requires each of Small and Medium Enterprises (SMEs) have the advantage in a dynamic operating environment that had to face the challenges and difficulties assessing the customer changes, the movement of the competition and restructure of industry. Small and Medium Enterprises (SMEs) has weaknesses and strengths, as SMEs or community of interest to many people, the government is compelled to develop and protect SMEs. Small and Medium Enterprises are also concerned with the market orientation which focuses on the consumer, understand about the competition, and coordination functions to meet the needs and wants and deliver the best value.

More than four decades, market-oriented corporate strategy is viewed by academics and practitioners as a key pillar to achieve superior business performance in both manufacturing and the service company (Chandra, 2000). Most of the empirical research on market orientation generally only connect the market orientation to one dependent variable only. Empirical studies linking market orientation with some measurement of performance so as to form an interconnected model is still very rare (Baker and Sinkula, 1999). Empirical research on market orientation in general has two tendencies. First, several studies have shown that the measurement of organizational performance tends to mediate the relationship between market orientation to the end organizational performance (Espallardo & Ballester, 2009). Second, few empirical studies have identified the mediating role of product innovation to the market orientation relationship with the organization's performance (Baker and Sinkula, 1999).

Besides that, studies that tested the direct relationship between market orientation to organizational performance also has been unable to provide clarity about how to convert the market orientation into organizational performance (Langerak, 2003). Therefore, in this study used a product innovation as a mediator between market orientation to firm performance. Product innovation is considered as the most competitive weapon for the creation of value fora company (Sandvik and Sandvik, 2003), not just big companies but also for small and medium enterprises (SMEs) (Jong and Vermeulen, 2006). The importance of studying innovation in the context of small firms is in the fact that small companies have barriers and determinants that are different from large companies in terms of innovation (Freel, 2000). From a positive standpoint, product innovation is the provision of solutions to the threats and market opportunities, creating the foundation for survival and success of companies in the future (Hult et al, 2004). Without the company's innovation will be easily surpassed by competitors and can not survive in the long term (Porter, 1985). The process of finding ideas, efforts to build a new creation, manufacturing engineering to produce new findings should always be done by the firm (Hurley & Hult, 1998). Formulation of the problem in this article are: Is there an effect of market orientation on company performance through product innovation in SMEs?

REFERENCES REVIEW

Market orientation

According to Johnson and Weinstein (2004:29) the need to build a market-oriented business culture that focuses on consumers in order to facilitate the provision of services in delivering superior value to target markets that have been determined. Nerver and Slater (1990) define market orientation as the company's decision to create superior value for customers through customer orientation, competitor orientation and inter functional coordination.

According to Kohli and Jaworski (1990) market orientation is the concept of marketing in an organization consisting of the generation of intelligence to figure out the needs of consumers today and the foreseeable future, the dissemination of intelligence across departments, and the response. ROI, profit, sales volume, market share and sales growth as a result of positive market orientation. Of several expert opinions can be concluded that market orientation is a marketing strategy that focuses on the consumer where the product will be offered in order to facilitate the company in delivering superior value through customer orientation, competitor orientation and inter-functional coordination. Espallardo and Ballester (2009) suggests three dimensions that support the market orientation: intelligence generation, intelligence dissemination, and responsiveness. However, in this study only two dimensions to be used, namely intelligence generation and responsiveness.

Product innovation

In terms of innovation Tidd et.al. (2005:3) argues that innovation is driven by the ability to see relationships, to mark the opportunities and take advantage of the business environment, but innovation is not only enter new markets but also offer a different service. According to Hurley and Hult (1998) defines innovation as a cultural orientation, openness to new ideas. Manu and Sriram (1996) suggests that product innovation in manufacturing firms is a configuration of a strategy how the company really adapt to their environment through the development of new products.

According to Fontana (2011:20) explains that innovation does not just mean "novelty" or something new, and the goods or services or a new production system or a new way to market; "newness" it must create value to the consumer and add value to producers; "newness" that generate economic and social success, in the context of innovation and value creation at individual, organizational, and community (society). There are two sources that could lead to the innovation activities within the company environment (internal environment) and outside the enterprise environment (external environment) or both (Heizer, 2009). Innovation within the company emerged from research and development activities of R & D (Porter, 1985). While the innovations arising from the outer elements of the interaction with the environment outside the company. For example, to obtain the factors of production such as machinery, information or other production factors (Tidd et.al, 2005). An idea came from the output side for example in product sales activities, contact with customers or encouragement by the activities of competitors (Kotler & Armstrong, 1997).

Company Performance

In general, performance is defined as the extent to which an operation is fulfilling its purpose in order to meet customer needs (Brown, 2011). Organizational performance measurement is an important factor for effective management. Like the fact that without measuring anything, it is difficult to fix. According to Yeni (2008) the company's performance is the result of a complex series of interactions between people, methods, materials, and equipment used, environmental and cultural.

There are two dimensions of corporate performance, which is a rational objective performance goals to be achieved by the company based on financial aspects and performance of open systems is a goal to be achieved by the company is oriented to the external environment and are not fixated only on the inward oriented. Company to do so in order to balance the objectives of financial aspects and non-financial aspects such as customer satisfaction, employee retention, and so forth.

HYPOTHESIS DEVELOPMENT

According to Narver and Slater (1990), describes the cultural perspective of market orientation as the company's desire to create superior value for customers through customer orientation, competitor orientation and inter-functional coordination. On the other hand Kohli and Jaworski (1990) define market orientation as the generation of the organization, dissemination, and responsiveness to market intelligence. The second definition of market orientation has the same benefits (Espallardo & Ballester 2009), although it treats the concept of point of view of behavior has been considered by several authors as the perspective of a more precise measurement (Hurley and Hult, 1998).

A market orientation on product innovation since the company affects market orientation enables the company to stay in close touch with the market, supporting the acquisition, new ideas and increase motivation to respond to these demands (Jimenez-Jimenez et al., 2008). Besides intelligence dissemination and coordination inter function create an environment of innovation as an organization with facilities (Damanpour, 1991). The results of empirical studies obtained by Han et al. (1998) and Hult et al. (2004) found that market orientation affect innovation when the environment is in a higher uncertainty and high market volatility. Market orientation is more important when the composition and the rapidly changing market preferences, because these conditions may force the company to more frequently modify their products and services than when operating in local markets (Hult et al., 2004: 436). therefore, market orientation effect on product innovation depends on other factors such as the competitive environment.

Several studies that examine the causal relationship between market orientation in innovation is also still provide results that differ from each other. Han et al., (1998) conducted a study obtained findings that market orientation has a positive effect on innovation both technical innovation and administrative innovation. The findings of Han et al., (1998) supported by Vasquez et al., (2001) in his study entitled "Market Orientation, Innovation and Competitive Strategies in Industrial Firm", obtained findings that market orientation has a positive impact on the company's innovative culture and cultural innovative companies have an influence on the degree of innovation, besides it is also obtained in the study findings that market orientation has an influence on new inovation product.

Research Agarwal et al., (2003) is also supported by Kirca et al., (2005) which states that market orientation has a positive influence on corporate keinovasian. Tajeddini et al., (2006) who conducted a study on small and medium enterprises engaged in the business of making watches in Switzerland also found that there are positive effects of market orientation to innovation. However, research results Miguel Hernandez-Espallardo, Elena Delgado- Ballester (2009) showed that there was no significant effect of market orientation with product innovation due to be confirmed by other parameters. Presumption arising from the above description as the following:

H_1: Market orientation has a positive impact on innovation in production

Comoany performance is generally defined as the level of the company meet its goals (Achrol and Etzel, 2003). The positive impact of innovation on firm performance has been explained by the fact that through innovation the company is facing changes in the competitive environment (Han et al., 1998; Agarwal et al., 2003). Further innovation is also a positive effect on growth in sales and production capacity of the company (Sandvik and Sandvik, 2003).

However, several studies examining the relationship between product innovation and performance generally results in a finding that is inconsistent and unclear (Freel, 2000). Innovation is expensive and risky, with potential to get both effects are good effects and bad effects on firm performance (Simpson et al., 2006). It is not surprising that in some studies the effect of indirect or direct effects have been found (JPBM, 1996). It seems that the popular notion that innovation is essential for growth and survival of firms (Han et al., 1998) may not apply in certain situations, especially environment, where the circumstances faced by

these companies do not appreciate the behavior (Manu, 1992). For example, in a sample of small manufacturers, Covin and Slevin (1989) states that in an environment with low levels of competition, the resources allocated to research and development to support innovation better may be directed to increase promotional efforts or customer service. On the same line, innovation is considered less important for companies that operate in an environment where competitive pressures are not so strong (Freel, 2000).

Research Agarwal et al., (2003) obtained findings that innovation has a good influence on company performance as measured by objective approach (the occupancy rate and market share) and a subjective approach (quality of service and customer satisfaction). Subin Im and Workman (2004) also conducted research with regard to innovation and performance of the company, in a study of 106 companies engaged in high technology in the United States obtained the finding that creativity in product development and marketing of new programs have a positive influence to company performance. The results Miguel Hernandez-Espallardo and Elena Delgado-Ballester (2009) showed that between product innovation and company performance have a significant positive relationship for the full sample model. Presumption arising from the above description as the following:

H2: Product innovation has a positive impact on company performance

Freel (2000) states that the intensity of competition significantly affect the companies with higher levels of competition, the orientation towards the preservation of the company's financial strategy (rather than innovation), thus allowing the less slack for experimentation. This idea is particularly relevant for SMEs, who generally face financial constraints as one of their main obstacle in innovating. If the company is at a high level of competition but are limited by finances, the market orientation of product innovation will translate into a more controllable.

At the end of the market orientation will improve profitability through innovation as mediation is better suited to market circumstances, increase the company's belief in innovation as a competitive tool (Gatignon and Xuereb, 1997). In an environment of strict competition, innovation is expensive and risky to do that duty will be rewarded with higher performance (Miller and Friesen, 1983). Many companies have tried to improve the business market orientation (Jaworski and Kohli, 1993), however, comes a new argument which states that the market orientation alone is not sufficient to improve organizational performance, and organizational ability to learn faster than competitors may be wrong a source of competitive advantage (DeGeus, 1998).

The study on the influence of market orientation on company performance is still much to give different results, but the experts and practitioners continue to believe that market orientation affects firm performance (Agarwal, et al., 2003). However, this belief is accompanied by increasing skepticism, for example, Deshpande, Farley, Webster (1993) suggested that perhaps the cause of market orientation affects the organization's performance is innovation, but it does help increase the market orientation is not yet clear market innovation (Han, et al, 1998). Besides, Han, et al., (1998) also stated that the missing variable chain between market orientation with performance of the company, so Han, et al., (1998) emphasizes the need for further research regarding the role of innovation to produce a good performance, particularly on technical innovation and administrative innovation and how the implementation of marketing performance. Research conducted by Miguel Hernandez-Espallardo and Elena Delgado-Ballester (2009) suggests that there are direct effects of market orientation in the second dimension of corporate performance. Presumption arising from the above description as the following:

H3: Market orientation has a positive effect on firm performance through product Innovation

RESEARCH METHODOLOGY

Population is the owner and employees of SMEs in the region Cakung, East Jakarta. Product categories studied were women's shoes. Total of 150 respondents were collected through a purposive sampling technique

By using confirmatory factor analysis, all items used to measure each construct valid. Cronbach's alpha is used to test the reliability of each dimension or variable, with the following results: $\alpha = 0.879$ market orientation; $\alpha = 0.723$ product innovation and firm performance of $\alpha = 0.805$.

RESULTS AND DISCUSSION

Hypothesis 1.

The first hypothesis testing results show there is the influence of market orientation on product innovation. The magnitude of the direct influence of market orientation on product innovation by 0.410. These results do not support research Espallardo and Ballester (2009) who stated that there was no significant effect of market orientation with product innovation because it must be confirmed by other parameters. Market orientation affect innovation, occurs when the market environment of the company's products are in higher uncertainty and high market volatility. Market orientation is more important when the composition and the rapidly changing market preferences, because these conditions may force the company to modify its products more frequently to match the demand and market needs. At the same time new product development is an important capability for the business environment is constantly changing constantly.

Changes in the socio-economic environment (beliefs, expectations, needs, tastes, income) creates opportunities and challenges. Environment is also demanding products that are environmentally friendly. Competitors introduce new products and present the positions of the existing market. Faced with this, companies need to respond through product innovation. Cultural orientation of the incoming competitors in new product development team will enhance the creativity to create new products and marketing programs pay attention because this team of industry trends through the collection of intelligence information from its competitors. In the context of new product development, cross-functional coordination enhance the appearance and the creativity it encourages discussion of new ideas, seek solutions to problems and disagreements generated by methods that are not routinely used and differences in the reference frame, and the level of responsiveness to change through a new and meaningful.

Hypothesis 2.

The results of testing the second hypothesis suggests that there are positive effects of product innovation on the performance of the company with a value of coefficient of 0.707. These results are consistent with previous research conducted by Espallardo and Ballester (2009) which suggests that between product innovation and company performance have a significant positive relationship for the full sample model. This can occur because of the SME respondents in this study and previous research on the SME respondents believe that product innovation can boost sales and production capacity.

In a previous study also described the positive impact of innovation on firm performance has been explained by the fact that through innovation facing firms in the competitive environment changes. With the development of a highly dynamic business environment affects every company, whether large medium and small companies. Technological changes and variations which are rapid product innovation is a significant factor affecting the performance of the company. Therefore, the selection of new innovation and determination necessary for companies to be competitive in the market. When talking about the performance of innovation in SMEs, such as product innovation, need to refer to three types of performance: technical, commercial, and economic; a primary or a final criterion is the performance of the economy (and social as well, because it had a positive impact to stakeholders both inside and outside the organization). Technical performance to see the success of the organization in translating ideas into products. Commercial performance to see the success of the organization in marketing the product, not to take new products or turn off other products that already exist from companies or business units the same. Economic performance to see the success rate of investment return in the form of higher thanks to innovation than if the same resources allocated to activities or other business activity.

Hypothesis 3.

The third hypothesis testing results suggest that market orientation affects firm performance through innovation products. Tests performed by analysis of the indirect effect by multiplying the coefficients H1 and H2 is equal to 0.410 * 0.707 = 0.290 which means the market orientation of an indirect positive effect on company performance. Because the rate of 0.290 perception of the figures are not interpreted explicitly. Principle, the greater the rate coefficient, the larger the effect is not immediate. This is not consistent with previous research conducted by Espallardo and Ballester (2009) which indicates that there is a direct effect of market orientation on the two dimensions of corporate performance.

The study on the influence of market orientation on company performance is still much to give different results, but the experts and practitioners continue to believe that market orientation affects firm performance (Agarwal, et al., 2003). However, this belief is accompanied by increasing skepticism, for example, Deshpande, Farley, Webster (1993) suggested that perhaps the cause of market orientation affects the organization's performance is innovation, but it does help increase the market orientation is not yet clear market innovation (Han, et al. , 1998). Besides, Han, et al., (1998) also stated that the missing variable chain between market orientation to performance marketing, so emphasized the need for further research regarding the role of innovation to produce a good performance, particularly on technical innovation and administrative innovation and how implementation of the company's performance.

According to Brown (2011) that the success of a product will lead to the company's performance. This is where a product will be considered by the consumer, whether the product has other advantages compared to similar competitive products on the market. Characteristics of product innovation is analyzed as the relative advantage appears to be a characteristic of products that are consistently important in the explanation of the implementation and success of new products. Baker and sinkula (1999) in his research shows that market orientation is significantly associated with firm performance. Han et al. (1998) puts innovation as one important variable n performance, but it was stated that innovation is becoming increasingly important as a means to survive, not just the growth in the face of environmental uncertainty and conditions of business competition is getting tougher.

CONCLUSIONS AND IMPLICATIONS

Conclusion.

SMEs that have a small niche market will tend to make the concept of market orientation, the goal for consumers who want to go making it easier for companies to focus more on meeting the needs and providing satisfaction to the consumer. Technological changes and variations which are rapid product innovation is a significant factor affecting the performance of the company. Therefore, the selection of new innovation and determination necessary for companies to be competitive in the market. Yeni (2009) states that organizations must know about building a leading innovation-driven organizations. Innovation can be done completely on the aspect of products, processes, administration and technology, by continuing to build on market conditions (market oriented), so as to achieve organizational performance and achieve competitive advantage.

Implication.

Every company must have a strategy in running their business, one important strategy for manufacturing dominated by SMEs in the area of East Jakarta is Cakung-innovation strategy. Innovation strategies of SMEs is important because we have been unable to compete with SMEs from other countries, the SMEs of developing countries though our SMEs are still lagging behind because of lack juah innovation in business. Most important thing to be considered by the owners or managers of SMEs are product innovation. Product innovation has an important role when SME we are able to make a breakthrough with a new product release is always unique, and have a competitive advantage.

Suggestions for further research.

Perform research on case studies of SMEs engaged in the service industry. Intervening variable that is used can be replaced with other variables such as process innovation and managerial innovation, radical versus incremental innovation, technological innovation (Espallardo & Ballester, 2009:485). It is recommended to increase the number ofsamples is also recommended to use the method of Path Analysis Regression analysis of data (Apriano, 2009).

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