

The Mediating Role of Product Innovation in Market Orientation Effect on Marketing Performance

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Abstract: This research aims to analyze the effect of market orientation on company marketing performance, mediated by product innovation. 126 questionnaires were distributed to the owners and managers of the Indonesian Gojek partners of the coffee shop who has the capability as a decision-maker. 115 usable data were analyzed by using Structural Equation Modeling analysis, with Amos application version 24.0. The results show that market orientation had a positive significant effect on product innovation. Product innovation plays a mediating role in the Market Orientation effect on Marketing Performance. It means that the higher the product innovation, the higher the marketing performance will be. This research has a managerial implication that the coffee shop managers can improve marketing performance through developing product innovation by especially in terms of the various taste and services of design interiors of coffee shops.

Keywords: market orientation, product innovation, and marketing performance

INTRODUCTION

Innovation is one solution when companies encounter problems with their business performance. Innovation has also been examined not only in production but also in marketing research (Wong and Huang, 2014). Innovativeness is the most important subject to improve a firm's capability, that always be developed to offer and deliver the new competitive products (Hult et al., 2004). Hansen et al (Johnson et al, 2009) stated innovation is the creation of new ideas, processes, products, or services that are aimed at increasing value to customers and contributing to company performance. Then, Hansen et al (Johnson et al, 2009) declared that innovation is the most important aspect to improve company performance.

Low et al. (2007) stated that company performance can be improved by implementing market orientation in business markets. Market orientation is a measure of behavior and activity that reflects the implementation of marketing concepts according to Kolil and Jarwoski (1990). Market orientation is not only responsible for the attention of the marketing department, but also all departments must participate as a market intelligence follow-up.

Meanwhile, Prokosa (2005) stated that to improve marketing performance, the company needs innovation for adapting to a dynamic environment so that it is demanded to create new thoughts, new ideas by creating and delivering innovative products and services to fulfill consumers' satisfaction and loyalty. Innovative products should be adapted to the needs of the market as the market orientation. Han et al. (1998) stated that market orientation positively affects but not significant in marketing performance. However, market orientation can have a positive effect on marketing performance, but through innovation as an intervening variable. Jaworski and Kohli (1993) found that market orientation does not always have a positive effect on marketing performance in all conditions. Also, Greenley (1995) found that market orientation has a relatively less significant relationship with marketing performance. On the contrary to Jaworski and Kohli (1993), Johnson et al (2009) found that there is a significant relationship between market orientation and marketing performance, mediated by product innovation. Moreover, Crema et al (2014) found that product innovation can lead to increased market share, greater production, higher productivity growth, and increased revenue. Therefore, these inconclusive findings bring the authors to extend the research in the coffee shop as a partner of Indonesia Gojek Platform Online Shopping, especially for the Go food application. So, the main research objective is to analyze the mediating role of product innovation in the Market Orientation Effect on Marketing Performance.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Over four decades, market-oriented corporate strategies have recognized as a pillar of superior company performance both by academics and practitioners (Pelham, 2000). Narver and Slater (cited in Situmorang, 2016) argued that market orientation consists of three components, namely:

1. customer orientation, namely sufficient understanding of the target buyer, thus continuous superior value can be created for them;

2. competitor orientation, namely understanding short-term strengths and weaknesses and long-term capabilities of existing competitors and potential competitors; and
3. coordination between functions, i.e. broadly coordinated deployment of company resources for superior value creation for customers.

In simple terms, market orientation emphasizes profit and competition based on customer needs, desires, and aspirations and offering products more competitive than competitors (Blankson, 2005). Then, Low et al. (2007) stated that superior market orientation can lead to superior company performance in business markets. While Han et al (Johnson, 2009) found market orientation has a positive but not significant effect on marketing performance. However, market orientation has a positive effect on marketing performance through innovation as an intervening variable.

According to Hurley and Hult in Prakosa (2005), innovation is a corporate mechanism for adapting to a dynamic environment change. So, companies are required to create and offer innovative products and services that can satisfy customers. Han et al (Johnson et al, 2009) clarified innovation is the most important aspect to improve the company's performance, besides that Gronhaug and Kaufmann (1988, in Han et al 1998) state that innovation becomes the important tool to compete in facing fierce business competition.

According to Saeko et al (2012), marketing performance is a means of marketing strategy to improve sales and market share growth.

Raharso (2006) stated that leading organizations certainly must develop innovation-based organizations. Innovation can be developed based on market needs orientation to achieve organizational performance. Putri et al (2016), Mahmoud et al (2016), Bakti and Harniza (2011) explained that market orientation has a positive and significant influence on product innovation.

The first hypothesis is:

H₁: Market orientation has a positive significant effect on product innovation

Baker and Sinkula (1999), Bakti (2011), and Putri et al. (2016) in their research showed that market orientation and customer value have a significant positive influence on marketing performance. Therefore, the second hypothesis in this study is:

H2: Orientation markets has a positive and significant impact on the performance of marketing.

Companies must always be innovative, including new product innovations. Andrews & Smith in Khamidah (2005) and Varadarajan et al (1993) asserts that developing new products must be more innovative because it is very supportive of improving marketing performance. It can be concluded that the following hypothesis in this study is

H3: Product innovation has a positive and significant effect on marketing performance.

Han et al. (1998), Johnson et al. (2009), Theoharakis and Hooley (2008), Olavarrieta, and Friedmann (2008) stated that the relationship between market orientation if applied together with innovation for company performance shows positive and significant results. This leads to the hypothesis forth as follows:

H4: Innovation products play a mediator to affect a positive and significant impact on market orientation and marketing performance.

The research framework in this study can be seen in Figure 1.

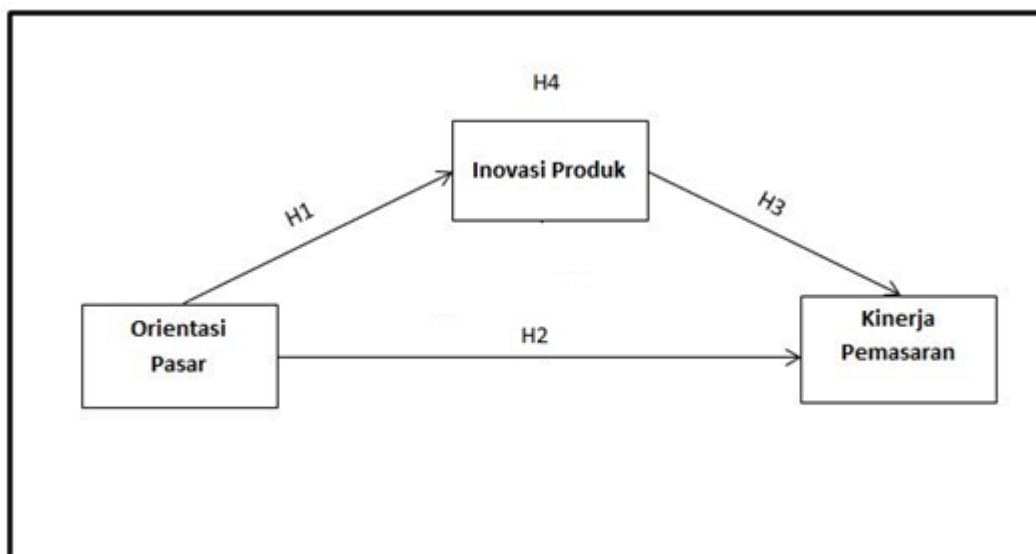


Figure 1 Research Framework

RESEARCH METHODS

The quantitative research design was implemented by distributing the questionnaire to the 126 owners or managers of the Indonesian Gojek partners of the coffee shop and 115 usable data was analyzed by Structural Equation Modeling (SEM) analysis techniques with Amos Application version 24. The measurement has fulfilled the requirement of validity (loading factor is more than 0.50) and reliability test (Cronbach Alpha is more than 0.70). Innovation measurement adopted the measurement of Johnson et al (2009), developed by Dess and Davis (1984) and Davis et. al. (2002). Market Orientation measurement adopted the measurement of Johnson et al (2009), developed by Narver and Slater's (1990), modified by additional work by Lukas and Ferrell (2000). The measurement of Marketing Performance adopted the measurements by Johnson et al (2009), developed by Dess and Robinson (1984).

RESULTS AND DISCUSSION

This survey received responses from 68.6% of respondents as owners and 31.3% of respondents as managers/branch heads. The analysis showed that of the 115 respondents, the majority of respondents were male respondents with a percentage of 70.43%, while the remaining 29.57% of respondents were female. Respondents aged > 45 years (18.26%), while the remaining 33.91% of respondents aged <30 years and as many as 47.83% of respondents aged 30-45 years. The majority of respondents have opened coffee shop businesses for more than 3 years (43.48%), while the remaining 25.22% of new respondents have been operating for <1 year and as many as 31.30% of respondents have worked in this company for 1-3 years. Therefore, it can be concluded that young people have more chances of success in running this business. Coffee shops run have 1-4 employees (86.1%), while the remaining 13.9% of respondents have the number of employees > 5 employees.

Validity and Reliability test results show all measurements of the variables are valid and reliable due to fulfilling the requirements, that can be seen in Table 1.

The validity test result is valid if Loading Factor value is at least 0.5, then the reliability test result is declared reliable if the AVE value is more than 0.5 and the CR value is more than 0.7, as

suggested by Fornell and Larcker (1981). Table 1 shows that all variables measurements are valid and reliable. It can be stated that all instruments can be applied to conduct this research.

Table 1 Validity and Reliability Test Results

Variable	Indicator	λ (Loading Factor)	Validity Decision	AVE	CR	Reliability Decision
Innovation Products	IP1	0.879	valid	0.794	0.952	Reliable
	IP2	0.863	valid			
	IP3	0.940	valid			
	IP4	0.869	Valid			
	IP5	0.872	Valid			
Marketing Performance	KP1	0.901	Valid	0.777	0.926	Reliable
	KP2	0.856	Valid			
	KP3	0.866	Valid			
	KP4	0.931	Valid			
Marketing Orientation	OP3	0.905	Valid	0.739	0.987	Reliable
	OP2	0.745	Valid			
	OP1	0.871	Valid			
	OP7	0.850	Valid			
	OP6	0.897	Valid			
	OP5	0.855	Valid			
	OP4	0.818	Valid			
	OP10	0.880	Valid			
	OP9	0.873	Valid			
OP8	0.893	Valid				

Sources, SEM Results, with AMOS Application version 24

Goodness of Fit Model

Before the structural model based on SEM-based Covariance results is done, it needs to have Goodness of Fit Model, generally measured by the Chi-Square value, $p \geq 0,05$ (Hulland, et al,

1996), GFI $\geq 0,90$ (Arbuckle, 1997), AGFI $\geq 0,90$ (Arbuckle, 1997), CMIN/DF $\leq 2,00$ (Arbuckle, 1997), TLI $\geq 0,95$ (Arbuckle, 1997), CFI = 0.95 (Bentler, 1995). and RMSEA $\leq 0,08$ (Browne dan Cudeck, 1993). Table 2 shows the measurement model fit results are in Goodness of fit model fulfilling the measurement criteria, that can be seen in Table 2.

Table 2 Goodness of Fit Index Results, Based on SEM-Covariance

Goodness of fit index	Cut of Value	Results	Fit Model Evaluation
X ² chi square	< 242,647	164,038	Good Fit
significance probability	$\geq 0,05$	0,07	Good Fit
RMSEA	$\leq 0,08$	0,04	Good Fit
GFI	$\geq 0,90$	0,91	Good Fit
AGFI	$\geq 0,90$	0,90	Good Fit
CMIN/DF	$\leq 2,00$	1,18	Good Fit
TLI	$\geq 0,95$	0,99	Good Fit
CFI	$\geq 0,95$	0,99	Good Fit

Sources, SEM Results, with AMOS Application version 24

Structural Model Results

Concerning the hypothesis formulated, the structural model results as a significance hypothesis testing, based on SEM output can be seen in Table 3.

The hypothesis formulation proposed must be tested by using a significant α of 0.05, then, the hypothesis null is rejected if the significant value (P) < 0.05 and CR > 1.96 , whereas if significant values (P) > 0.05 and CR < 1.96 , the hypothesis null can not be rejected.

Table 3 Structural Model Results

Hypothesis			Estimate	SE	CR	P
IP	<---	OP	.793	.098	8.133	***
KP	<---	IP	.614	.126	4.892	***
KP	<---	OP	.446	.136	3.273	.001

Sources, SEM Results, with AMOS Application version 24

Hypothesis 1

CR value in the effect of market orientation on product innovation (OP on IP) has a positive sign of 8.133 (more than 1.96). It shows that market orientation positively significantly affects product

innovation, having the highest estimated value (79.30%), compared to other estimated values results. It means that market orientation is one of the factors that influence product innovation. The better the company understands customer desires through approaches to customers, competitors, and internal coordination, the better the company innovates. Companies faced with various challenges in the development of increasingly dynamic times, inevitable market competition, with internal coordination and customer needs, the need for product innovation. This research result is in line with the research results of Putri et al (2016), Mahmoud et al (2016) and Bakti (2011) saying that market orientation has a positive and significant influence on marketing performance

Hypothesis 2

The p-value (0.001) and CR value (3.273) show market orientation positively significantly affects marketing performance, having the estimated value (61.40%). This shows that market orientation is one of the factors that influence company performance. The better market orientation, the higher the market performance. This can be interpreted that the company must understand market desires through approaches to customers, competitors, and internal coordination for better marketing performance at the coffee shop. The more a company understands market desires, the better its marketing performance. This research result is also in line with the results by Putri et al. (2016), Bakti (2011), Salim and Sulaiman (2011), Jonson et al (2009), Low et al. (2007), Baker and Sinkula (1999), and Becherer (2003). Their research results showed that market orientation is significantly related to marketing performance.

Hypothesis 3

The p-value = *** and CR value 4,892 show that product innovation has a positive significant effect on marketing performance. This means that the higher the company's product innovation, the higher the company's marketing performance. This result also supports the research results by Putri et al (2016), Andrews & Smith in Khamidah (2005), Varadarajan et. al, (1993) who asserted that to develop new products must be more innovative because it is very supportive in improving marketing performance.

Hypothesis 4

The results of the Sobel test shows a p-value of 0.00002764 and t statistics of 4.1927856. The analysis shows that market orientation influences marketing performance through product

innovation as a mediator. This shows that product innovation can mediate the indirect effect of market orientation on marketing performance.

This result supports the research findings by Johnson et al. (2009), Theoharakis and Hooley (2008), Olavarrieta and Friedmann (2008) stating that the relationship between market orientation if applied together with innovation for company performance shows positive and significant results. This is also supported by the research finding of Putri et al (2016) that innovation significantly mediates the effect of market orientation on firm performance. According to Johnson et al (2009), market orientation positively significantly affects marketing performance, mediated by innovation. There is a bond between innovation and company performance. Crema et al (2014) argued that innovation can increase market share growth, greater production, higher productivity growth, and higher income. Also, Gronhaug and Kaufmann (1988, in Han et al 1998) stated that innovation becomes an important tool to have a competitive edge in facing global high competition.

CONCLUSION

This research confirms that market orientation positively significantly affects product innovation. The better the market orientation, the higher the company's innovation performance. Product innovation has a positive significant effect on marketing performance. This shows that the better the performance of innovation, the higher the marketing performance. Market orientation also has positive significant effects on marketing performance. This shows that the better the market orientation, the higher the marketing performance. Market orientation can affect product innovation and product innovation affects marketing performance. The indirect influence of market orientation on marketing performance through product innovation plays a positive and significant mediating variable.

MANAGERIAL IMPLICATIONS

Although the results of this study raise some deeper questions, there are at least two things that must be done to continue to develop this business. The first thing, management must strengthen their marketing performance through market orientation. This must be done to increase product innovation that can be accepted by the market so that marketing performance can increase. Second, product innovation is an important variable to improve marketing performance. Management has to develop more product innovation, so the company can survive and compete in dynamic conditions. This is consistent with the statement of Han et al (Johnson, 2009) that innovation is

the most important tool to improve business performance, besides that Gronhaug and Kaufmann (1988, in Han et al 1998) stated that innovation becomes a means of competitive strategy to improve business performance so that the business can compete within facing the fierce competition due to facing the global uncertainty change.

LIMITATIONS AND FUTURE RESEARCH

Like other studies, this study has several limitations. For example, this study is cross-sectional and does not capture the changing trends in market orientation and innovation marketing performance as a result of the changing of industry and Information Technology. Therefore, longitudinal studies must be conducted to establish the changing trends in marketing performance as a result of innovation and market orientation. The focus of research is limited to the coffee-based beverage industry, and the results differ from similar studies in other natural resource industries (eg, Putri et al., 2016; Crema, 2014; Johnson, 2009; Narver and Slater, 1990). Although the beverage industry has many similarities with other natural resource industries, this is different. Therefore, the findings reported here are considered industry-specific. Replication of this study in other industries will be needed to generalize the results, and it will be very important to control the types of other industries.

Acknowledging that limitation, managerial implications require consideration by any industry which largely reflects the highly competitive and dynamic food and beverage industry with a market focus on creating product innovation. Also, when the results of this study are viewed from industry practice, future research focus must highlight the scale of market orientation. The measurement of export performance is based solely on managers' perceptions so that future research can be strengthened by examining the objective data, as a secondary data on the company performance to make sure whether the same results can be obtained.

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