# The Role of Product Innovation Mediates Effect Market Orientation on Marketing Performance

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Abstract: The purpose of this study was to explain the role variable of product innovation which mediates market orientation towards the marketing performance of the endek handicraft industry in Gianyar Regency. This research was conducted at the endek handicraft industry in Gianyar Regency. The sample size in this study were as many as 41 endek handicraft businesses with purposive sampling method and using data using a questionnaire. Data analysis was performed using the Structural Equation Model (SEM) based on Partial Least Square (PLS). The results showed that 1) market orientation had a positive and significant effect on product innovation, 2) market orientation had a positive and significant effect on marketing performance, 3) product innovation positively and significantly affected marketing performance, 4) product innovation positively and significantly mediate market orientation towards marketing performance. Based on the results of research, endek handicraft industry entrepreneurs in Gianyar Regency can further develop market orientation and product innovation by conducting market research and trying to understand customer needs in order to improve marketing performance.

Keywords: market orientation, product innovation and marketing performance.

### I. INTRODUCTION

Innovation is one of the keys to a company's success in winning the competition. Market orientation is an important source of information for product innovation (Aydin, 2020). Market orientation can lead to superior business performance, including higher innovation performance (Oduro & Haylemariam, 2019). The results of the study state that product innovation has a positive and significant effect on marketing performance (Aydin, 2020; Putra & Rahanatha, 2017). Innovation is one of the keys to a company's success in winning the competition.

MSMEs have an important role in the economy in Indonesia. MSMEs have a proportion of 99.99% of the total business actors in Indonesia or as many as 64,194,057 business units (Depkop, 2018). The existence of MSMEs cannot be doubted because they have proven to be able to survive and become the driving force of the economy, especially after the economic crisis (Kholidah & Hakim, 2018).

Bali Province has an important role in growing tourism and small businesses such as micro, small and medium enterprises (MSMEs). The Bali Province Cooperatives and SME Service explained that based on its data, the development of the entrepreneurial ratio until the end of December 2018 was 8.38 percent or above the national average of 5 percent and until the end of 2018 the number of MSMEs in Bali was 326,009 MSMEs. Of the 326,009 MSMEs scattered in nine districts / cities, the details are that the largest number of MSMEs is in Gianyar (75,412 MSMEs).

Gianyar Regency, Bali, has been named a World Craft City by the World Craft Council (WCC) (Source: www.thejakartapost.com). The handicraft industry in Bali has enormous potential as a driving force for the people's economy. One of the handicraft industries is endek woven cloth.

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The endek handicraft industry itself is one of the leading micro, small and medium enterprises (MSMEs). Fashion trends made from endek fabrics have become increasingly popular over the past few years, and will continue to be a trend along with the development of creativity in the fashion creation industry. The current covid-19 pandemic has created a variety of endek fashion innovations to grow and develop, such as masks made of endek cloth. In addition, Endek Bali fabrics have become the choice of international fashion designer Christian Dior as part of the spring and summer 2021 collections revealed at the `` Paris Fashion Week " fashion show in September 2020 (http://www.voaindonesia.com).

# II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The results of research (Susanto, 2019) and (Pardi et al., 2014) found that market orientation has no significant effect on marketing performance. Research conducted by Manahera (2018) states that market orientation does not have a significant effect on product innovation. Research conducted by (Lapian et al., 2016), (Putra & Rahanatha, 2017), (Jasmani, 2018) and (Oduro & Haylemariam, 2019) shows that market orientation has a positive and significant effect on marketing performance. The gap that arises based on research on different market orientations is the basis for this study to examine the effect of market orientation on marketing performance and product innovation as mediating variables.

Based on the results of research conducted by Putri et al. (2018) said that market orientation has a positive and significant effect on the innovation of endek handicraft SME products in Klungkung Regency, the higher the application of market orientation carried out by endek handicraft UKM players in Klungkung Regency, the higher the product innovation will be formed in endek handicraft they produce. Research conducted by Asashi & Sukaatmadja (2017) found that market orientation has a positive and significant effect on product innovation in wood carving handicraft SMEs in Ubud District, Gianyar Regency. However, according to Yu et al. (2016) stated that market orientation does not have a significant direct influence on product and process innovation.

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

Based on the results of research conducted by Lapian et al. (2016) stated that market orientation has a significant effect on marketing performance at PT. BPR Prisma Dana Amurang. Research according to Utaminingsih (2016) states that market orientation has a positive effect on marketing performance. With a better market orientation, it can have an effect on improving the marketing performance of the Small and Medium Rattan Handicraft Industry in Teluk Wetan Village, Wagian District, Jepara Regency. However, research according to Susanto (2019) shows that market orientation has no significant effect on marketing performance, market orientation has a limited impact on other concepts, namely capability and performance.

H2: Market orientation has a positive and significant effect on marketing performance.

Based on research conducted by Lapian et al. (2016) proved that product innovation had a significant effect on marketing performance at PT. BPR Prisma Dana Amurang. According to Nasir's (2017) research, product innovation also has a significant effect on the marketing performance of furniture companies in Pasuruan Regency. The results of the research according to Pattipeilohy (2018) show that there is a positive and significant influence of product innovation variables on marketing performance, which means that product innovation through the creation of new supporting products is able to increase marketing performance. However, research conducted by Manahera et al. (2018) found that product innovation partially had a negative effect on marketing performance at MSME Nasi Kuning in Manado.

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

Based on research according to Anim et al. (2018) stated that innovation partially mediates the relationship between market orientation and business performance of womenpreneurs in the Ghanaian fashion industry. This research shows that managers must pay attention when they are market-oriented and even require innovation to trigger significant performance in the business. According to Rosmayani et al. (2016) indirectly through innovation, market orientation affects marketing performance in the small Malay weaving industry in Riau Province. In addition, research conducted by Asashi & Sukaatmadja (2017) states that product innovation significantly mediates the effect of market orientation on the marketing performance of wood carving handicraft SMEs in Ubud District, Gianyar Regency. Rodriguez et al. (2016) stated that market orientation has a positive effect on marketing performance through innovation as a mediating variable in automotive manufacturing companies in Spain.

H4: Product innovation mediates the effect of market orientation on marketing performance.

### III. METHODS

This research was conducted in Gianyar Regency. Gianyar Regency was chosen as a research site with the consideration that Gianyar Regency is the center for creative crafts in Bali and its products have reached the global market and the Endek MSMEs in Gianyar Regency are currently developing because of the support from the government and the community. The objects in this research are market orientation, product innovation, and marketing performance.

The population of this study were all SMEs weaving endek in Gianyar Regency with a total number that was not identified. In this study, the number of samples used was 41. The sampling technique used in this study was non-probability sampling and the sampling method used in this study was purposive sampling. The data collection method in this study used a questionnaire. The data that has been obtained from respondents through questionnaires will then be analyzed to obtain the results of the research hypothesis. The data analysis technique used SEM PLS.

### IV. RESULT AND DISCUSSION

The data analysis used in this study is to use Structural Equation Modeling (SEM) analysis based on Partial Least Square (PLS). Based on testing the research results, there are two basic model evaluations, namely the outer model and the inner model.

The research instrument is considered valid if the loading factor value is more than equal to 0.7. Table 1 describes the loading factor values of all research indicators.

Variable Indicator **Loading Factor** 0.939  $X_1$ 0,922  $X_3$ 0,946 Market Orientation (X) 0,936  $X_4$ 0,952  $X_5$  $X_6$ 0,973  $X_7$ 0,969  $Y_{1\underline{\cdot 1}}$ 0,966  $Y_{\underline{1\cdot 2}}$ 0,969 Product Innovation (Y<sub>1</sub>) 0.938  $Y_{\underline{1\cdot3}}$ Y<sub>1.4</sub> 0,946 0,966  $Y_{2\cdot 1}$ 0,978  $Y_{2.2}$ Marketing Performance (Y<sub>2</sub>)  $Y_{2\cdot 3}$ 0,935  $Y_{2.4}$ 0,984

**Table 1: Convergent Validity Test Results** 

Primary Data, 2021

Based on Table 1 above, it can be concluded that all the loading factor indicator values are greater than 0.7, which means that all indicators have met the convergent validity requirements and are declared valid.

The discriminant validity test is assessed based on the cross loading value of the measurement with the construct. The indicator is declared good if the cross loading value is more than 0.70. Then the latent construct can predict the indicators in their block better than the other blocks. Table 2 shows the description of the cross loading value of each indicator.

Market Orientation (X) **Product Innovation (Y<sub>1</sub>)** Marketing Performance (Y<sub>2</sub>) 0,939 0,834 0,833 0,922 0,840 0,847 0.946 0,858 0,863 0.936 0,822 0,856 0,952 0,866 0,921 0,870 0,973 0,806 0,857  $X_7$ 0,969 0,823

**Table 2: Discriminant Validity Test Results** 

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Y <sub>1·1</sub>	0,899	0,966	0,899
Y <sub>1·2</sub>	0,865	0,969	0,898
Y <sub>1·3</sub>	0,885	0,938	0,903
Y <sub>1.4</sub>	0,847	0,946	0,866
$Y_{2\cdot 1}$	0,894	0,874	0,966
$Y_{2\cdot 2}$	0,909	0,899	0,978
Y <sub>2·3</sub>	0,879	0,928	0,935
Y <sub>2·4</sub>	0,934	0,905	0,984

Primary Data, 2021

Table 2 shows the cross loading value of each indicator has exceeded 0.70 and each construct value has been greater than the value of the other constructs. Thus all variables are declared valid.

Reliability testing was performed using composite reliability and Cronbach's alpha test. The variable is said to be reliable if the value of composite reliability and Cronbach's alpha is more than 0.70. The results of composite reliability and Cronbach's alpha can be seen in Table 3.

Table 3: Cronbach's Alpha Composite Reliability

Variable	Cronbach's Alpha	Composite Reliability
Market Orientation (X)	0,969	0,974
Product Innovation (Y)	0,968	0,976
Marketing Performance (Y)	0,976	0,982

Primary Data, 2020

Table 3 shows that the Cronbach's alpha value and the composite reliability value of each variable have been more than 0.70. Thus it can be concluded that the construct has good reliability and the questionnaire used as a tool in research has been reliable and consistent.

The evaluation of the structural model (inner model) has the aim of predicting the relationship between latent variables. The relationship between latent variables can be seen based on the coefficient of determination R-square (R<sup>2</sup>). The coefficient of determination R-square (R<sup>2</sup>) shows how much the exogenous variables explain the endogenous variables. The range of values is from zero to one. The closer to one, the independent variable can provide almost all the information needed to predict the variation in endogenous variables. The results of the R-square (R<sup>2</sup>) can be seen in Table 4.

**Table 4: R Square Test Results** 

Variable	R-square
Product Innovation (Y)	0,839
Marketing Performance (Y)	0,913

Primary Data, 2021

Table 4 shows the R-square value of the product innovation variable is 0.839, which means that 83.9% of the product innovation construct is influenced by market orientation. Meanwhile, the other 16.1% are influenced by constructs outside the model. The R-square value of the marketing performance variable is 0.913, meaning that as much as 91.3% of marketing performance is influenced by market orientation and product innovation and another 8.7% is influenced by other models outside the construct.

Hypothesis testing is done using the values obtained in the path coefficient test results. The path coefficient displays data on the relationship between variables. The path coefficient test results are described in Table 5.

**Table 5: Path Coefficient Test Results** 

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
Market Orientation-> Marketing Performance	0,502	0,521	0,141	3,561	0,000
Market Orientation-> Product Innovation	0,916	0,902	0,059	15,400	0,000
Product Innovation-> Marketing Performance	0,474	0,451	0,141	3,362	0,001

Primary Data, 2021

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Testing of the hypothesis by using partial least square (PLS) was carried out using the bootstrap method on the results of the questionnaires that had been distributed to respondents. The bootstrapping method is useful for seeing the significance value between constructs. The hypothesis is accepted if the bootstrapping test value is greater than 1.96. If the t-statistic value is in the range of -1.96 and 1.96, the hypothesis will be rejected. The t-table value used is 5 percent or 0.05.

Based on the results of the path coefficient test in Table 5, the t-statistical value of the relationship between market orientation and product innovation is significant with a t-statistic value of 15.400 greater than 1.96. The path coefficient value of 0.916 shows a positive relationship between market orientation and product innovation. So that hypothesis one or H1 in this study states that market orientation has a positive and significant effect on product innovation.

The t-statistic value of the relationship between market orientation and marketing performance is significant with a t-statistic value of 3.561, greater than 1.96. The path coefficient value of 0.502 indicates a positive relationship between market orientation and marketing performance. Thus, the second hypothesis in this study states that market orientation has a positive and significant effect on marketing performance.

Table 5 shows that the t-statistic value is 3.362, this value is more than 1.96, so it shows a significant relationship. The path coefficient value is 0.474 which indicates a positive relationship between product innovation and marketing performance. So it can be concluded that the third hypothesis in this study shows that product innovation has a positive and significant effect on marketing performance.

Analysis of Direct Effect, Indirect Effect, and Total Effect was carried out to determine the strength of the influence between the constructs directly on the total effect. Table 6 presents the value of the research results.

Effect Type	Construct	Standardized Estimates	T Statistics ( O/STDEV )	P Value
Direct Effect	Market Orientation-> Marketing Performance	0,502	3,561	0,000
	Market Orientation > Product Innovation	0,916	15,400	0,000
	Product Innovation > Marketing Performance	0,474	3,362	0,001
Indirect Effect	Market Orientation >> Product Innovation >> Marketing Performance	0,434	3,288	0,001
Total Effect	Market Orientation > Marketing Performance	0,936	22,623	0,000
	Market Orientation > Product Innovation	0,916	15,400	0,000
	Product Innovation > Marketing Performance	0,474	3,362	0,001

Table 6: Test of Direct Effect, Indirect Effect, and Total Effect

Primary Data, 2021

Table 6 shows that the direct effect of market orientation on marketing performance is 0.502, the direct effect of market orientation on product innovation is 0.916, the direct effect of product innovation on marketing performance is 0.474 with a t-statistic value greater than 1.96 and P value smaller than 0, 50 indicates that this influence is significant.

The indirect effect in this study is the role of product innovation in mediating the effect of market orientation on marketing performance. The amount of the indirect effect is 0.434, with a t-statistic of 3.228 and a P value of 0.001. Thus, the fourth hypothesis, namely product innovation, mediates the effect of market orientation on marketing performance positively and significantly.

The total effect of the relationship between market orientation and marketing performance is 0.936 with a t-statistic of 22.623 and a P value of 0.000. The total effect of market orientation on product innovation is 0.916, with a t-statistic of 15.400 and a P value of 0.000. The total effect of the relationship between product innovation and marketing performance is 0.474 with a t-statistic of 3.362 and a P value of 0.001. These values indicate a significant influence on each of the existing constructs.

Based on the results of the first hypothesis test, it is found that market orientation has a positive and significant effect on product innovation. This result means that the better the company's ability to focus on market orientation which includes customer and competitor orientation, the better the company's ability to develop product innovation.

Based on the descriptions of research respondents, it is found that the majority of business actors who create product innovations try to find information about the interests, needs and preferences of customers in creating products offered to the market which can increase the product's selling power. These results are consistent with previous research conducted by Altuntas et al. (2013), Pardi (2014), Asashi and Sukaatmadja (2017), and Aydin (2020) who found that market orientation has a positive and significant effect on product innovation.

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Based on the results of the second hypothesis test, it is found that market orientation has a positive and significant effect on marketing performance. These results mean that the marketing performance of the Endek handicraft industry in Gianyar Regency will increase if the company is able to dig up information about customer interest in developing product ideas, trying to understand customer needs, providing services and being able to establish good relationships with customers and monitor the activities of competitors that are involved, threatening periodically. Based on the descriptions of research respondents stated that companies that focus on the market include searching for information about customer preferences, there is an increase in the company's marketing performance.

The results of this study support the results of a similar study previously conducted by Lapian et al. (2016). This study also supports the results of research conducted by Alrubaiee (2013), Widyaningsih et al. (2017), Oduro (2018), Tristianto et al. (2020) and Haryanto et al. (2019).

Based on the results of the third hypothesis test, it is found that product innovation has a positive and significant effect on marketing performance. This explains that the better the company's ability to develop product innovation which refers to the level of uniqueness, newness of the product, and quality improvement, the higher the marketing performance of the company.

The results of this study are in line with the results of previous studies conducted by Rosmayani et al. (2016) which shows that product innovation has a positive and significant effect on marketing performance in the Malay woven textile industry in Riau Province. The results of these studies are also strengthened by research conducted by Lapian et al. (2016), Pattipeilohy (2018), (Efrata et al., 2019) and (Devara & Sulistyawati, 2019).

Based on table 6, it is found that product innovation is able to partially mediate the effect of market orientation on marketing performance. These results explain that the better the company focuses on market orientation, the higher the company's marketing performance is, therefore product innovation is needed so that it can adjust to market trends being served and create a competitive advantage.

The results of this study support the results of previous studies regarding a similar relationship conducted by Anim et al. (2018) on the fashion industry in Ghana. The results of these studies are also reinforced by research conducted by Pardi et al. (2014) stated that market orientation in Batik SMEs has a positive and significant impact on marketing performance mediated by innovation. Research conducted by Asashi & Sukaatmadja (2017) states that product innovation significantly mediates the effect of market orientation on the marketing performance of wood carving handicraft SMEs in Ubud District, Gianyar Regency.

### V. CONCLUSION

Market orientation has a positive and significant effect on product innovation. These results indicate that the better the application of market orientation to the endek handicraft industry in Gianyar Regency, the product innovation will increase.

Market orientation has a positive and significant effect on marketing performance. This means that the better the application of market orientation to the endek handicraft industry in Gianyar Regency, the better the marketing performance will be.

Product innovation has a positive and significant effect on marketing performance. These results indicate that the better the endek handicraft industry in Gianyar Regency makes product innovation, the marketing performance will increase.

The results of research on the market orientation variable show that the monitoring indicators of the competitor's strategy carried out by the company have the lowest average value. Several ways that companies can monitor competitors' strategies are conducting a competitive analysis by identifying major competitors and researching their products, sales, and marketing strategies.

The results of research on product innovation variables show that the indicator of increasing the number of new products offered in the market has the smallest value. So what the company has to do is develop a unique and differentiated superior product that provides attractive benefits and value propositions for customers, targets attractive markets including market size, growth and competitive situations, focuses on customers.

Further research is expected to be able to conduct research with a wider scope and add other variables outside of this research variable that can affect the business performance of a company.

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