

# The Effect of Market Orientation and Entrepreneurship Orientation on Marketing Performance Mediated Product Innovation in Bead MSMEs

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## ABSTRACT

This research was motivated by a decline in sales at the MSME beads in Plumbon Gambang Village. The purpose of this study was to determine the effect of market orientation and entrepreneurial orientation on product innovation, the effect of product innovation on marketing performance, the effect of market orientation on marketing performance, the effect of entrepreneurial orientation on marketing performance, the effect of market orientation on marketing performance by mediating product innovation and the effect of entrepreneurial orientation on marketing performance by mediating product innovation. This study uses a quantitative approach. The sample of this study was 43 MSME beads in Plumbon Gambang Village in 2018 with a total sampling technique. The research instrument used a questionnaire and analyzed using SEM-PLS analysis. The research instrument used a questionnaire and analyzed using SEM-PLS analysis. The results of this study indicate that market orientation has a significant effect on product innovation, entrepreneurial orientation has a significant influence on product innovation, product innovation has a significant effect on marketing performance, market orientation does not have a significant effect on marketing performance, entrepreneurial orientation does not have a significant impact on product innovation. significant influence on marketing performance, product innovation can mediate market orientation on marketing performance and product innovation can mediate entrepreneurial orientation on marketing performance.

**Keywords** : market orientation, entrepreneurial orientation, product innovation, marketing performance, MSME Beads

## 1. INTRODUCTION

In developing countries, the main priority in carrying out state activities is national development. The main aspect that must be a concern in the implementation of national development in Indonesia is in the economic field. To realize national development, it is not only the responsibility of the central government but local governments and entrepreneurs to take advantage of their potential in order to be able to carry out economic development optimally. The potential in each region that has the opportunity to further develop in economic development is the existence of Micro, Small and Medium Enterprises (MSMEs).

In a country that is currently developing, the main priority in carrying out state activities is national development. The main aspect that must be a concern in the implementation of national development in Indonesia is in the economic field. The potential in each region that has the opportunity to further develop in economic development is the existence of Micro, Small and Medium Enterprises (MSMEs).

Jombang is a district that has a central area for making beads which is located in the village of Plumbon Gambang in Gudo District, Jombang Regency. MSME beads can basically be categorized as a manufacturing industry that is able to convert inputs in the form of glass and wood into outputs such as beads, bracelets, necklaces and beads. The beads industry in this area is mostly in the form of home industry. MSME beads is a form of a business that has experienced a decline in Jombang Regency. In table 1, a description of the condition of the MSME beads in Plumbon Gambang village will be presented.

Table 1. Beads Production in 2012-2017

Types of products	2012	2013	2014	2015	2016	2017
	Thousand	Thousand	Thousand	Thousand	Thousand	Thousand
Details	1,652.3	1,590.5	1,467.9	1,352.5	1,252.6	1,152.7
Bracelet	1,932.9	1,846.8	1,696.4	1,550.8	1,423.4	1,296.1
Necklace	1,965.7	1,853.4	1,673.1	1,532.3	1,442.4	1,307
Amount	5,550.9	5,290.7	4,837.4	4,435.7	4,118.4	3,755.8

Source: Secondary Data, 2018

From the data in table 1. it can be seen that there was a fluctuating decrease in the amount of production from 2012 to 2017. The highest decline occurred between 2013 to 2014 and the lowest decline in 2012 to 2013.

The decline occurred continuously due to the inability of the beads entrepreneurs to reach, maintain and develop the market, the lack of ability of entrepreneurs to make products that have innovations in developing their products so that they do not attract the attention of consumers, this condition is based on a preliminary survey of research and lack of attention from the Department of Industry and Trade to assist in providing information for local, regional and foreign market access, thus causing the decline in demand for beaded products.

MSMEs who want to maintain business continuity require companies to further improve marketing performance by innovating products produced with market orientation because knowledge of consumer needs and desires, this is the key to the success of product innovation that will be produced. The innovations made by MSMEs to date lie in the design of motifs and models such as animals and flowers.

MSME beads in Plumbon Gambang village should be able to make improvements related to product innovation by continuing to develop products owned by MSMEs or making new products so that the products produced are of higher quality so that they can be accepted and in demand by consumers. To support the creation of innovative products, bead entrepreneurs should pay close attention to the wants and needs of their consumers so that the resulting products can be accepted by consumers, so that they will be able to improve marketing performance.

A comprehensive hypothesis of the nature and consequences of request exposure has been developed by several experimenters (Kohli and Jaworski, 1990; Narver and Slater, 1990) from colorful perspectives. Consequently, exploration describing the relationship between request exposure and performance has surfaced (Deshpande, Farley, and Webster 1993; Jaworski and Kohli 1993; Narver and Slater 1990; Ruekert 1992; Slater and Narver 1994). Other exploration has also been carried out by combining the conception of request exposure with the conception of entrepreneurial exposure (Entrepreneurial Exposure/ EO) which is associated with invention. In addition, the conception of MO and EO is also associated with the proposition of resource-grounded literacy and association (Lisboa, 2011), where the exploration results show that EO is the morning of the development of exploratory and exploitative products and request capabilities related to foreign requests. Other findings also show that exploratory product development capabilities and exploitative capabilities have a positive impact on new product isolation. Research conducted by Abebe and Angriawan (2014) combines MO and EO as well as disquisition and exploitation conditioning of companies. The results of this study indicate that the places of MO and EO have a strong relationship in the company's disquisition and exploitation conditioning, while the perceived intensity of competition is a significant prolocutor of the relationship between MO and the position of disquisition and exploitation conditioning. Funny, Carsrud, and Oflazoglu (2017) conducted exploration using 3 generalities, videlicet MO, technology exposure (TO) and EO. The exploration findings show that (MO) visionary and (TO) lead to radical invention, while responsive MO explosively influences incremental invention. EO affects performance directly and laterally through incremental and radical invention.

Companies that are actually concerned about request exposure will produce processes and conditioning that can produce innovative products to satisfy guests by continuously assessing client requirements and solicitations (Tjiptono et al, 2008). Innovation is demanded by companies to thrive in an terrain full of global competitiveness and largely dynamic requests (Revilla, Saenz, and Knoppen, 2014) and is critical to the growth and success of a company (Lisboa, 2011). In an trouble to renew themselves and contend effectively in the global request, companies must have both specialized and non-technical capabilities, but the being literature focuses only on technological capabilities and product development, without considering other possible disciplines of capabilities (Lisboa, 2011). Several studies have shown that companies decreasingly calculate on external knowledge to drive invention and ameliorate company performance. (Laurson and Salter, 2006; Chesbrough, 2003; Ireland, Hitt and Vaidyanath, 2002). Through adequate market information, managers can understand the lack of organizational capabilities and growing business opportunities, so it is necessary to develop new capabilities. The strong role of the CEO in the company's results and the role of the CEO in shaping the company's innovation activities also need attention. managers can understand the lack of organizational capabilities and growing business opportunities, so it is necessary to develop new capabilities. The strong role of the CEO in the company's results and the role of the CEO in shaping the company's innovation activities also need attention. managers can understand the lack of organizational capabilities and growing business opportunities, so it is necessary to develop new capabilities. The strong role of the CEO in the company's results and the role of the CEO in shaping the company's innovation activities also need attention.

Although numerous studies show the direct impact of request exposure on marketing performance, the mechanisms that do in the relationship between request exposure and marketing performance are still many that bandy it in an integrative frame, so in this study we will bandy this. In the environment of developing countries, especially in Indonesia, it's necessary to conduct exploration on this content, because in Indonesia in addition to numerous arising SMEs ( small and medium business enterprises) there are also regulations that must admit the main attention, so that the results of this exploration will contribute to these SMEs.

## **2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT**

### **2.1. Market Orientation**

Narver and Slater (1990) argue that request exposure becomes a veritably applicable organizational habit in making a geste that's veritably important to produce superior value for its guests and performance in business. He further stated that request exposure consists of several main pointers, videlicet client exposure, contender exposure, and inter-functional collaboration including all conditioning involved in the process of carrying information about challengers and buyers in the targeted request and propagating it through the business, while functional collaboration is motivated by information about guests and challengers and consists of coordinated sweats.

#### **1. Customer Orientation**

Narver and Slater (1990) state that the concept of customer orientation can also be interpreted as an understanding that marks the targeted customers by the seller who are able to create the best value from sustainable benefits for the goods purchased.

#### **2. Competitor Orientation**

Competitor orientation means that the firm understands the short-term strengths, weaknesses, long-term capabilities, and strategies of its potential competitors (Narver and Slater 1990).

#### **3. Inter-Function Coordination**

Narver and Slater (1990) stated that inter-functional coordination is the coordinated use of company resources in creating superior value for targeted customers.

## 2.2. Entrepreneurship Orientation

Kohli and Jaworski (1993) Entrepreneurship orientation is a company value system that will determine the direction of movement or company strategy. According to Drucker (1994) entrepreneurial orientation is a trait, character or attribute that is attached to someone who has a strong will to realize innovative ideas into a real business world and can develop them hard. The following are indicators of entrepreneurial orientation according to Weerawardena and O'Cass (2003):

1. Innovativeness  
Innovation is the tendency to engage in creativity and experimentation through the introduction of new products or services and technological leadership through research and development in new processes (Lumpkin and Dess, 1996).
2. Proactiveness  
A proactive attitude views a forward looking perspective in taking initiatives by anticipating, pursuing new opportunities and participating in emerging markets (Lumpkin and Dess, 1996).
3. Risk-taking  
Risk taking is taking decisive action by exploring the unknown or allocating significant resources to businesses in an uncertain environment (Lumpkin and Dess, 1996).

## 2.3. Product Innovation

Lukas and Ferrell (2000) reveal that product innovation is added value compared to the same product so that it can make the company have an advantage in the market. Innovation can be separated into three indicators, namely:

1. Product Line Expansion  
Lukas and Ferrel (2000) state that product line expansion is a product that is still common for the company but is new to the market, this effort is made by the company to increase the variety of its products.
2. Counterfeit/Imitation Products  
Lukas and Ferrell (2000) suggest that counterfeit products are products that are believed to be new by businesses but are already familiar with the market. Imitation does not take place suddenly, it is influenced by an attitude of admiration and acceptance of what is being imitated.
3. New product  
Lukas and Ferrel (2000) give the understanding that a new product is a product that is considered new by both the business and the market.

## 2.4. Marketing Performance

A simpler and more practical concept of marketing performance is explained by Ferdinand (2000) which states that good marketing performance is expressed in three main indicators, namely: customer growth, sales value, and market share, which ultimately leads to company profits. In the form of implementation, three indicators are used, namely: sales growth, sales value and market share.

1. Sales Growth.  
According to Ferdinand (2000) sales growth is an increase in the number of sales from year to year or from time to time.
2. Sales Value  
According to Ferdinand (2000) sales value shows how many rupiah or how many units of product the company has successfully sold to consumers or customers.
3. Market Portion  
According to Ferdinand (2000), the market share shows how much the contribution of the product handled can dominate the market for similar products compared to competitors.

## 2.5. Hypotheses Development

In this study there are seven research hypotheses, namely:

- H1: The higher the market-oriented MSMEs, the better the product innovation of MSME Beads in Plumbon Gambang village.
- H2: The higher the entrepreneurship-oriented SMEs, the better the product innovation of UMKM Beads in Plumbon Gambang village.
- H3: The higher MSMEs innovate, the better the marketing performance of MSMEs in Plumbon Gambang Village Beads.
- H4: The higher the market-oriented MSMEs, the better the marketing performance of MSMEs in Plumbon Gambang Village Beads.
- H5: The higher the entrepreneurship-oriented MSMEs, the better the marketing performance of MSMEs in Plumbon Gambang Village Beads.
- H6: The better the market-oriented MSMEs, the higher the product innovation that will further improve the marketing performance of MSMEs in Plumbon Gambang Village Beads.
- H7: The better the entrepreneurship-oriented SMEs, the higher the product innovation that will further improve the marketing performance of the Plumbon Gambang village beads.

## 3. METHODS

This study uses two independent variables, namely Market Orientation (X1), Entrepreneurial Orientation (X2), one mediating variable, namely Product Innovation (Y1) and one dependent variable, namely Marketing Performance (Y2). Measurement of market orientation adopts the research of Narver and Slater (1990) consisting of 3 statement items for customer orientation 1 statement item, for competitor orientation 1 statement item, and coordination between functions 1 statement item. Weerawardena and O'Cass (2003) consists of 3 statement items for innovation 1 statement item, 1 statement item for proactiveness, and 1 statement item risk taking. The measurement of product innovation adopts the research of Lukas and Ferrell (2000) consisting of 3 statement items for line expansion, 1 statement item, 1 statement item for imitation products, and 1 statement item for new product. Furthermore, the measurement of marketing performance adopts the research of Ferdinand (2000) consisting of 3 statement items for sales growth of 1 statement item, 1 statement item for sales value, and 1 statement item market portion. All items were scored using a 5-point Likert scale, from 1-strongly disagree to 5-strongly agree.

The sampling technique used was total sampling, namely that all bead entrepreneurs had a total of 43 bead entrepreneurs. data collection is done through questionnaires, interviews and literature from various sources. The data analysis method used was SEM PLS with Warp PLS 5.0 and performed hypothesis testing in the form of P-Value test and mediation test.

The description of MSME owners is as follows: 43 respondents consist of 37 men and 6 women. Most of the respondents were over 30 years old as many as 30 people and those aged 25-30 years were 13 people. The education level of the largest respondents was at the high school level as many as 31 people, junior high school as many as 11 people, and 1 person S1. MSMEs were mostly established in 2000-2005 as many as 22 MSMEs, in 2005-2010 as many as 11 MSMEs, in 1995-2000 as many as 9 MSMEs and in 1990-1995 as many as 1 MSMEs. Based on the production volume, the highest production volume is 500-1000 units with 22 MSMEs and 2000-2,500 with 2 MSMEs.

## 4. RESULT AND ANALYSIS

This study uses the Partial Least Square (PLS) approach for path modeling in order to estimate the measurement and structural parameters in the structural equation model (SEM) (Chin, 1998).

### 4.1. Measurement of Validity and Reliability

In PLS, to assess the psychometric parcels of dimension instruments, a procedure analogous to the system of Kleijnen, Ruyter, and Wertzels (2007) was performed using reflective pointers for all exploration constructs. Null models that have no structural relationship are estimated, and also the trustability is estimated using compound scale trustability (CR) and average friction uprooted (Adieu) (Chin, 1998; Fornell and Larcker, 1981) or Cronbach's Nascence (Malholtra, 1996). The criteria for fulfilling CR are further than the arrestment value of 0.700 and Adieu exceeding the arrestment value of 0.500 (Fornell and Larcker, 1981), while the criteria for fulfilling Cronbach's nascence is exceeding the arrestment value of 0.600 (Malholtra, 1996). Coincident validity was estimated by measuring standardized loadings on each construct (Chin, 1998) with the criteria of meeting formalized loadings if the arrestment value exceeds 0.500. From table 1, it can be seen that all sizes show standardized loadings that exceed 0.500, so it can be interpreted that all variables meet the conditions of coincident validity. The coming step is to measure discriminant validity. As stated by Fornell and Larcker (1981), the Adieu for each construct is lesser than the correlation of the quadratic idle factor between dyads of constructs, so the determinant is that all constructs show satisfactory validity. In table 1 it can be seen that for all constructs, the CR value exceeds 0.700 and Cronbach's nascence value exceeds 0.600 and from table 2 it can be seen that the Adieu value exceeds 0.500.

Table 2. Validity and Reliability Measurement Results

Indicator	Outer model	Composite Reliability	Cronbach's Alpha
X.1.1	0.918	0.946	0.914
X.1.2	0.941		
X.1.3	0.912		
<b>Market Orientation</b>			
X.2.1	0.896	0.920	0.869
X.2.2	0.876		
X.2.3	0.899		
<b>Entrepreneurship Orientation</b>			
Y.1.1	0.910	0.936	0.897
Y.1.2	0.892		
Y.1.3	0.930		
<b>Product Innovation</b>			
Y.2.1	0.931	0.950	0.921
Y.2.2	0.936		
Y.2.3	0.921		
<b>Marketing Performance</b>			

Source: Data processed by WarpPLS 5.0

Table 3. R Square

Variable	R-squared coefficients
<b>Market Orientation</b>	
<b>Entrepreneurship Orientation</b>	
<b>Product Innovation</b>	0.435
<b>Marketing Performance</b>	0.876

Source: Data processed by WarpPLS 5.0

From table 2, it is obtained that the R Square value for the product innovation endogenous variable has a value of 0.435 more than 0.19 which means it has a weak influence, while the marketing performance endogenous variable has a value of 0.876 more than 0.67, so that R Square has a very strong influence to predict causality relationship between latent variables.

Table 4. Estimate for path Coefficients

	Market Orientation	Entrepreneurship Orientation	Product Innovation	Marketing Performance
Market orientation				
Entrepreneurial orientation				
Product innovation	0.344	0.408		
Marketing performance	0.136	0.054	0.852	

Source: Data processed by WarpPLS 5.0

Table 3 shows the results of the value of estimate for path portions each independent variable has a relationship with the dependent variable which is proven to have a value above 0.2 except for the relationship between request exposure and marketing performance with a value of 0.136 and entrepreneurial exposure with marketing performance with a value of 0.054, so it has no effect on the structural position because the value is below 0.2.

Table 5. (Q Square)

Market Orientation	Entrepreneurship Orientation	Product Innovation	Marketing Performance
		0.431	0.824

Source: Data processed by WarpPLS 5.0

From table 4 it can be seen that the Q Square of the product invention variable has a value of 0.431, which means it has moderate capability and marketing performance has a value of 0.824 which is lesser than 0.35, so it can be said to have a large and veritably applicable prophetic capability.

#### 4.2. Hypothesis testing

Table 6. P Values

	Market Orientation	Entrepreneurship Orientation	Product Innovation	Marketing Performance
Market Orientation				
Entrepreneurship Orientation				
Product Innovation	0.006	0.001		
Marketing Performance	0.175	0.360	<0.001	

Source: Data processed by WarpPLS 5.0

Based on table 5 hypothesis testing that has been carried out on 43 respondents, it can be seen the following hypotheses:

1. H1: Market Orientation has a significant effect on Product Innovation of Beads in Plumbon Gambang Village.
2. H2: Market Orientation has a significant effect on Product Innovation of Beads in Plumbon Gambang Village.
3. H3: Product innovation has a significant effect on marketing performance of Plumbon Gambang Village beads.
4. H4: Market Orientation has no significant effect on Marketing Performance of Plumbon Gambang Village beads.
5. H5: Entrepreneurship Orientation has no significant effect on Marketing Performance of Plumbon Gambang Village beads.

#### 4.3. Mediation Test

To see the mediation in the model, it can be seen from the P values of indirect effects for paths with two segments with the provisions of P value 0.05 (Alpha 5%).

Table 6. P Values of Indirect Effects For Paths With Two Segments

	Market Orientation	Entrepreneurship Orientation	Product Innovation	Marketing Performance
Market Orientation				
Entrepreneurship Orientation				
Product Innovation				
Marketing Performance	0.002	<0.001		

Source: Data processed by WarpPLS 5.0

Based on table 6 hypothesis testing P Values of Indirect Effects For Paths With Two Segments, it can be seen the following hypotheses:

- H6: Market Orientation has a significant effect on Marketing Performance mediated by Product Innovation of Beads in Plumbon Gambang Village.
- H7: Entrepreneurship Orientation has a significant effect on Marketing Performance mediated by Product Innovation of Beads in Plumbon Gambang Village.

To see the form of the full or partial mediation model, based on data processing, it can be seen from the P-Value value directly and indirectly as follows:

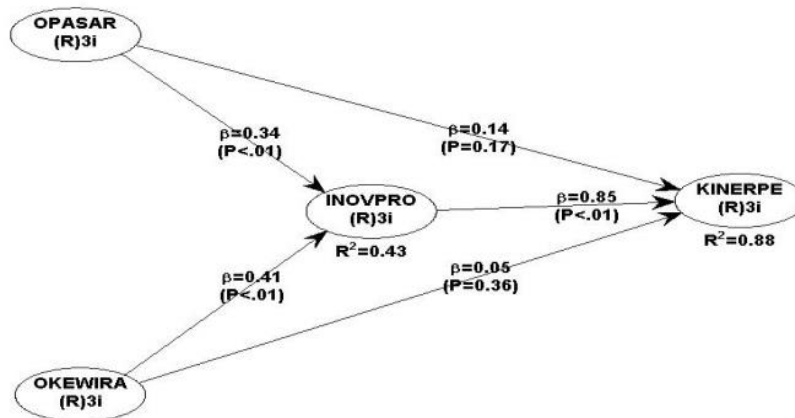


Figure 1. Model Image

## 5. CONCLUSION

By analyzing the application of the green infrastructure concept in road corridors, it is hoped that the results of this study can provide information to project implementation about the benefits of implementing the green infrastructure concept in road projects in terms of road design. Determine whether the project has met the conceptual standards of the green road concept which includes social, economic and ecological aspects both at the time of planning or when the project is implemented, in accordance with the general guidelines for implementing sustainable construction in the Minister of PUPR Regulation No. 5 of 2015. From visual observations and based on existing data from 5 categories of green road criteria on the Bromo KSPN corridor road, it can be concluded that there are a total of 18 criteria subcategories that have been implemented in the road work project to Bromo KSPN.

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