

# Product Innovation Based On Market Orientation To Increase Business Performance.

*by* Raden A. Harianto

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## Product Innovation Based On Market Orientation To Increase Business Performance.

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### Abstracts

**21** The purpose of this study was to determine the effect of Market Orientation and Product Innovation on Banking Business Performance, in Jakarta. This research method uses a causal survey method with a quantitative approach. The target population in this study is 50 banks (N = 50) in DKI Jakarta. The sampling technique used was simple random sampling technique and the number of samples from this study was n = 99 respondents. Primary data collection using the questionnaire method. Data were analyzed using Path analysis through Lisrel Software 8.54. The results of this study are that (1) There is a significant positive direct effect of market orientation on product innovation with a path coefficient of  $p = 0.46$  at  $\alpha = 0.05$ ; (2) There is not enough evidence that there is a significant direct effect of market orientation on banking business performance with a path coefficient of  $p = 0.09$ . (3) There is a significant positive direct effect of Product Innovation on the performance of banking business with a path coefficient of  $p = 0.44$  at  $\alpha = 0.05$  and (4) There is a significant positive indirect effect of market orientation on banking business performance through product innovation with coefficients pathway of  $p = 0.28$  at  $\alpha = 0.05$ .

**Key Words :** **11** *Market Orientation, Product Innovation and Business Performance*

### I. INTRODUCTION

Banks are financial institutions that have the main task of collecting funds from the public and channeling loans and services in the form of cash payments. While the customer is a person who entrusts his money to the bank to be used in banking business operations where the customer will get a reward for the amount of money deposited in the bank. In this activity, a banking institution seeks to create product innovations to be offered to customers, while customers on the other hand try to find product innovations that can meet their needs and desires. Viewed from the aspect of banking institutions, the presence of a customer is very important for the success of the market orientation of the products offered, besides that the customer for the banking institution is an important chain also for the market orientation it does.

The banking business industry faces intense competition, therefore to achieve optimal banking business performance must find profitable ways to differentiate themselves to innovate in finding new markets so as to create superior products and services for their customers, in order to obtain superior competitive advantage sustainable (CSA).

This banking consolidation began in 2004 by promoting a market-driven or market-driven approach that is more pro-market, namely market orientation. (Craven and Piercy, 2013: 235) defines an organization as market-driven if the organization adopts a customer-value strategy -centered supported by market orientation. (Day, 2009: 27) added that the market orientation is carried out by the organization to help management develop product innovation in order to obtain competitive advantage that has an impact on superior business performance. In addition, in terms of the competitive environment there has been intense competition due to the opening of new markets. Dobni and Luffman (2013: 582) explain that it is very important for companies to develop product innovations to enable them to compete in new markets, present significantly to customers, and create market entry barriers against potential competitors in a tight and excessive business climate in terms of competition prices, products, technology, regulatory restrictions, and lack of resources. Whereas Lawson and Samson (2001: 377) define innovation as the ability to continuously transform various ideas in creating new products, processes and systems for the benefit of the company and stakeholders that are related to communication factors between the company and environment.

From several studies that have been conducted related to market orientation, product innovation, and business performance, there are still a number of important issues that have not been revealed. The main issue is that almost all research does not realize that a company will not always be successful just by doing product innovation, although there is evidence that there is a relationship between product innovation and business performance, but success depends on other factors, namely competitive advantage, meaning that the basis of business weak, then all existing innovations will not save enough from the company's losses. Tidd et. al. (2013: 12) argues that innovation must be tested in the market in self-defense and can surpass the performance of its competitors so as to create sustainable competitive advantage. No matter how creative an effort to change is not considered the best innovation change if it is not proven its ability in the market as one of the important indicators of the ability and competitive advantage of companies in the banking industry.

The purpose of this study is to analyze the effect of market orientation and product innovation on the performance of the banking business in Jakarta. Originality in this research is the existence of market orientation and product innovation variables as new variables to be tested. In addition, the difference between this research and previous research is that this study uses path analysis with the Lisrel 8.54 Software Analysis tool. The object of research used in this study is the management leadership that manages business units from 3 selected banks in Jakarta. From several studies that have been conducted related to market orientation, product innovation, and business performance, there are still a number of important issues that have not been revealed. The main issue is that almost all research does not realize that a company will not always be successful just by doing product innovation, although there is evidence that there is a relationship between product innovation and business performance, but success depends on other factors, namely competitive advantage, meaning that the basis of business weak, then all existing innovations will not save enough from the company's losses. Tidd et. al. (2013: 12) argues that innovation must be tested in the market in self-defense and can surpass

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## II. LITERATURE REVIEW

### A. 1. Business Performance

Research on banking business performance is supported by Ford and Schellenberg's theory (1982: 49), suggesting three main approaches that are often used in the concept of organizational performance: (1) Goal approach that defines the performance of the objectives indicated by the behavior of organizational members, (2) System resource approach that defines organizational performance by examining the internal and external factors of the organization that determine the survival of the organization, and (3) Constituency approach that defines organizational performance by meeting the needs of internal and external constituents of the organization. Venkatraman and Ramanujam (1987: 109) argue that strategy researchers emphasize performance as Business Economic Performance, where business performance is included in the Goal Approach as stated above, and is a central concept in the realm of management. In addition, performance measurement can use ROA. Afuah (2014: 23) defines nine measures of financial performance, including return on assets, earnings per share. In many previous studies the measurement of business performance can be seen from financial performance or non-financial performance. Narver and Slater (2004: 49) state that ROI is the most widely used performance measure. Fleisher and Bensoussan (2003: 437) reaffirm that business performance using measures such as ROA and ROE can be obtained from operational revenue: inflows from current operations in business. The banking industry is regulated by the Bank Indonesia supervisory authority (2008: 12), including how to measure financial performance. Therefore, the financial ratios used to measure bank performance in this study are financial ratios that are also used by Bank Indonesia, including among others ROA, ROE, Net Income Interest (NII), and non-performing loans ratio (NPL Performing).

This study also examines the non-financial performance of retail bank business as measured by (a) the level of employee satisfaction serving retail banks as measured by the average length of service at the bank, (b) the level of customer satisfaction measured by the average length of time a customer, and (c) increase employee skills and knowledge. So that the parameters of the Bank's performance indicators can be compared objectively then the figures contained at Bank Indonesia and the respondent choose one parameter according to the condition of the bank. The relationship of attribution theory in this study is relevant to the variables to be studied, namely market orientation and product innovation. This study also examines the non-financial performance of retail bank business as measured by (a) the level of employee satisfaction serving retail banks as measured by the average length of service at the



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## 2. Market Orientation

Esteban et. al. (2012: 1003) explains that service companies that adopt a market orientation will gain important advantages internally in addition to profits derived from the market. Market orientation has a positive relationship on a company's financial performance. Day added that market orientation allows an organization to develop superior skills and / or competitive advantage in understanding and satisfying customers which in turn results in superior performance.

Research Esteban et., Al. (2012) found the results that market orientation has a positive effect on banking business performance. Therefore, it can be assumed that market orientation affects the performance of the banking business.

**H1: There is a direct influence of market orientation on the business performance of the banking industry**

Dobni and Luffman (2013: 583) in their research explained that the implementation of strategy and performance in companies is strongly influenced by market orientation.

Market orientation is a combination of the implementation of strategies, how the company's relationship with innovation and business performance. The relationship between market orientation, strategy implementation and performance is a perfect relationship in the context of the social environment. This study discusses the ideal profile of companies that want performance maximization by considering the scope and consequences of market orientation in the application of product innovation strategies.

Dobni and Luffman (2013) and Tidd et. al. (2007) in his research showed that market orientation has a positive effect on product innovation. Therefore, it can be assumed that the market orientation influences the product innovation.

**H2: There is a direct influence of market orientation on the product innovation.**

Market orientation is an aspect of corporate culture in an effort to motivate employees throughout the organization and place a high priority in creating profits by fostering more innovative organizational creativity and transforming to respond to customer needs for new products. Tidd et. al. (2007: 144) argues that innovation means introducing and creating new product combinations in the sense of the results of production factors that are realized in the form of: (1) new goods, (2) new production methods, (3) new sales markets, (4) procurement sources new, and (5) how to set up a new operation.

## 3. Product Innovation

Schumpeter and Scherer (2013: 144) argues that based on Rogers's theory of innovation, that innovation is an idea, item, procedure, or system that is perceived as new by anyone who adopts it.

De Jong (2003: 844) in his writing about the development of new services (new service development), that an effort is said to be an innovation if it covers or covers two main

activities namely developing and implementing something new. Gary Hamel (2012: 203) revealed that innovation is a deliberate effort to change and has proven potential in defeating competitors. Research Burgelman et. al. (2011: 248) revealed that innovation can create long-term competitive advantage, which means that innovation is a very important element in the organizational context in which entrepreneurs must continue to innovate in order to encourage customers more interested in new products.

Research conducted by Burgelman (2011) explains that Product Innovation affects the performance of the banking business. Therefore, it can be assumed that product innovation affects the business performance of the banking industry.

**H3: There is a direct effect of product innovation on the business performance of the banking industry.**

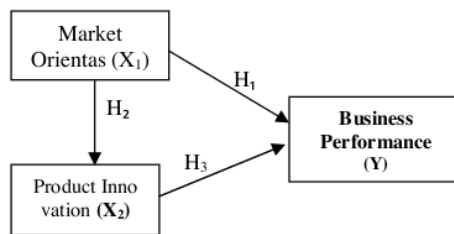
Product innovation as an organizational capability implies a complex set of skills that is bound in organizational routines (complex bundles of skills that are deeply embedded in organizational routines) can produce a positional advantage based on an innovative offering or superior service for customers and impact on employee satisfaction, and satisfaction customers who have an impact on financial and non-financial performance which in turn such companies will be able to enjoy superior business performance.

Therefore, it can be assumed that market orientation influences the performance of the banking business indirectly through product innovation.

**H4: There is an indirect effect of market orientation on the performance of the banking business through the product innovation.**

The banking industry is demanded to be market oriented, besides making products that are of interest to its buyers, they discuss innovation strategies carried out by their competitors and with their innovations, they harmonize cross-functional cooperation, and carry out innovations, to respond to competitors and in efforts to obtain better business performance. Market orientation is carried out so that the organization can help management develop product innovation in order to obtain competitive advantages that have an impact on superior banking business performance. In addition there has been intense competition due to the opening of new markets marked by new players with the use of increasingly sophisticated technology.

Based on the description of the theoretical framework and the development of the above hypotheses, this study uses a framework model (theoretical model) that can be explained as shown in Figure 2.1. as follows:



Resources : Riduwan, 2007

Figure 2.1. : Theoretic Model

### III. RESEARCH METHOD

This research uses the Causal Survey method with a quantitative approach. The data used in this study are primary data with data collection methods, namely questionnaires. The research site was conducted at banks operating in the city of Jakarta, as many as 50 banks were the target population in this study. The sample used in this study was 99 respondents, namely Unit Management Leaders from 3 selected banks. Determination of the number of respondents was calculated using the Slovin formula with a significance level of 10%. Criteria for sampling using simple random sampling techniques, i.e. sampling by simply or modestly determined, provided the person concerned has the characteristics, data, or information needed in the study. Profile of respondents is the head of the Bank who manages business units namely the Director of the branch (Spoke Manager) or Hub Outlet Manager who oversees the Customer Service Officer (CSO), Head Teller & Retail Officer (RO). Answers to respondents were measured using a Likert scale, 1 (Strongly Disagree), 2 (Disagree), 3 (Agree) and 4 (Strongly Agree). This study uses descriptive and inferential statistical data analysis techniques with a significance of 10%. The analytical tool used is the path analysis technique (path analysis) using Lisrel 8.54 software.

### IV. RESULTS AND DISCUSSION

#### 4.1. Results of Descriptive Data Test

Table 1 : Summary of Descriptive Data Test

Items Test	Market Orientation (X1)	Product Innovation (X2)	Business Performanc (Y)
Total of Sample (n)	99	99	99
Average	128.79	122.09	125.52
Median	129.00	123.00	126.00
Modus	138	110	131
Deviation(%)	8.476	8.350	8.878
Variance	71.842	69.716	78.824
Score Max.	145	136	136
Score Min.	110	103	103
Range	35	33	40
T o t a l	12750	12087	12426

Resource : Processing Data, Researcher, 2019

The variance between the sample variable data in table 1 above for the population variable is relatively small ( $\sigma < 10\%$ ) so it is feasible to use in research.

Analysis of the Kolmogrov-Smirnov test results includes the validity and reliability tests based on the Cronbachs Alpha as listed in table 2. In addition, based on the results of the research output, the AVE value of 0.62 (more than 0.5) means that it meets the validity requirements.



Table 2. Composite Reliability and Cronbachs Alpha

Variable	Cronbach's Alpha	Composite Reliability
Market Orientation	0,76	0,85
Product Innovation	0,71	0,84
Buss. Performance	0,75	0,84

Resource: Processing Data of Kolmogrov-Smirnov Test

From the results of the data processing in table 2, it shows that the value of Cronbach's Alpha and Composite Reliability of all constructs is above 0.70. This shows that all statements used to measure each construct are reliable.

Table 3 : Summary of Normality Test

No	Variable	n	$\chi^2$ hit	$\chi^2_{t.05}$	$\chi^2_{t.01}$	Results
1	Market Orientation [X <sub>1</sub> ]	99	0,074	0,123	0,152	Distribusi Normal
2	Innovation of Pduk[X <sub>2</sub> ]	99	0,072	0,123	0,152	Distribusi Normal
3	Performance of Bus. [Y]	99	0,075	0,123	0,152	Distribusi Normal

Resource : Data of Researcher, 2019

From table 3 the results of the normality test using the Kolmogrov-Smirnov test show that the data distribution on the variables X1, X2, and Y, are normally distributed according to Figure 4.1. below this is the distribution of data points close to normal

Normal P-P Plot of Regression Standardized Residual

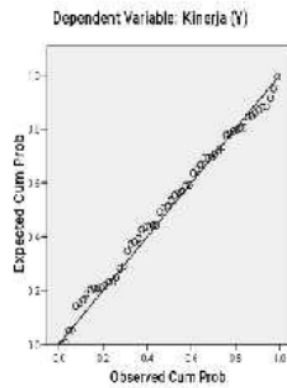


Figure 4.1. Normality

Table 4 : Summary of Homogeneity Test

No	Variable	n	$\chi^2$ Count	$\chi^2$ t..05	$\chi^2$ t.01	Results
1	Innovation of product [X <sub>2</sub> ] on Market Orientation [X <sub>1</sub> ]	99	17.410	88.25	98.03	homogen
2	Business Performance [Y] on Product Inovation [X <sub>2</sub> ]	99	46.099	88.25	98.03	homogen
3	BusPerform[Y] on Market Orientation [X <sub>1</sub> ]	99	21.105	89.39	99.23	homogen

Resource : Data of Homogeneity Test, 2019

From Table 3 Variant Homogeneity Test Results it appears that the data between Innovation variables (X2) on market orientation are homogeneous, likewise data between Business Performance (Y) on Innovations (X2) is homogeneous, including data between bank business performance (Y) on The Orientation market (X1) in homogeneous conditions.

#### 4.2. Results of the Hypothesis Test By Using the Path Analysis

Table 5. Summary of Hypothesis Test

Hypothesis	Statement	T- count	Tab.05	Results
Ho H <sub>1</sub>	The effect of Market orientation (+) significantly on Product Innovation	4,83*	1,98	Rejected Ho and Receive H <sub>1</sub>
Ho H <sub>2</sub>	There is not directly effect of Market orientation significantly on the Business performance	1,06	1,98	Receive Ho and rejected H <sub>2</sub>
Ho H <sub>3</sub>	There is effect of the Product Innovation (+) significantly on the Business Performance	7,35*	1,98	Rejected Ho and Receive H <sub>3</sub>
Ho H <sub>4</sub>	There is indirectly effect of Market orientation (+) significantly on the Business Performance through product innovation	4,04*	1,98	Rejected Ho and Receive H <sub>4</sub>

Resource: *Output Path Analysis Software Lisrel 8.54*

Description : Star Notation (\*) = Significantly effects

Table 6 : Directly and Indirectly effect between Variable : X1,X2, and Y

Effects of Variable	Direct Effect ( $\hat{\rho}$ )	Indirect effect through X2	Total
X1 toward X2	0,46*		0,46
X1 toward Y	0,09		-
X2 toward Y	0,44*		0,60
X1 toward Y	-	$\hat{\rho} = 0,28^*$	0,28

Resource : Data of Researcher, 2019  
 Notation (red ) : not significant

Table 7 : Causal Value  $\hat{\rho}_{xy}$  and Correlation  $r_{xy}$ ;  $R^2$

Relation of Variable XY	$\hat{\rho}_{xy}$	$r_{xy}$	$R^2$
X1 with X2	0,46*	0,593	35,16 %
X1 with Y	0,09	-	-
X2 with Y	0,44*	0,60	36 %
X1 with X2 to Y	0,28*	0,593	-

Resource : Data of Researcher, 2019  
 Notation (red number) : not significant

Table 8 : Data Significant of Path Coefficient Test

Hypo Thesis	variable	$\hat{\rho}$	T - count	tab.05	Conclusion	Results Ho
H1	$X_1 \rightarrow X_2$	0,46*	4,83	1,98	Th > Tt	Rejected
H2	$X_1 \rightarrow Y$	0,09	1,06	1,98	Th < Tt	Receive
H3	$X_2 \rightarrow Y$	0,60*	7,35	1,98	Th > Tt	Rejected
H4	$X_1 \rightarrow Y$	0,28*	4,04	1,98	Th > Tt	Rejected

Resource : Processing Data, 2019

### Results of Hypothesis Test by Using the Path Analysis Model

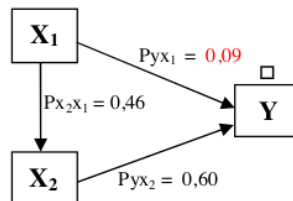


Figure 4.2. : Path Model

Description :  
 X1 = Market Orientation  
 X2 = Product Innovation  
 Y = Business Performance  
 P = Path Coefficient

Resource : Path Analysis, Riduwan 2007

To determine the magnitude of the causal influence calculated using the path coefficient ( $\hat{\rho}_{xy}$ ). After the calculation using Lisrel 8.54, a summary of the path coefficient calculation results is obtained as shown in table 5 and table 6 of the causal values above. Based on data from the results of hypothesis testing in table 7: Test Results for Significance of Path Coefficients, the results of hypothetical testing are as follows:

**There is a direct influence of the Market Orientation on the Product Innovation.**

The first hypothesis of this study is that there is a positive and significant direct effect of Market Orientation on Product Innovation with a path coefficient of  $\hat{\rho} = 0.46$  at  $\alpha = 0.05$ . where T-count = 4.83 > 1.98 (t-tab.05) which means that Ho is rejected and H1 is accepted stating there is a significant influence of Market Orientation on Product Innovation.

This study shows that the increase in market orientation activities in the Bank's business has a significant direct impact on increasing the intensity of product innovation, which is proportionally proportional to the magnitude of the influence path coefficient of ( $\hat{\rho} = 0.46$ ). This finding means that the organization's efforts to market orientation will encourage the development of product innovation faster than a bank in Jakarta. Theoretically, market orientation is the behavior of employees in the organization in gathering market information and disseminating information throughout the individual company and willing to accept input from customer or bank customer proposals. Efforts to find markets that have not yet been served, and mobilize resources in an organizational context, will encourage companies to focus on making changes and internal innovations that encompass interfunctional, competitor intelligence, and value creation of each individual in the organization in order to gain competitive advantage. In addition, market orientation can motivate individual organizations to become innovators in responding to change. In addition, market orientation can contribute to a management culture that facilitates employees in making commitments and doing business transformation for the benefit of bank customers.

The results of this study are consistent with research conducted by Aristin Nikmah (2015), namely Market Orientation and Product Innovation have a positive and significant impact on competitive advantage which in turn will improve company performance, where the contribution is partially by 30%, 28% and 28, 9% while simultaneously 31.5%.

#### **There is not a significantly Market Orientation Effect on the Banking Business Performance.**

The second hypothesis of this study is to provide results that are not enough evidence Market orientation is positive and significant influence on the performance of banking business with a path coefficient of  $\hat{\rho} = 0.09$  and T-count 1.06 < t-tab.05 = 1, 98.

The results of this study are not enough evidence that the data from market orientation research results significantly influence the performance of the banking business. This gives an indication that the marketing strategy adopted by banking institutions in Jakarta is not effectively implemented. Or bank customers are less transparent in providing information about bank products, how do they need, for example, making more attractive products such as credit cards and time deposits made more attractive to bank customers, especially in expediting transactions.

The results of this study contradict the research conducted by Sensi Tri Buana Dewi (2006), whose research results indicate that market orientation is more dominant in influencing competitive advantage to improve marketing performance.

#### **There is a direct Effect of the Product Innovation on the Banking Business Performance**

The third hypothesis of this study is that there is a significant positive direct effect of Product Innovation on banking business performance with a path coefficient of  $\hat{\rho} = 0.60$  at  $\alpha = 0.05$  where T-count = 7.35 > 1.98 (T-tab.05 ) which means Reject Ho and accept H3 which states that there is a positive and significant direct effect on product innovation on the performance of the banking business.

The results of this study are in accordance with the theory of Sensi Tri Buana Dewi (2006), that Product Innovation influences competitive advantage which in turn will improve marketing performance. Tri Buana Dewi argues that individuals have different levels in wanting to adopt innovative products or services. He categorizes these individuals (adopters) into 5 levels based on their value orientation and motives in adopting or rejecting new products. The majority of people belong to the early majority group, namely groups of people who adopt technology only when the technology is useful and has been widely adopted by other users.

The results of this study are consistent with research conducted by Tri Buana Dewi in transactions.

#### **There is indirectly the Effect of Market Orientation on the Banking Business Performance through the Product Innovation**

The fourth hypothesis testing results in this study indicate that there is a significant positive indirect effect of market orientation on business performance through product innovation with path coefficients of  $\rho = 0.28$  and  $\alpha = 0.05$  where  $T\text{-tunt} = 4.04 > 1.98$  ( $T\text{-tab}.05$ ) which means rejecting  $H_0$  and accepting  $H_4$  which states that there is a significant positive indirect effect of market orientation on the performance of the banking business through product innovation.

The results of testing this hypothesis are consistent with research conducted by Adelina Agnes Lopian, Jam Massie and Imelda Ogi, (2016: 1330) that there is a simultaneous and significant influence of market orientation and product innovation on marketing performance. In the context of banking business performance, if the bank's business organization adopts various variations in market orientation and more diverse product innovation actions, it will have a significant positive impact on the performance of the banking business which tends to increase, both financial performance and non-financial performance.

From the results of the above research it can be synthesized that changes or variations that appear in improving the performance of the banking business can be influenced by market orientation and product innovation factors, as well as other factors. Therefore, in order to improve the performance of the banking business, things that need to be considered are market orientation and product innovation factors, while other factors such as environmental uncertainty need to be considered in preparing the strategic planning of the banking industry organization in DKI Jakarta province.

## **V. CONCLUSION**

Conclusion from this study indicate that there is a direct influence on positive and significant market orientation on product innovation. On the other hand market orientation is not enough evidence to give a significant positive influence on the performance of the banking business. Whereas Product innovation has a positive and significant direct effect on the performance of the banking business. Meanwhile market orientation has an indirect influence on the performance of the banking business through product innovation. The limitation in this study is the research sample which is only limited to the leadership of the management unit in three randomly selected banks from 50 banks in Jakarta. Further research is suggested to examine other factors that can affect the performance of the banking business such as credit card product innovation, Safe Deposit Boxes, Bank Cards, ATM Cards, Giro, Deposits, etc.



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