Optimization of Speed Innovation on the Influence of Customer Orientation on Market Performance

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Kata Kunci: Inovasi Kecepatan, Orientasi Pelanggan, Kinerja Pasar, Pemasaran

Abstract. The number of Small and Medium Enterprises (SMEs) is a business group that is an important part of national economic development. The number of SMEs continues to grow but is not matched by the increase in the marketing performance of these SMEs. This research was conducted to optimize speed innovation as a mediation between customer orientation and market performance. We used 172 samples based on 302 existing populations using stratified random sampling. The research method used in analyzing the relationship between the three variables is Partial Least Squares - Structural Equation Modeling (PLS-SEM). The results of data processing show that speed innovation can mediate customer orientation in improving the market performance. This study contributes to explaining the determinants of market performance for SMEs. The results of this study show that SMEs depend on customer orientation and innovation speed to improve market performance. Customer orientation is proven to improve market performance. Customer orientation has a positive effect on SMEs performance.

Keywords: Speed Innovation, Customer Orientation, Market Performance, Marketing.

Introduction

The level of prosperity of a country can be seen from the economy they have. The economic structure in a country affects the level of institutional performance, structural learning, income distribution, and the direction of the political transition (Constantine, 2017). During the last 25 years, there have been many global studies on the behavior of company employees who interact with customers (Schepers & Borgh, 2020). Entrepreneurs must deal with the implications of the new age when it comes to developing business openings (Nuryakin, 2018). Competition in the business world is growing dramatically, requiring business people to use external sources to
find out customer needs (Taghizadeh et al., 2018). External partnerships may offer some advantages to a business (Leischnig & Geigenmüller, 2018). Through development relationships with external partners, the company can build a sustainable chain of innovation and collaboration management (Silvestre, 2015; Niu et al., 2020). Businesses can further enhance their product innovation.

Customer orientation improves the performance of small businesses (Mehrabi et al., 2012). The term is used by a salesman to sell in a customer-oriented manner (Satgunalingam et al., 2017). Although marketing proactivity is critical to the success of a business in the market, not all companies have the same level of proactive marketing (Gotteland et al., 2020). Customer orientation is often criticized as a barrier to the innovation process (Racela, 2014). Whereas with a customer orientation, it will be easier for business people to make a product innovation. Two distinct aspects of customer orientation, business orientation, and feature alignment, have a positive impact on product innovation (Aydin, 2020). Meanwhile, market orientation here serves as a source of understanding of the market in the environment and contributes to the development of technological capabilities that can influence innovation by business people (Jung et al., 2014; Zhou & Wu, 2009). These two things are related to each other to improve market performance.

Innovation is a strong precursor to making economies and societies and continuing sustainable development (Shen et al., 2020), one of which is China. China's phenomenal growth is not just another successful growth story, making it the country's largest transitional and developing economy (Deng & Treiman, 1997; Tong & McManus, 2017). This happens because China continues to innovate the products they have. During the last three decades, China has become the country with the most exports in the world with an annual growth rate of gross domestic product (GDP) of 10 percent (Fan et al., 2013; World Bank Group, 2020; Zhang & Zhu, 2016). Thanks to continuous innovation, this country continues to grow and has a considerable influence on the world market.

Innovation plays a role in technological development and a competitive economic environment (Farida, 2016). So they can continue to compete with other businessmen. For innovation to be successful, business people must know the mechanisms for obtaining information about customer expectations and needs. Innovation is an act of introducing something new, both in terms of work, ideas, or other aspects, into work patterns that can make a positive contribution to company performance (Harjadi et al., 2020). Innovation has proven to be the most important part of business growth and development and is a way to gain competitiveness in the market (Bigliardi et al., 2020). With this opportunity, businesses including SMEs must anticipate properly and correctly (Ramdansyah & Taufik, 2017). Because SMEs are the most important part in building the economic growth of a country (Irfan et al., 2014), and control 99% of the overall business and play a significant role in the economy (Buli, 2017).
The Financial Services Authority noted that the distribution of micro, small and medium enterprises (MSMEs) loans continued to grow towards the end of 2020. In 2021, there are 65 million SMEs spread across Indonesia and it is estimated that every year it will continue to increase (Christy, 2021). However, this is not in line with the increase in marketing performance. In research conducted by Aydin (2020), shows that to produce product innovation, a company needs to establish the right mechanism must be able to determine customers’ requirements and expectations. However, this research is only limited to adding technology that needs to be used in seeing customer desires. Concerning the impact of customer orientation on market performance, there is a substantial disparity in findings (Appiah-Adu & Singh, 1998; Yang & Zhang, 2018; Ribek, 2019). There are so many facts above that prove that innovation is proven to increase market performance. Therefore, the researcher intends to determine the speed of innovation on market performance.

Research Methods

This is a quantitative research project that discusses and applies the characteristic assumptions of Partial Least Squares Structural Equation Modeling (PLS-SEM) to SMEs, which is employed in the prediction of a variety of dependent variables from a large number of independent variables (Guebel & Torres, 2013; Mendy et al., 2019). Researchers took 172 samples based on 302 existing populations using the stratified random sampling method. The stratified random sampling method is a stratified sampling method by dividing the population into several subsections, then the sample is taken randomly from each of these subsections (Taherdoost, 2016). The subsection is a natural collection such as type, size, gender, and so on. It is intended to ensure that each part has been represented (Ackoff, 1953). The data obtained is based on distributing questionnaires to correspondents. The questionnaire is a data collection tool where respondents are asked to provide answers to several predetermined questions. Data is processed using the SmartPLS application which is the main software used in PLS-SEM so that it can find out the existing relationship between each variable (Jr. et al., 2016).

Testing the Fit Model is carried out in two stages, namely evaluating the outer model, also known as the measurement model, and evaluating the inner model (structural model). Then the results obtained will be tested for hypotheses, namely: a) the relationship between consumer orientation and speed creativity has a major positive impact, b) the association between consumer orientation and business orientation has a major positive impact, c) the association between innovation speed and business success has a major positive impact, d) the relationship between consumer orientation and business orientation, as well as innovation pace mediation, has a major positive impact.
Result and Discussions

Outer Model or Measurement Model

In conducting the Outer model test using PLS-based SEM, three criteria can be used, namely: Convergent Validity, Discriminant Validity, and Composite Reliability.

Convergent Validity

Convergent validity is used to measure the suitability between the indicators of variable measurement results and the theoretical concept that explains the existence of indicators from these variables. The outer loadings can be put to use to evaluate the convergent validity test. Outer loading is a table that shows the amount of the association between indicators and latent variables using loading factors. The weakest loading factor whose validity can be accepted is 0.6. Table 1 shows the outcomes of using SmartPLS to process data.

Table 1. Outer Loadings (Measurement Model)

<table>
<thead>
<tr>
<th>Customer Orientation</th>
<th>Innovation Speed_</th>
<th>Market Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO1</td>
<td>0.930</td>
<td></td>
</tr>
<tr>
<td>CO2</td>
<td>0.884</td>
<td></td>
</tr>
<tr>
<td>CO3</td>
<td>0.886</td>
<td></td>
</tr>
<tr>
<td>IS1</td>
<td>0.841</td>
<td></td>
</tr>
<tr>
<td>IS2</td>
<td>0.826</td>
<td></td>
</tr>
<tr>
<td>IS3</td>
<td>0.819</td>
<td></td>
</tr>
<tr>
<td>MP1</td>
<td></td>
<td>0.926</td>
</tr>
<tr>
<td>MP2</td>
<td></td>
<td>0.902</td>
</tr>
<tr>
<td>MP3</td>
<td></td>
<td>0.916</td>
</tr>
</tbody>
</table>

Source: Data processing results with SmartPLS

According to the results of SmartPLS processing (Table 1), all indicators have good quality because their loading factor is greater than 0.6. Therefore, the validity test with outer loadings has been fulfilled. This also shows that the measurement model has the potential to be tested further.

Discriminant Validity

The level of distinction of an indicator in measuring instrument constructs is referred to as discriminant validity. To be able to verify the accuracy of the information obtained, cross-loading checks are needed. Secara spesifik, koefisien korelasi indikator dengan konsep yang terkait (loading) against koefisien korelasi dengan konstruk lain (cross-loading). The indicator correlation coefficient's value must be higher than the associated construct of other constructs. This higher score suggests that an indicator is better suited to explaining associative structures than other constructs. The results of cross-loading from data processing with SmartPLS Table 2 shows the results.
Table 2. Cross Loading Value

<table>
<thead>
<tr>
<th>Customer Orientation</th>
<th>Innovation Speed</th>
<th>Market Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO1</td>
<td>0.930</td>
<td>0.664</td>
</tr>
<tr>
<td>CO2</td>
<td>0.884</td>
<td>0.683</td>
</tr>
<tr>
<td>CO3</td>
<td>0.886</td>
<td>0.561</td>
</tr>
<tr>
<td>IS1</td>
<td>0.654</td>
<td>0.841</td>
</tr>
<tr>
<td>IS2</td>
<td>0.574</td>
<td>0.826</td>
</tr>
<tr>
<td>IS3</td>
<td>0.541</td>
<td>0.819</td>
</tr>
<tr>
<td>MP1</td>
<td>0.370</td>
<td>0.406</td>
</tr>
<tr>
<td>MP2</td>
<td>0.168</td>
<td>0.153</td>
</tr>
<tr>
<td>MP3</td>
<td>0.204</td>
<td>0.374</td>
</tr>
</tbody>
</table>

Source: Data processing results with SmartPLS

Table 2 shows that numerous loading factor values for each latent variable's indicator still have the highest loading factor value when compared to the loading factor value when coupled with other latent variables. This means that not every latent variable has good discriminant validity, and some latent variables are nevertheless significantly linked with other components.

Composite Reliability

The dependability value of a construct, as well as the Average Variance Extracted (AVE) value of each construct, reveal the validity and reliability requirements. If the value is 0.70 and the AVE is greater than 0.50, the construct is said to have good reliability. The Composite Reliability and AVE values for all variables are shown in Table 3.

Table 3. Composite Reliability and Average Variance Extracted

<table>
<thead>
<tr>
<th></th>
<th>Cronbach's Alpha</th>
<th>rho_A</th>
<th>Composite Reliability</th>
<th>Average Variance Extracted (AVE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Orientation</td>
<td>0.885</td>
<td>0.904</td>
<td>0.928</td>
<td>0.811</td>
</tr>
<tr>
<td>Innovation Speed</td>
<td>0.773</td>
<td>0.780</td>
<td>0.868</td>
<td>0.687</td>
</tr>
<tr>
<td>Market Performance</td>
<td>0.908</td>
<td>0.989</td>
<td>0.939</td>
<td>0.836</td>
</tr>
</tbody>
</table>

Source: Data processing results with SmartPLS

The dependability value of a construct, as well as the Average Variance Extracted (AVE) value of each construct, reveal the validity and reliability requirements. If the value is 0.70 and the AVE is greater than 0.50, the construct is said to have good reliability. The Composite Reliability and AVE values for all variables are shown in Table 3.

Assessing the Inner Model (Structural Model)

The inner model test, also known as the structural model, is used to examine the link between the constructs, the significant value, and the research model's R-square. The significance of the structural route parameter coefficients and the R-square for the dependent construct of the t-test was used to evaluate the structural model.
The R-square for each dependent latent variable is the first step in evaluating the model with PLS. The R-square value in Table 4 shows the results of data processing with SmartPLS.

**Table 4. Nilai R-Square**

<table>
<thead>
<tr>
<th></th>
<th>R Square</th>
<th>R Square Adjusted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation Speed</td>
<td>0.510</td>
<td>0.503</td>
</tr>
<tr>
<td>Market Performance</td>
<td>0.147</td>
<td>0.122</td>
</tr>
</tbody>
</table>

Source: Data processing results with SmartPLS

Based on Table 4, it can be shown that the value for each of the Innovation Speed variables is 0.510, and the Market Performance is 0.147. This condition shows that the 51% Innovation Speed variable is influenced by the Customer Orientation variable, while 49% is influenced by other variables. For the Market Performance variable, 14.7% is influenced by the Customer Orientation and Innovation Speed variables, and 85.3% is influenced by other variables. For example, such as entrepreneurial orientation, market orientation, learning orientation, and brand orientation.

**Hypothesis test**

**Table 5. Result for Inner Weight**

|                        | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | T (|O/STDEV|) | P Values |
|------------------------|---------------------|-----------------|-----------------------------|----------|----------|
| Customer Orientation  | 0.714               | 0.724           | 0.070                       | 10.142   | 0.000    |
|  > Innovation Speed    |                     |                 |                             |          |          |
| Customer Orientation  | 0.045               | 0.020           | 0.178                       | 0.255    | 0.799    |
|  > Market Performance  |                     |                 |                             |          |          |
| Innovation Speed       | 0.350               | 0.391           | 0.163                       | 2.148    | 0.032    |
|  > Market Performance  |                     |                 |                             |          |          |

Source: Data processing results with SmartPLS

In PLS, each predicted association is statistically tested using a simulation. The bootstrap approach is used on the sample in this scenario. Bootstrapping testing also aims to reduce the issue
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of erroneous study data. The following are the test results from the PLS analysis with bootstrapping:

**Hypothesis 1:**

The first hypothesis was tested, and the results revealed that the association between the Customer Orientation variable and Innovation Speed has a path coefficient of 0.714 and a significance level of 10.142. The table shows that this value is bigger than t. (1,960). This finding indicates that Customer Orientation has a positive and a t association with Innovation Speed, implying that the first hypothesis, that Customer Orientation supports Innovation Speed commitment, is correct. Hypothesis 1 describes the connection between customer orientation and innovation speed. The results of the study show that the better the customer orientation of SMEs, the more they contribute to speed innovation (Carbonell & Rodríguez Escudero, 2010). This confirms that Hypothesis 1 is correct.

**Hypothesis 2:**

The first hypothesis was tested, and the results suggest that the association between the Customer Orientation variable and Market Performance has a path coefficient of 0.045 and a t value of 0.255. This rate is lower than what is shown in Table (1,960). This result means that Customer Orientation has a positive and insignificant relationship with Market Performance which means it is not following the second hypothesis where Customer Orientation encourages commitment to Market Performance. Hypothesis 2 shows that customer orientation does not have a positive relationship with market performance. Customer orientation is a company resource, but in this case, customer orientation has no direct impact on the market's performance. This confirms that Hypothesis 2 failed to be accepted/rejected.

**Hypothesis 3:**

The correlation between the Innovation Speed variable and Market Performance has a path coefficient of 0.350 and a t value of 2.148, according to the findings of testing the first hypothesis. Table shows that this value is higher than t. (1,960). This finding indicates that Innovation Speed has a positive and significant link with Market Performance, ruling out the third hypothesis that Innovation Speed encourages Market Performance commitment. Hypothesis 3 proves that speed innovation improves market performance. This is in line with the findings of Taghizadeh, Rahman, and Hossain (2018) which states that the speed of innovation helps companies improve market performance. This confirms that Hypothesis 3 is correct.

**Hypothesis 4:**

The fourth hypothesis is being tested to see if the indirect effect exists of the Customer Orientation variable on Market Performance through Innovation Speed is done by first knowing the test results on the effect of Innovation Speed on Market Performance. The Sobel formula is used to evaluate the effect of mediation. The route coefficient value for examining the influence
of Innovation Speed on Market Performance is 0.350. 2.148 is the t value. The table shows that this value is bigger than t. (1.960). This hypothesis shows that the speed of innovation is very important in improving the market performance. The mediating role of knowledge for customers is enhanced by the speed of innovation, which is the most influential predictor of new service market performance (Hutahayan & Yufra, 2019). As a result of this finding, Innovation Speed has a strong beneficial impact on Market Performance (Taghizadeh et al., 2018).

The Sobel formula is used to test the effect of mediation between the intervening variables and the dependent variable. By using the Sobel formula, the t value is 2.091. The t value of 2.091 is more than 1.96 (indicating a positive and significant effect), indicating that the mediation parameter has a positive and significant effect. As a result, there is a positive and significant association between Customer Orientation and Market Performance, as well as Innovation Speed as an intervening component. Hypothesis 4 is thus accepted.

**Conclusion**

The findings show that Customer Orientation does not have an immediate effect on Market Performance in this study, but Customer Orientation with Innovation speed as mediation can increase Market Performance. This shows the important role of Innovation speed. Customer orientation has a positive correlation with innovation speed, while innovation speed has a positive correlation with customer orientation. These findings show the importance of Innovation speed to improve Market Performance in SMEs, in other words, Customer Orientation will have an impact on increasing Market Performance if through Innovation speed. This study contributes to explaining the determinants of Market Performance for SMEs. This reflects that SMEs depend on Customer Orientation and Innovation speed to increase Market Performance. Implications for further research by adding other resources as input such as brand orientation, learning orientation, entrepreneurial orientation as an effort to improve market performance.

**Reference**


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