THE ROLES OF MARKET ORIENTATION AND KNOWLEDGE COMPETENCY ON THE RELATIONSHIP BETWEEN INNOVATION AND BUSINESS PERFORMANCE

Ni Made Wahyuni[1], I Made Wardana[2], Gusti Ayu Ketut Giantari[3]

[1]Faculty of Economics, Warmadewa University, Jl. Terompong No. 24, Denpasar, Indonesia
[2,3]Faculty of Economics and Business, Udayana University, Jl. PB Sudirman, Denpasar, Indonesia
mdwahyuni17@gmail.com

ABSTRACT

The era of globalization characterized by technological advances that leads to uncertainty, changing customer preferences, demanding companies to protect themselves from the pressures of competitors (Ozkaya et al., 2015). Competition becomes the right tool and is the core of success when companies are able to adapt, change, and build a culture of innovation (Wong, 2013). The purpose of this study is to explain the contradictions of the relationship between innovation and business performance by offering quantitative analysis with the concept of market orientation and knowledge competence as the key factors of successful innovation and business performance in small and medium enterprises of the textile industry sector. Researchers formulate a PLS based structural equation model to explain the relationship between constructs. To test the research model, the analysis was done by collecting data from 70 small medium enterprises of textile industry in Bali Province. The research findings showed that knowledge competence is able to mediate the relationship between market orientation and innovation. The research findings indicate that innovation effect on business performance. Market orientation and knowledge competence can strengthen innovation. To achieve better business innovation and performance, companies must have market orientation and knowledge competencies. Research findings also indicates that companies that have strengths in market orientation and competence of knowledge will be able to increase innovation and business performance. The findings of the study have important implications for managers of small and medium enterprises (SMEs) industry in Bali, Indonesia and for the policy makers.

Keywords: Market orientation, knowledge competence, innovation, business

A. INTRODUCTION

The era of globalization characterized by technological advances that leads to uncertainty, changing customer preferences, demanding companies to protect themselves from the pressures of competitors (Ozkaya et al., 2015). Competition becomes the right tool and is the core of success when companies are able to adapt, change, and build a culture of innovation (Wong, 2013). Some organizations have gained sustainable competitive advantage through innovation capabilities and strive to improve other capabilities to deliver business performance.

Universally, innovation becomes the key to the company's survival, by making the company better and different than its competitors. Companies that are able to innovate will strive to achieve superior business performance (Ndubisi and Iftikhar, 2012). Business performance is the result of achievement of work performance or company goals (Hult et al., 2004). Among marketing, business performance appraisal indicators are marketing effectiveness by measures including sales growth, market share, and profit growth (Mavondo, 2005; Suliyanto and Rahab, 2012).

However, because innovation is so complex, there is still a contradiction between innovation and business performance. Darroch's (2005) study found an insignificant influence of innovation variables on business performance. The reason for this is that previously reported innovation studies did not take into account innovation items, but only consider the general category of innovation. The important role of innovation in relation to the company's competitive position, raises the curiousity to identify the decisive factors to increase the capacity of the company to innovate. The literature highlights the variables of market

orientation (Nasution et al., 2010; Zhang and Duan, 2010), and knowledge competence (Griese et al., 2012) as antecedents of innovation and its consequences to business performance. There is little effort to explore the antecedents and consequences of innovation (Camison and Villar-Lopez, 2011). Based on the abovementioned descriptions, the research questions are:

a. Does the market orientation affect the knowledge competence of SMEs in the textile industry?
b. Does the market orientation affect the SME's innovation of the textile industry?
c. Does knowledge competence affect SMEs' innovation of the textile industry?
d. Does innovation affect the business performance of SMEs in the textile industry?

B. LITERATURE STUDY AND HYPOTHESES

1. The relationship of market orientation and knowledge competence

The market orientation shows the tendency of the organization to understand the needs and desires of the organization in providing customer value. Willingness to provide superior value encourages organizational efforts to transform information into knowledge, by behaving and disseminating market information (Ozkaya et al., 2015). Information collected through customer orientation and competitor orientation, in turn allows the company to improve the competence of knowledge, skills, and values (Grinstein, 2008). Based on the description then the hypothesis is:

H1: Market orientation has a significant positive effect on knowledge competence.

2. The relationship between market orientation and innovation

The market orientation as an organizational culture is able to create innovation (Lin et al., 2008; Nasution et al., 2011). Organizational behavior of collecting market information leads to more accurate knowledge of market needs, and enable companies to adopt new ideas, products, processes, and services. Companies that use comprehensive information and knowledge as a result of market orientation allow companies to create innovative products (Chang and Li, 2015). Based on the description then the hypothesis is:

H2: Market orientation has a significant positive effect on innovation.

3. The relationship between knowledge competence and innovation

Theoretically and empirically, Atuahene-Gima and Wei (2010) examine the relationship between knowledge competence and new products at 396 high-tech enterprises in China. The results show that knowledge competence has an impact on the ability to create new products. Behavior conducts the process of generating and integrating the knowledge of customers and competitors, collaborating and communicating between R & D and marketing departments, and using market knowledge in product design will improve the company's response speed to customers in developing innovative product features. According to Chang et al. (2015), the ability of information acquisition capable of generating external knowledge will broaden the knowledge base, which will give a strong impetus to the creative behavior of employees in advancing the organizational tendency to innovate. Based on the description, the following hypothesis is proposed.

H3: Knowledge competence has a significant positive effect on innovation.

4. The relationship of innovation and business performance

Keskin (2006) in his study linking innovation and performance of SMEs in Turkey found a significant positive relationship between innovation and performance. Turbulence in the business environment, limited resources, and strong strengths from customers and suppliers force companies to innovate. If companies often try new ideas, develop new products, and innovate processes in the method of operation, the company will be more profitable, increasing growth, and widespread market share (Li et al., 2010). Based on the description, the following hypothesis is proposed:

H4: Innovation has a significant positive effect on business performance.

C. METHODOLOGY

1. Research design

This study uses quantitative approach, because it aims to test and to confirm the theory, to create relationships between variables, and to test the hypothesis. The research data was collected by survey method that tried to expose the attitudes and trends quantitatively by studying the sample. The analytical unit is a SMEs of the textile industry in Bali, with an observation units of the managers or owners of 125 participants (Bali Trade and Industry Office, 2015). Sample size determination technique using stratified proportional random sampling by obtaining 94 samples. For some reason, only 70 questionnaires were eligible for further analysis.

2. Measurement and data analysis

Market orientation is the culture and behavior of understanding the needs and desires of customers to create superior customer value (Narver and Slater, 1990; Raju et al., 2011; Wang and Chung, 2013). This variable is measured by 10 statements with three dimensions: customer orientation, competitor orientation, and inter functional coordination. Knowledge competence demonstrates the ability to transform information into knowledge (Ozkaya et al., 2015). This variable is measured by 3 statements adopted from Kandemir (2005) and Ozkaya et al. (2015). Innovation shows the ability of an organization to adopt ideas, processes, and products. The variables of innovation were measured by eight statements adopted from Lages et al. (2009), Nasution et al. (2011), Mahmoud et al. (2015). Furthermore, business performance shows the results obtained from the company's operations in which this business performance is measured by indicators adopted from Suliyanto and Rahab (2012) and Ndubisi & Iftikhar (2012).

D. RESULTS AND DISCUSSION

1. Validity and Reliability Tests

Based on confirmatory analysis, ten indicators of market orientation variables, three indicators of knowledge competence variables, innovation variables measured by product innovation and process innovation with a total of eight indicators, and three indicators of business performance variables have a loading factor seen from product moment correlation coefficient above 0.3, so all indicators are valid. The reliability test by measuring Cronbach 'alpha shows all the reliable variables, since the construct reliability is above 0.6 (Hair, et al., 1998).

2. Descriptive analysis

The results showed that the average score of respondents perceptions of market variables reflected by high customer orientation dimension with average score of 4.13, inter functional coordination with average score of 4.22, but the average score of competitor's orientation is less where the average score is 2.17. Knowledge competence obtains average score on high respondent perceptions of 4.10, product innovation and high process innovation with an average rating of 4.08 and 4.00, and for business performance, the average score is very high of 4.41.

3. Hypothesis testing and discussion

Hypothesis test using Partial Least Square (PLS) based SEM. Table 1 shows a positive relationship between market orientation and knowledge competence, with $\beta = 0.473$ and $p < 0.05$. Knowledge competence has a positive effect on innovation with $\beta = 0{,}515$ and $p < 0{,}00$; innovation has a significant positive effect on business performance with $\beta = 0{,}520$ and $p < 0{,}04$, but the effect of market orientation on positive innovation is not significant with $\beta = 0{,}109$ and $p > 0{,}182$.

Table 1: Direct effect and mediation effect

Effect	β	P value
Market orientation-> Knowledge competence	0.473	0.00
Market orientation-> Innovation	0.109	0.182
Knowledge competence-> Innovation	0.515	0.00
Innovation-> Business performance	0.520	0.04
Market orientation-> Knowledge competence-> Innovation	0.244	0.05

Source: Processed primary data.

E. CONCLUSIONS AND IMPLICATIONS

The findings of this research are highlighting the importance of the effect of market orientation on innovation indirectly through the mediation of knowledge competence. Textile industry SMEs in Bali has a high level of customer orientation and inter functional coordination, but competitor orientation is still lacking. By contrast, the relationship between market orientation and innovation is positive but not significant in the textile industry SMEs in Bali. The possible reasons are: first, customer orientation that is overly focused on current customer needs, by always following what the customer demands, without considering the needs of potential customers will slowly weaken the desire and ability of innovation. Secondly, there is still a lack of competitor orientation among industry of SMEs in observing the movement, strategy, competitor's strength in serving their customers, and their weakness.

The theoretical implications of the research, the study provides empirical research model verification of the impact of the concept of market orientation and knowledge competence on innovation and business performance relationships, and enriches the theory of resource based view (RBV) which suggests that market orientation, knowledge competence, and innovation ability as ability and intangible resources affect the competitive advantage and business performance (Barney, 1991). The findings of the study are also expected to contribute to a practical understanding the roles of innovation and business performance by strengthening market orientation and implementation of knowledge competencies. Finally, the future research may identify the practice of human resources and entrepreneurship of industrial SMEs to better understand the roles of market orientation and knowledge competencies in order to strengthen business innovation and performance.

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