Effect of Customer Orientation and Competitor Orientation on New Product Development of Woven Products: The Role of Innovation Possibilities

Jamilah¹; Dwi Putra Buana Sakti²; Lalu Edy Herman²,³

¹ Master of Management Study Program Faculty of Economics and Business, Mataram, Indonesia
² Faculty of Economics and Business, Universitas Mataram, Indonesia
³ Postgraduate, Mataram University, Indonesia

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Abstract

The purpose of this research is to find out the significance of the influence of Customer Orientation, Competitor Orientation, and Innovation Capability to New Product Development, as well as knowing the role mediation of the Innovation Capability variable on weaving products. New products have a very important role in maintaining business sustainability. New customer-centered product development is a product development that focuses on finding solutions to solve customer problems and provide a more satisfying experience for customers. To stay competitive and survive in the market, companies need to improve innovation capability. The population of this study is all owners of weaving products enterprises, which the exact number is certainly known, with the number of samples is 112 respondents. This research uses structural equation modeling (SEM analysis) with the smartPLS application. The results showed that Customer Orientation and Competitor Orientation have a significant positive effect on Innovation Capability, then Competitor Orientation and Innovation Capability has a significant positive effect on New Product Development, while Customer Orientation does not significantly affect New Product Development. For the mediating influence of Innovation Capability, there is a fully mediating role in the significant influence of Customer Orientation on New Product Development. Meanwhile, on the influence of Competitor Orientation towards New Product Development, there is a partial effect of mediation found.

Keywords: Customer Orientation; Competitor Orientation; Innovation Capability; New Product Development

Introduction

New products play a very important role in employment, economic growth, technological progress, and high living standards. In recent decades, the number of new product introductions has increased dramatically as the industry has become more aware of the importance of new products to businesses. When developing a new product, the company must adopt a comprehensive approach that focuses on the
customer. New product development aimed at customers is a new product development that focuses on finding solutions to solve customer problems and provide a more satisfying experience for customers. When planning new product development and competitive service, meeting customer needs becomes an important requirement in a market orientation (Li & Cheng, 2017).

Market orientation as an organizational culture emphasizes the use of broad collaboration to create superior values for its customers, to outperform competitors, and ultimately to generate more profit for the company (Li, 2010). In the concept of market orientation, the sale of a product does not depend on how the sales strategy is applied, but rather on how consumers determine the decision to buy the product. When executing marketing dossiers, three main categories need to be implemented, namely the collection of market information, the dissemination of information, and the response to that information (Kohli & Jaworski, 1990). Narver and Slater (1990) also suggested that market orientation has three core components, namely customer focus, competitor focus, and mutual coordination. But in the past few decades, customer focus and competitiveness have become the key points in predicting a company's success.

Customer focus and competitiveness encompass all activities involved in obtaining information about buyers and competitors in the target market and its dissemination throughout the company (Narver & Slater, 1990). Companies that implement a market-oriented organizational culture and have a good understanding of the needs of customers and competitors will be better able to develop their innovation opportunities in response to untapped customer needs (Huhtala, Sihvonen, Frösén, Jaakkola & Tikanen, 2014). To remain competitive and survive in the market, companies need to improve their innovation capacity. To improve innovation capacity, companies must have the knowledge and the ability to spread it (Verde, Castro & López, 2011). Besides, innovation ability is also a very important element for companies to improve high competitiveness in both national and international markets (Saunila, 2016). The main focus of management in the company is to promote and maintain better innovation opportunities (Çakar & Ertürk, 2010).

Weaving Craft is a type of small and medium-sized enterprise that produces various types of woven fabrics with equipment that is still simple. Weaving is one of the cultural works produced in different regions of the archipelago. One of the centers of the weaving craft industry in West Nusa Tenggara is located in East Lombok, right in the Pringgasela district. In 2016, the number of business units in the Pringgasela district was the highest number of centers. Pringgasela traditional Gedogan weaving crafts are hereditary businesses run by a group of women. The Gedogan Weaving is one of the traditional handicraft industrial heritage of Lombok that is still maintained by the next generation. To complete the weaving process, weavers' perseverance, accuracy, and high perseverance are required to produce a good weave.

Currently, Pringgasela weaving craft has started developing its products by creating unique products by different motifs from most other weaving products. The raw materials used in making this Gedogan weaving are yarns obtained from markets and shops and self-professed coconut fibers. In addition, the coloring process with natural ingredients from plants is the characteristic of this woven handicraft product.

The prospect of the development of Gedogan weaving crafts in Pringgasela is showing increasing results. The construction of the showroom as a marketing center and center for the development of woven fabric is a form of attention for the local government. On the other hand, the focus on target markets is also becoming their top priority, by understanding how current market needs are constantly changing into motivation for business groups to create new innovations to meet market needs. But in the middle of its development, this weaving product still has several obstacles and challenges. The woven textile product itself is not just any piece of fabric but has a historical philosophy from the village of Pringgasela. But when you see the opportunities out there, there are still many business actors who don't understand the
taste of consumers by adhering to the principles of fabric making inherited from the time of their ancestors. Although this is sometimes inconsistent with the development of the current era.

As explained above, Pringgasela Village woven fabric has a very unique feature that is not yet available in other regions but still requires quality improvements such as increasing the width of the fabric. In addition, The Gedogan weaving faces intense international competition over time and overtime. Where the craft industry is still struggling to market its products due to tourists' lack of purchasing power for the weaving product itself due to many tourist attractions more attractive to tourists.

**Literature Review**

1. **Market Orientation**

   The term market orientation was put forward by Kohli and Jaworski (1990) as a form of application of the concept of marketing, which means that a company with a market orientation culture is a company whose activities are consistent with the marketing concept. Meanwhile, according to Narver and Slater (1990), market orientation is the most effective organizational culture in creating key behaviors to create superior value for customers and business performance. There are three components in the market orientation, including customer orientation, competitor orientation, and mutual coordination.

2. **Relationship between Customer Orientation and New Product Development**

   Business strategies that tend to reflect customer focus include the development of high-quality new products that can be accepted by consumers. A company with a strong culture of customer focus can be superior to its competitors and achieve superior new product development performance because it can better adapt products to customer's needs and predict customer demand (Zhang & Yang, 2018). According to Feng, et.al. (2012), customer focus can increase the effectiveness of new product development and accelerate the speed of new product launches. Wong, et.al., (2012) explained that customer focus has a positive and significant impact on new product successes, we're a customer-focused company that strives to serve its customers well is a company that is not only capable of developing products to meet the needs of the customer but also meets the product that the customer wants.

3. **Relationship between Competitor Orientation and New Product Development**

   A small business needs to understand how their competitors are because the orientation of competitors is closely related to the development of new products. In addition, they also need to know when and why customers buy from competitors and also what attracts them to competitive products (O'Dwyer & Ledwith, 2015). Competitiveness is important for new product development because "about 30 percent of new product ideas come from competitive product analysis" (Kotler, 2006). Companies that ignore competitors' culture of orientation may not realize when competitors develop better products to completely change markets and competitive modes (Wong & Tong, 2012). According to Ghorbani, et.al., (2013), competitor orientation has a positive relationship with the success of new product development. This shows that, in addition to paying attention to the needs and wishes of customers, companies should always follow their competitors. In addition to customers, companies also need to monitor what competitors are doing to meet market needs. In this way, the company can succeed in the process of developing new products.

4. **Relationship of Innovation Capability with New Product Development**

   Product development and innovation enable companies to gain competitive advantage, attract new customers, retain existing customers, and strengthen links with their distribution networks (Chandra &
Neelankavil, 2008). New product development depends on how an innovation's ability to develop initial concepts and new ideas towards the final commercialization of new products comes to market (Zhu, Xiao, Dong & Gu, 2019). New product development is a company's success stage in new product introduction, financial, and market performance, which is one of the results of innovation (Liu, Ko, Ngugi & Takeda, 2017). By developing innovation capacity, companies are expected to gain experience by continuously undertaking activities related to the development of new products and developing a deeper understanding of how to carry out these activities effectively and efficiently (Ngo & O'Cass, 2012).

5. **Relationship between Customer Orientation and Innovation Capability**

By monitoring customer needs, companies are encouraged to think about creative concepts and new ideas to find approaches, new products, and services that cannot be made public by customers (Brockman, Jones & Becherer, 2012). A study by Racela (2014) stated that the capacity for creativity and innovative capacity can develop in a customer-oriented company. Customer focus plays an important role in enhancing the capabilities that create knowledge that is dynamic abilities and plays a valuable role in building innovation as asset excellence. The same was stated by Racela, et.al., (2019) that a customer-oriented company is able to increase the creativity and innovation capacity of the organization, which can also increase the company's sales and financial performance. They also explained that there is a positive relationship between customer focus, creativity, innovation capacity, and business performance depending on company size, market dynamics, and type of customer.

6. **Relationship between Competitor Orientation and Innovation Capability**

Most studies of market orientation components state that a competitor's orientation culture can improve innovation capabilities. Indeed, competitiveness can help companies develop products that can be distinguished from competitive products that will motivate innovative product development (Huhtala, Sihvonen, Frösén, Jaakkola & Tikanen, 2014). According to Serna, et.al., (2013) the orientation of competitors has a positive relationship with the level of innovation in the SME industry, where a number of relevant SMEs carry out activities related to the collection of information about products and services offered by competitors, such as established advertising and promotional strategies in the market, may also enable SMEs to go beyond their competitors in the marketing of new products and services. From research by Ozkaya et.al. (2015) shows that competitive orientation directly influences innovation. Moreover, the results of this research also show that there is a positive relationship between the competence of customer and competitor knowledge on market-based innovation.

**Method**

This type of research used in this study is causal research. According to Silalahi (2010: 33), "causal research is research that aims to determine the causal relationship of two or more variables." The type of research used in this study is expected to be able to analyze how the impact of customer focus, competitiveness, and innovation power on the new product development of MSME woven products.

The population of this study is the manager/owner of Gedogan's weaving mill in the village of Pringgasela, East Lombok Regency. The sampling technique in this study uses non-probability sampling, which is a sampling technique that does not provide an equal chance or opportunity for any element or member of the population to be selected in samples. According to Malhotra (2014: 366), targeted sampling is a technique for sampling, on the basis of certain considerations, which are considered to be appropriate with the characteristics of the particular sample to be sampled. The following are the sample characteristics determined by the researcher: 1) Manager or owner of a weaving company; 2) Setting up a weaving company for at least the last 3 years. According to Hair et al (2010), the number of samples is at least 5 times the number of indicators. Hair et al (2010) also suggested that the appropriate sample size
ranged from 100-200 respondents. In this study there are 16 indicators, the required sample size is 16 x 7 = 112 samples. This study uses structural comparison modeling with the use of SmartPLS.

Result and Discussion

1. Data Analysis

Data processing techniques with SEM based on the PLS method require two phases when assessing the Fit model from a research model (Ghozali, 2008). There are three criteria when using data analysis techniques with SmartPLS to assess the outer model, namely convergent validity, discriminatory validity, and composite reliability.

Convergent validity of the measurement model with reflexive indicators is assessed based on the correlation between item scores or component scores estimated with SmartPLS software. Individual reflexive measurements would be high if they correlate more than 0.70 with the measured variable. But according to Chin (1998) in Ghozali (2008) for early-stage research, the scale of load values 0.50 to 0.60 is considered to be quite appropriate. In this study, a load factor limit of 0.60 is applied.

Outer model values or correlations between indicators with variables that meet convergent validity because they have a load factor value greater than 0.60 can be further analyzed, while those that do not meet the criteria will not be included in further analysis. All research indicators related to customer focus, competitiveness, innovation capability, and new product development variables have an external load value greater than 0.60. Indicator "Improving existing products by adding width and length to fabric" (Y2.01) and then indicators "Adding new designs to customer requirements" (Y2.02) and indicators "In addition to woven fabric, other handicraft products" (Y2.03) is the strongest measure of the overall research variable because it has the largest external load value (0.923) and is an indicator of the new product development variable. Therefore, be stated that the eighteen research indicators are valid indicators as a measure for research variables. Based on the outdoor load test, all indicators in the study are known to meet the criteria for the specified outdoor load value of at least 0.600, so all indicators can be used for further analysis.

Discriminant validity is performed to ensure that every concept of each latent variable is different from the other variables. The model would have good discriminant validity if each load indicator value of a latent variable has a load value greater than the load value if correlated with other latent variables.

It can be explained that the results of the analysis of customer focus, competitiveness, innovation capacity, and new product development variables have mean variance extracted (AVE) values of more than 0.50. This means that the latent variable in this study can explain more than half of the variants of the indicators. Discriminant validity of the reflective model is evaluated by cross-loading and then comparing the AVE value to the square of the correlation value between constructs (or by comparing the square root of AVE to the correlation between constructs). The magnitude of cross-loading is to compare the correlation of indicators with the constructs and constructs of other blocks. If the correlation between indicators and constructs is higher than the correlation with other block constructions, this shows that the construct better predicts the size of their blocks than other blocks. Another measure of discriminant validity is that the root value of AVE must be higher than the correlation between constructs and other constructs or that the value of AVE is higher than the square correlation between constructs. Thus, all variables have AVE root values that are higher than the correlation coefficient between one variable and other variables, so it can be said that research data regarding the impact of customer focus, competitiveness and innovation ability on the development of new products from Gedogan weaving business owners in Pringgasela Village have good discriminatory validity.
The validity and reliability criteria can also be derived from the reliability value of a variable and the mean variance extraction (AVE) value of each variable. Variables have a high reliability if the composite confidence value is greater than 0.70 and AVE is greater than 0.50. All variables meet the composite reliability because the value is higher than the recommended number (> 0.70), which means that all study variables meet the reliable criteria. Based on the results of the overall evaluation, both convergent validity, discriminant validity, and composite reliability as described, the latent variable indicators used are valid and reliable meters.

![Figure 1. Structural Model](image)

Testing the inner model or the structural model is done to see the relationship between variables, significance values, and the R-square of the research model. The structural model is evaluated using R-square for the dependent variable, t-test, and the significance of the coefficient of structural path parameters.

From Figure 1, it can be explained that the covariance of indicator measurement is influenced by latent structures or reflects variations of unidimensional structures depicted in a circle with different arrows from construct to indicator. This model assumes that changes in latent structures influence changes in indicators. In the model there are two exogenous variables, namely customer focus, and competitor orientation, one endogenous variable is innovation and one limited endogenous variable is new product development.

The assessment of the model with PLS starts by looking at the R square for each latent dependent variable. Changes in R squared values can be used to assess the effect of certain exogenous latent variables on endogenous latent variables with substantial effects. Table 1 shows the results of the R-squared estimate with SmartPLS.
Table 1. R-Square Values

<table>
<thead>
<tr>
<th>Variabel</th>
<th>R-Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation Capability (Y₁)</td>
<td>0,453</td>
</tr>
<tr>
<td>New Product Development (Y₂)</td>
<td>0,787</td>
</tr>
</tbody>
</table>

Table 1 shows the R-squared value of the innovation power variable 0.453 and the development of new products 0.787. The higher the value of R-squared, the greater the power of these exogenous variables can be explained by endogenous variables, so that the structural equations built in the research model are better. The Innovation Capability variable has an R-squared value of 0.453 (average), meaning that 45.30 percent of the Innovation Capability variant can be explained by customer focus and competitor focus variables, while the rest is explained by other variables outside the study model. The New Product Development variable has an R squared value of 0.787 (strong), meaning 78.70 percent of the New Product Development variant can be explained by the Customer Orientation, Competent Orientation, and Innovation Capability variables, while the rest is explained by other variables outside the research model.

Table 2. Result for Inner Weights

<table>
<thead>
<tr>
<th>Variable</th>
<th>Original Sample</th>
<th>Standard Deviation</th>
<th>T-Statistics</th>
<th>P-Values</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>(X₁) → (Y₂)</td>
<td>0,081</td>
<td>0,080</td>
<td>1,012</td>
<td>0,312</td>
<td>Rejected</td>
</tr>
<tr>
<td>(X₂) → (Y₂)</td>
<td>0,200</td>
<td>0,088</td>
<td>2,286</td>
<td>0,022</td>
<td>Accepted</td>
</tr>
<tr>
<td>(Y₁) → (Y₂)</td>
<td>0,684</td>
<td>0,069</td>
<td>9,886</td>
<td>0,000</td>
<td>Accepted</td>
</tr>
<tr>
<td>(X₁) → (Y₁)</td>
<td>0,325</td>
<td>0,143</td>
<td>2,270</td>
<td>0,024</td>
<td>Accepted</td>
</tr>
<tr>
<td>(X₂) → (Y₁)</td>
<td>0,520</td>
<td>0,168</td>
<td>3,099</td>
<td>0,002</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

Table 2 provides an estimated output for testing structural models.

2. Discussion

Test results on the parameter coefficient between customer focus and new product development showed a positive relationship with a coefficient value of 0.081 with a t-statistical value of 1.012 and a significance of 0.312. The t-statistic value below the critical value of 1.960, so Hₐ is rejected, meaning there is no significant customer focus impact on new product development on the owner of Gedogan weaving mill in Pringgasela Village. It states that Customer focus is not the most important determinant of the woven or non-woven fabric of New Product Development. If a high customer focus can only have a small impact on the development of new products on the owner of the Gedogan weaving company in Pringgasela Village.

The test results on the parameter coefficient between competitor orientation on development of new products from the owner of the Gedogan weaving mill in Pringgasela Village showed a positive relationship with a coefficient of 0.200 with a t-statistical value of 2.286 and a meaning of 0.022. The t-statistic value is above the critical value of 1.960, so Hₐ is accepted, which means that there is a significant influence of the competitive orientation on the development of new products on the owner of the Gedogan weaving mill in Pringgasela Village. High and low of new product development can be determined by the high and low competitive orientation, the higher the competitive orientation, the new product development is higher and vice versa if the competitive orientation is low, then new product development in the owner of Gedogan weaving mill in Pringgasela Village is also low.
Test results on the parameter coefficient between innovation capacity and new product development showed a positive relationship with a coefficient value of 0.684 with a t-statistical value of 9.886 and significant at $\alpha = 0.050$. The t-statistic value is above the critical value of 1.960, so $H_a$ will be accepted if the test results show that innovation ability has a positive and significant effect on new product development on the owner of the Gedogan weaving mill in Pringgasela Village. This means that the increase in innovation capacity influences the development of new products on the owner of the Gedogan weaving mill, and vice versa, if the innovation capacity is considered low/less/not good, the impact on the development of new products on the owner of the Gedogan weaving mill in Pringgasela Village are lower.

Test results on the parameter coefficient between customer focus and innovation capacity showed a positive relationship with a coefficient value of 0.325 with a t-statistical value of 2.270 and significant at $\alpha = 0.050$ with a significance value of 0.024. The t-statistic value is above the critical value of 1.960, so $H_a$ is accepted, meaning there is a significant influence of customer focus on innovation ability on the owner of Gedogan weaving business in Pringgasela Village. This states that one of the determining factors for whether or not to innovate the innovation capacity of the owner of the Gedogan weaving company in Pringgasela Village is the customer focus of woven fabrics. If the customer focus is high, the innovation capacity of the owner of the Gedogan weaving company in Pringgasela Village is high, and vice versa, if the customer focus is low, the innovation capacity of the owner of the Gedogan weaving company will also be low.

Test results on the parameter coefficient between competitor orientation and innovation ability showed a positive relationship with a coefficient value of 0.520 with a t-statistical value of 3.099 and significant at $\alpha = 0.050$ with a significance value of 0.002. The t-statistic value is above the critical value of 1.960, so $H_a$ is accepted, which means that there is a significant influence of the competitive orientation on the innovation ability of the owner of the Gedogan weaving mill in Pringgasela Village. High and low innovation capacity of Gedogan weaving mill owners can be determined by the high and low competitiveness, the higher the competitive orientation, the innovation capacity of Gedogan weaving mill owners in Pringgasela Village is higher and vice versa if the competitive orientation is low, it is innovation capacity of the owners of Gedogan weaving mills in Pringgasela Village is also lower.

**Conclusion**

The results of this study conclude some important conclusions. First, the results of this study indicate that customer focus has a positive and not significant effect on the development of new products. Second, the orientation of competitors has a positive and significant effect on the development of new products. From this research, it can be concluded that the owners of Gedogan's weaving mill really need competitiveness to be applied to each of its products to achieve the high development of new products. Thirdly, innovation capacity has a positive and significant effect on the development of new products. Based on the findings in this study, it can be explained that innovation ability is indeed very important in influencing the level of new product development. The higher the innovation capacity of the owners of the Gedogan weaving mill in Pringgasela Village, the higher the development of new products. And the fifth is that customer orientation and competitiveness indirectly have a positive and significant effect on the development of new products through innovation. This means that the higher the customer focus and competitor orientation applied in Gedogan woven fabrics, the higher the innovation capacity will ultimately improve the development of new products owned by the owner of the Gedogan weaving mill in Pringgasela Village.
Suggestion

In order to improve the development of new products, the company can continue to improve the quality and new innovations, so that later Gedogan woven fabric products can be the best benchmark compared to other similar woven products. In improving the development of new products from Gedogan woven fabrics, producers need to be better able to demonstrate and demonstrate that the products they offer use truly environmentally friendly materials and that the production process always pays attention to environmental sustainability.

For further research to develop and use more independent variables that influence innovation capacity as predictors because the two independent variables (customer focus and competitor focus) contribute only a moderate percentage value (45.30 percent). The following researcher can use other factors that are not used in the research model. This R-squared value may increase later by adding several additional variables that are not used in this study. In addition, researchers can then involve many respondents, because the larger the number of samples or approaching the population, the smaller the chance of generalization errors, so that it can lead to more accurate research conclusions.

References


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