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## The Effect of Product Innovation and Market Orientation on Competitive Advantage and Company Performance in the Small and Medium Furniture Industry in Pekanbaru City

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Salamah Umami <sup>1</sup>, Daulay Iwan Nauli <sup>2</sup>, Asrilisyak Sharnuke <sup>3</sup>

[ummi.student0947@student.unri.ac.id](mailto:ummi.student0947@student.unri.ac.id)<sup>1</sup>, [iwan.nauli@lecturer.unri.ac.id](mailto:iwan.nauli@lecturer.unri.ac.id)<sup>2</sup>, [sharnuke.asrilisyak@lecturer.unri.ac.id](mailto:sharnuke.asrilisyak@lecturer.unri.ac.id)<sup>3</sup>

Department of Management, Faculty of Economics and Business, University of Riau

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ARTICLE INFO	ABSTRACT
Accepted: Completed by the IJEBA team. Revised: Completed by the IJEBA team. Approved: Completed by the IJEBA team.	The purpose of this research is to knowThe Effect of Product Innovation and Market Orientation on Competitive Advantage and Company Performance in the Small and Medium Furniture Industry in the city of Pekanbaru. In this study consists of four variables. Those variables areProduct Innovation (X1) Market Orientation (X2) on Competitive Advantage (Y1) and Company Performance (Y2). The data analysis method uses the Quantitative Descriptive method with the Path Analysis tool, with the help of using a statistical application, namely SPSS version 23. The results show that: 1) Product innovation has a significant effect on competitive advantage. 2) Product innovation has a significant effect on company performance. 3) Market orientation has a significant effect on competitive advantage. 4) Market orientation has a significant effect on company performance. 5)Competitive advantage has a significant effect on company performance. 6) Product innovation has a significant effect on company performance through competitive advantage. 7) Market orientation has a significant effect on company performance through competitive advantage.
Keywords: Product Innovation, Market Orientation, Competitive Advantage, Company Performance	

### INTRODUCTION

SMI growth is the main focus of the government of each country because SMI growth determines the success of SMI business and is very important for the country's economic development. So it is expected that the growth of IKM will be better and each IKM can compete with its competitors. Competition that occurs makes business actors must understand market developments and changes, and understand consumer desires so that they can compete and can improve company performance.

Changing market conditions mean that marketing dynamics have an impact on changes in customer tastes. Market changes like this require companies to

innovate products in order to maintain the continuity of the company and obtain profits for the company (Tjiptono, 2008).

Product innovation is very important for SMEs to face an uncertain business environment, with very high uncertainty from technological developments and changes in customer demand. Innovation is a broad and multidimensional concept that refers to all scientific activities both in technology, finance, organization and commercial that lead to the application of new products by enhancing them technologically and new changes from a product (Promas, 2015).

In addition to Product Innovation, Market Orientation is also one way to achieve competitive advantage and improve company performance. Market orientation is explained as a company's response to customer needs and tastes (Narver & Slater, 1990). Murray et al (2011) strengthen the relationship between market orientation and company performance by stating that market orientation has a significant influence on three performance indicators, namely financial performance, strategic performance, and product performance. Dubihlela and Dhurup (2015) state that there is a significant positive effect between market orientation on company performance. Rodriguez and Morant (2016) also argue that there is a positive relationship between market orientation and company performance

In addition to market orientation, competitive advantage is also a factor that differentiates a company from its competitors and gives the company its own position in the market (Kusuma, 2017). Competition is a situation where companies show their respective advantages in reaching customers (Setyawati, 2015). Competition in the IKM business world must be able to improve its quality so that its products have competitive advantages. Quality products are an important thing that must be owned by companies, because consumers will usually compare the products they get with other similar products. So that by having a quality product it can make a company have a competitive advantage.

In Pekanbaru there are many types of IKM, one of which is the IKM Industry with Furniture products. Furniture or commonly referred to as furniture is a product that is needed in the household, so furniture should not become a rare item because it is needed by the community. Furniture products have the potential to be developed considering the comparative advantage that this industry has has the added value of increasing the skills of the workforce.

For large companies, product innovation, market orientation and competitive advantage are sustainable market strategies according to changing needs in order to maintain company performance. However, many small companies or IKM, especially furniture, still do not understand the importance of product innovation and competitive advantage for sustainable business continuity.

Apart from looking at data on furniture production capacity in Pekanbaru City, we can also see whether the company's performance is good or not through the turnover they get or sales data from the Furniture IKM. For sales data can be seen in (appendix 3). From the sales data, only 21 furniture IKMs experienced an increase in sales from 2021-2022. The highest sales increase was only 8.6%, and the lowest sales increase was 1.5%. Meanwhile, 46 other IKMs experienced a decline in sales in 2021-2022. The highest decrease was (-11.4 %) and the lowest decrease was (-0.3 %)

From the description of the background of the previous problem, a problem can be formulated as follows:

1. Does product innovation have a significant effect on competitive advantage in IKM Furniture in Pekanbaru?
2. Does product innovation have a significant effect on company performance at IKM Furniture in Pekanbaru?
3. Does market orientation have a significant effect on competitive advantage in IKM Furniture in Pekanbaru?
4. Does market orientation have a significant effect on company performance at IKM Furniture in Pekanbaru?
5. Does competitive advantage have a significant effect on company performance at IKM Furniture in Pekanbaru?
6. Does product innovation have a significant effect on company performance through competitive advantage at IKM Furniture in Pekanbaru?
7. Does market orientation have a significant effect on company performance through competitive advantage in IKM Furniture in Pekanbaru?

In accordance with the formulation of the problem above, the objectives of this study are:

1. To find out whether product innovation has a significant effect on competitive advantage in IKM Furniture in Pekanbaru.
2. To find out whether product innovation has a significant effect on company performance at IKM Furniture in Pekanbaru
3. To find out whether market orientation has a significant effect on competitive advantage in IKM Furniture in Pekanbaru.
4. To find out whether market orientation has a significant effect on company performance at IKM Furniture in Pekanbaru.
5. To find out whether competitive advantage has a significant effect on company performance at IKM Furniture in Pekanbaru.
6. To determine the effect of product innovation on company performance through competitive advantage at IKM Furniture in Pekanbaru.
7. To determine the effect of market orientation on company performance through competitive advantage in IKM Furniture in Pekanbaru.

## **LITERATURE REVIEW**

### ***Company performance***

According to Mangkunegara (2013) performance is the result of work in quality and quantity achieved by employees in carrying out their duties in accordance with the responsibilities given to these employees. Performance is the result obtained by an organization, both the organization is profit oriented and non-profit oriented which is produced within a predetermined period of time (Fahmi, 2017).

Company performance is a description or condition of the company in which these conditions are the result of management activities. Company performance can be measured using financial analysis tools. The information used to measure company performance is taken from financial reports or other reports. This is done to find out the good and bad of a company which will later reflect

work performance in a certain period. The company performance indicators according to Rahayu (2016) are as follows:

1. Increased sales
2. Increased profits
3. Satisfying company growth

### ***Competitive Advantage***

According to Sunyoto (2015) competitive advantage is a company's success because it is able to differentiate the products it produces from competing products. The resulting product has key characteristics in capturing consumers so that it becomes a special product.

According to Santy (2016) a competitive advantage is obtained if the company implements a value creation strategy that is not simultaneously implemented by existing competitors or potential competitors. According to Atmadja (2016) indicators of competitive advantage are as follows:

1. Price
2. Product quality
3. Delivery Dependability
4. Differentiation
5. Time to market

### ***Product Innovation***

According to Kotler (2016) product innovation is a combination of various processes that influence one another. According to Hubeis (2012) product innovation is new product knowledge, which is often combined with new things to form unknown production methods. According to Hubeis (2012) innovation is a change or big idea in a set of information related to input and output.

Trustorini (2017) innovation is defined as the ability to apply creativity in order to solve problems and opportunities to improve and enrich life (innovation is the ability to apply creative solutions to those problems and opportunities to enhance or to enrich people's lives). According to Bahren (2018) there are 5 indicators of product innovation as follows:

1. Develop a new product with a technique that is totally different from before.
2. Developing products with raw materials that are totally different from before.
3. Modify existing products
4. Modify existing raw materials.

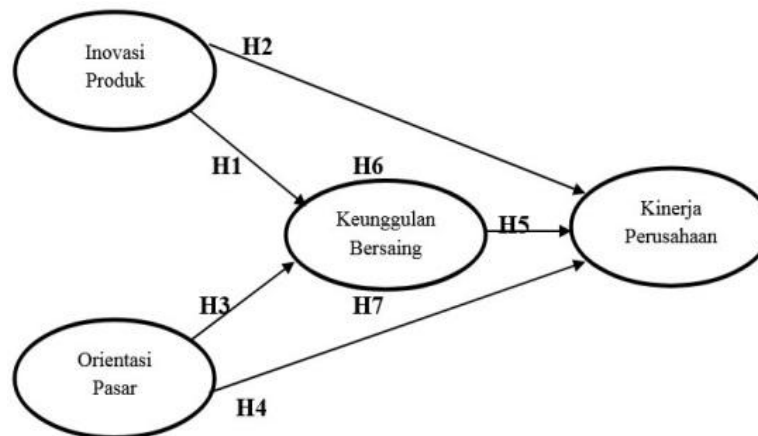
### ***Market Orientation***

According to Bharadwaj Varadarajan and Jayachandran (1999) "Market orientation is a set of concrete actions that enable companies to maintain variations in market demand and supply and provide appropriate responses to various changes that occur." Market-oriented strategic planning is a managerial process of developing and maintaining organizational objectivity, skills, and resources as well as changes in market opportunities. The aim of this strategy is to shape the company's business and products so that they are able to achieve profit and growth targets.

Market orientation seen from a behavioral perspective shows three important actions, namely efforts to produce market intelligence (dissemination of the intelligence) to all departments, and responsiveness (responsiveness) throughout the organization to follow up on market intelligence results (Kohli Ajay K and Bernard J. Jaworski, 1993) . This organizational responsiveness includes responsiveness to design. For example, using market intelligence to develop marketing plans and responses to implement them. According to Narver and Slater (1995) market orientation indicators are as follows:

1. Customer orientation
2. Competitor orientation
3. Market information.

### **Framework**



**Figure 1 Research Model**

## **METHOD**

### **Research methods**

This research was conducted in Pekanbaru. Research time starts from November 2022 until completion. Where in this study the population was all IKM Furniture in Pekanbaru. Researchers took a sample of 2 people from each IKM, namely the owner and manager of each IKM. So the total sample is 134 people.

According to Sugiyono (2015) the sources and types of data used in this study are:

- a. Primary data
- b. Secondary Data

According to Sugiyono (2015) the data collection techniques for this research are as follows:

- a. Observation
- b. Study of literature
- c. Interview
- d. Questionnaire or Questionnaire

The data analysis method performs research testing can be done using the SPSS tool.

## **Research Results and Discussion**

Based on data processing that has been done using SPSS 23 software, it can be concluded that the Product Innovation variable (X1) has a significant effect on Competitive Advantage (Y1). Product Innovation (X1) has a significant effect on Company Performance (Y2). Market Orientation (X2) has a significant effect on Competitive Advantage (Y1). Market orientation (X2) has a significant effect on company performance (Y2). Competitive Advantage (Y1) has a significant effect on company performance (Y2). Product Innovation (X1) has a significant effect on Company Performance (Y2) through Competitive Advantage (Y1). Market Orientation (X2) has a significant effect on Company Performance (Y2) through Competitive Advantage (Y1). Thus a more detailed explanation will be described as follows:

### ***Effect of Product Innovation on Competitive Advantage***

The test results using SPSS 23 software show that Product Innovation has a significant effect on Competitive Advantage. Obtained t count of Product Innovation variable (X1) of  $2.216 > t \text{ table } (1.978)$  and significance  $(0.000) < 0.05$ . This led to the acceptance of H1 which stated that Product Innovation had an effect on Competitive Advantage. This indicates that Competitive Advantage is influenced by innovations made by companies on their products so as to increase the company's competitive advantage. The more frequent the company's innovations, the more it will affect its competitive advantage in the market.

### ***Effect of Product Innovation on Company Performance***

The test results using SPSS 23 software show that product innovation has a significant effect on company performance. The t count of Product Innovation variable (X1) is  $4.381 > t \text{ table } (1.978)$  and a significance  $(0.000) < 0.05$ . This causes H2 to be accepted which states that Product Innovation has an effect on Company Performance. This indicates that company performance is influenced by innovations made by companies on their products so that they can improve company performance.

The more frequent innovations made by the company, the more it affects the company's performance.

### ***The Effect of Market Orientation on Competitive Advantage***

The test results using SPSS 23 software show that Market Orientation has a significant effect on Competitive Advantage. Obtained t arithmetic variable Market Orientation (X2) of  $3.693 > t \text{ table } (1.978)$  and significance  $(0.000) < 0.05$ . This causes H3 to be accepted which states that Market Orientation has an effect on Competitive Advantage. This indicates that Competitive Advantage is influenced by the company's orientation towards the market so that it can increase the company's competitive advantage.

More often Market Orientation carried out by the company will increasingly affect the company's competitive advantage.

#### ***The Effect of Market Orientation on Company Performance***

The test results using SPSS 23 software show that market orientation has a significant effect on company performance. Obtained t arithmetic variable Market Orientation (X2) of  $4.296 > t \text{ table } (1.978)$  and significance  $(0.000) < 0.05$ . This results in the acceptance of H4 which states that Market Orientation has an effect on Company Performance. This indicates that company performance is influenced by market orientation carried out by companies so that they can improve the performance of their companies.

More often Market Orientation carried out by the company, the more it affects the company's performance.

#### ***The Effect of Competitive Advantage on Company Performance***

The test results using SPSS 23 software show that Competitive Advantage has a significant effect on Company Performance. Obtained t arithmetic Competitive Advantage variable (Y1) of  $3.253 > t \text{ table } (1.978)$  and significance  $(0.000) < 0.05$ . This led to acceptance of H5 which states that Competitive Advantage affects Company Performance. This indicates that the Company's performance is influenced by the Competitive Advantage owned by the company so that they can compete and improve the performance of their company. Better Competitive Advantage owned by the company, the more it affects the company's performance.

#### ***The Influence of Product Innovation on Company Performance Through Competitive Advantage***

The test results using the Calculation Sobel Test show that Product Innovation has a significant effect on Company Performance through Competitive Advantage. This led to the acceptance of H6 which stated that Product Innovation affects Company Performance through Competitive Advantage. This indicates that company performance is influenced by innovations made by companies on their products so as to increase the company's advantage in competing in the market so as to improve company performance. The more often innovations are carried out by the company, the more it will affect the company's competitive advantage so that it will also affect the company's performance.

#### ***The Effect of Market Orientation on Company Performance Through Competitive Advantage***

The test results using the Calculation Sobel Test show that Market Orientation has a significant effect on Company Performance through Competitive Advantage. This led to the acceptance of H7 which states that Market Orientation affects Company Performance through Competitive Advantage. This indicates that the Company's performance is influenced by Market Orientation which is carried out so as to increase the company's advantage in competing in the market thereby increasing the company's performance. More often Market Orientation carried out by the company will increasingly affect the company's competitive advantage so that it will also affect the company's performance.

## **Conclusions and recommendations**

### **Conclusion**

Based on the results of the research that has been carried out through the stages of data collection, data processing and data analysis regarding the overall analysis, this study examines the effect Product Innovation and Market Orientation towards Competitive Advantage and Company Performance, so that the following conclusions are obtained:

1. Product innovation has a significant effect on Competitive Advantage. Competitive Advantage is influenced by innovations made by companies on their products so as to increase the company's competitive advantage. The more frequently a company innovates, the better the company's competitive advantage can be created.
2. Product Innovation has a significant effect on Company Performance. Company performance is influenced by innovations made by companies on their products so that they can improve company performance. The more frequent innovations made by the company, the better the company's performance.
3. Market Orientation has a significant effect on Competitive Advantage. Competitive Advantage is influenced by the company's orientation towards the market so that it can increase the company's competitive advantage. More often Market Orientation carried out by the company, the better the company's competitive advantage.
4. Market orientation has a significant effect on company performance. Company performance is influenced by Market Orientation carried out by companies so that they can improve the performance of their companies. More often Market Orientation done by the company, the better the company's performance.
5. Competitive Advantage has a significant effect on company performance. Company performance is influenced by the Competitive Advantage owned by companies so that they can compete and improve the performance of their companies. Better Competitive Advantage owned by the company, the better the company's performance.
6. Product Innovation has a significant effect on Company Performance through Competitive Advantage. Company performance is influenced by innovations made by companies on their products so as to increase the company's advantage in competing in the market so as to improve company performance. The more often innovations are carried out by the company, the better the company's competitive advantage so that the company's performance will also be better.
7. Market Orientation has a significant effect on Company Performance through Competitive Advantage. Company performance is influenced by Market Orientation which is carried out so as to increase the company's advantage in competing in the market thereby increasing company performance. More often Market Orientation carried out by the company, the better the company's competitive advantage so that the company's performance will also be better.



### ***Suggestion***

Based on the results of the research and discussion, several suggestions can be given as follows:

1. For companies, it is better for companies to innovate more often on the furniture products they have and also always carry out market orientation so that the furniture products they have are always with the latest models and designs so that buyers are more interested in buying and can further increase the company's sales and then the company's performance will improve. Good.
2. For future researchers, it is better to add variables to be studied, for example future researchers can add digital marketing variables in future research. so the research will be more detailed.

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