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# THE EFFECT OF STRATEGIC INNOVATION AND MARKET ORIENTATION ON MARKETING PERFORMANCE WITH COMPETITIVE ADVANTAGE AS A MEDIATION VARIABLE AT PT PUPUK ISKANDAR MUDA

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#### **ABSTRACT**

This research aims to test The Competitive Advantage role as Mediation on the Strategy Innovation and Market Orientation effect on Marketing performance at PT Pupuk Iskandar Muda. The population was marketing employees at PT. Pupuk Iskandar Muda totaling 125 people. The sample used was 125 people who were taken using the census technique. The model was tested using Structural Equation Modeling (SEM). The result shows Strategic Innovation affects Advantage, Market Orientation affects Advantage, Strategic Innovation affects Marketing Performance, Market Orientation does not affect Marketing performance, Advantage affects Marketing performance, Advantage partially mediates the Strategic Innovation effect on Marketing performance, and Advantage fully mediates the Market Orientation effect on Marketing performance. These findings prove that the marketing performance improvement model at PT Pupuk Iskandar Muda is a function of increasing innovation and strengthening orientation towards the existing market so that it can have an impact on increasing product superiority in its competition. This tested model can be the basis for strengthening the theory and the combination of these verified models becomes a unified whole academic marketing performance model.

**Keyword:** Marketing performance, Competitive Advantage, Strategic Innovation, and Market Orientation.

#### 1. INTRODUCTION

Business competition requires companies to further improve the company's marketing performance (Puspitasari, 2015). PT Pupuk Iskandar Muda is a subsidiary of PT Pupuk Indonesia (Persero) which is engaged in the urea fertilizer industry and other chemical industries, is the first urea fertilizer factory in Indonesia built by Indonesian sons and daughters with the national contractor PT Rekayasa Industri, as the first large-scale project entrusted by the Government to national contractors. The marketing performance of PT Pupuk Iskandar Muda shows an unfavorable number where sales continue to decline from 1988-2018.

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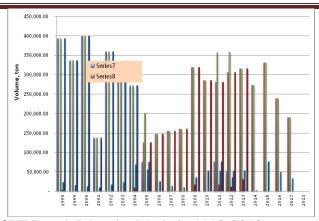


Figure 1. Sales Chart of PT Pupuk Iskandar Muda in 1998-2018

(Narastika & Yasa, 2017) "state that to win the competition, simply building a competitive advantage is not enough. Innovation is a company mechanism to adapt to a dynamic environment to create service performance that satisfies customers and improves marketing performance. The research results of (Naqbi, Alshurideh, Alhamad, & Kurdi, 2020)"show that innovation affects marketing performance. (Narastika & Yasa, 2017) state that innovation affects organizational performance. The results of the initial survey indicate that the strategic innovation variable is not good because the average value is 3.40 (less than 3.41). This indicates that the company's strategic innovation has not been maximized.

The next factor is market orientation. The higher the market orientation, the higher the marketing performance to be achieved. This statement is supported by (Mulyaniida & Mudiantono, 2015) who states that market orientation affects marketing performance. This is the same as (Narastika & Yasa, 2017) research showing the results that Market Orientation affects marketing performance. The results of the initial survey show that the market orientation variable is not good because the average value is 3.39 (less than 3.41). This indicates that the company's market orientation has not been maximized so far.

The next factor is a competitive advantage. Advantage affects marketing performance. In previous research, (Narastika & Yasa, 2017) stated that market orientation affects marketing performance. (Usvita, 2015), and (Hajar & Sukaatmadja, 2016) found the results that advantage affects marketing performance. "The important key to winning the competition lies in the company's ability to create an advantage by understanding market needs and continuing to innovate so that the products produced are in line with market developments and needs." Innovation is the process of turning an opportunity into a marketable idea. A company can gain greater benefits if they develop, communicate, and explore innovations that are appropriate to the market (Udriyah, Tham, & Azam, 2019).

Market orientation is the strategic planning of business units to meet market demands by paying attention to all functions in the company that can absorb important information related to matters affecting purchasing, inter-functional and inter-divisional decision-making strategies carrying out marketing activities (Herman, Hady, & Arafah, 2018). (Rokhman, 2019) stated that market orientation was able to improve marketing performance through competitive advantage. The

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results of the initial survey indicate that the advantage variable is not good because the average value is 3.40 (less than 3.41). This indicates that the advantage of company y is not maximized.

#### 2. LITERATURE

## **Marketing Performance**

Marketing performance is interpreted as a concept that is a measure of how far the marketing achievement of a product is produced by the company (Fatmawati, Pradhanawati, & Ngatno, 2016); (Mulyaniida & Mudiantono, 2015). Marketing performance is an effort made by the company to find out the needs, meet the needs and tastes of consumers (Naqbi et al., 2020); (Leal-Rodríguez & Albort-Morant, 2016). According to (Lestari, M.Stats, & Riani, 2015), and (Sain, 2019), performance is the process and result of work on the ability to manage resources. Performance can be measured through objective and subjective performance through perception. Marketing performance consists of five interrelated elements (Tjiptono, 2017) are as follows:

- 1. Market Research
- 2. Product Planning
- 3. Pricing
- 4. Distribution system
- 5. Marketing communications (promotion)

Market research is having a market to serve. This is based on factors of perception of product function and technological groupings that can be predicted and dominated, limited internal resources that have pushed or focused a narrower focus. Cumulative experience that has been based on trial and error in seizing the opportunities and capabilities challenges stemming from access to scarce resources and potential markets. The measurement of marketing performance is a description of the marketing activities of the products or services carried out by the company (Barcelona, Tumbel, & Kalangi, 2019). Marketing performance is Marketing Performance in terms of marketing aspects. (Iskandar, Aprillianita, Sani, Irawan, & Hamidah, 2018) state that marketing performance can be measured through several indicators, namely:

- 1. Sales turnover is the result of selling the company's products within a certain period
- 2.Increase in sales, namely the increase in the number of sales from year to year or from time to time.
- 3. Sales return, namely the number of product sales that are returned (returned).
- 4. Marketing area coverage, namely the range of customer areas that can be served by the company.

## **Competitive Advantage**

In this study, competitive advantage will often be called advantage only. According to (Dalimunthe, 2017) competitive advantage is the ability of businesses to create advantages to compete with competitors. In a study by (Arbawa & Wardoyo, 2018), and (Dewi & Seminari, 2017) competitive advantage is the value to a company from the results of implementing its strategy so that the company has more value than its competitors. According to (Kotler & Keller, 2018) in compiling market offerings to deliver more value than competitors to try to win the same market, companies are required to get to know customers better and establish stronger relationships with customers. Companies must have an advantage over competitors, by offering superior value to consumers than competitors offer. To achieve a competitive advantage, companies must

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understand and analyze competitors and consumers. The competitiveness that every company seeking profit is not solely carried out and pursued. According to (Tambunan, 2021), the competitiveness of a company is determined by factors, seven of which are very important:

- 1.Skills or education level of workers
- 2.Entrepreneur skills
- 3. Availability of capital
- 4. Good organization and management system
- 5. Availability of technology
- 6. Availability of information
- 7. Availability of other inputs such as energy and raw materials

According to (Jati, 2014) the factors needed to create an advantage:

1.Basic of competition

The strategy should be based on a set of assets, skills, and abilities. These three things will support the ongoing strategy to maintain excellence.

2.In which market does the company compete (where do you compete)

The company needs to choose a target market that is following the strategy being implemented so that assets, skills, and abilities can support the strategy in providing something of value to the market.

3. With whom the company competes (whom you compete against)

The company must also be able to identify its competitors, whether the competitors are weak, moderate, or strong.

According to (Hajar & Sukaatmadja, 2016) there are 5 indicators, including the following:

- 1.A competitive price, is a low retail selling price, either a little or a lot, compared to the average retail selling price of competitors.
- 2. Opportunity exploration is identifying opportunities in new ways to develop existing resources.
- 3.Defense of competitive threats is the company's ability to survive from competitive threats to the survival and growth of the company
- 4. Flexibility is a concept of quickly responding to changes
- 5.Environment.
- 6.Customer relationship is a relationship to find out customer needs better than competitors in the hope of loyal customers.

Based on the description above, in this study, the measurement of competitive advantage is carried out using indicators presented by (Hajar & Sukaatmadja, 2016), namely competitive prices, exploration, defense of competitive threats, flexibility, and customer relations.

#### **Strategy Innovation**

According to (Karabulut, 2015) an innovation strategy must be consistent with the company's mission, vision, goals, and strategies. (Nduati, 2020), (Hittmár, Varmus, & Lendel, 2014), and (Kazinguvu, 2016) "argues that strategic innovation is the creation of growth strategies, new technologies, new services, new ways of doing things or a business model that changes the game and generates a significant new value for consumers, and customers. These roles come from business employees, managers, and also customers (Hittmár et al., 2014).

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According to (Perwiranegara, 2015), strategic innovation uses the following indicators.

- 1.Market Leadership Orientation: shows that market leadership can be seen from the company's orientation to enter the market.
- 2. Followership Innovation: is one in which a company enters early in the growth stage of the product life cycle and rapidly imitates the innovations of the pioneering company.
- 3. Source of Innovation: describes the implementation of innovation activities, whether the innovation idea comes from internal companies, external companies, or both. Internal sources of innovation have the meaning that the company entrusts to innovate both processes or products in the research and business divisions.
- 4.Investment rate: includes investment both in terms of financial investment, technology, and investment in human resources.

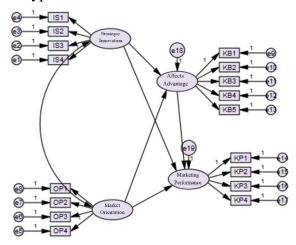
#### **Market Orientation**

(Šályová, Táborecká-Petrovičová, Nedelová, & Ďaďo, 2015) and (Slater & Narver, 1995) identified marketing orientation through the inclusion of three basic components, namely: customer orientation, The definition of market orientation according to (Sumiati, 2015) and (Jyoti & Sharma, 2013) is a business perspective that makes the customer the focal point of the company's total operations. Meanwhile, (Nurhasanah & Murwatiningsih, 2018) mentions that market orientation is an orientation concept that focuses on creating high values for consumers. The market orientation indicator in this study was measured according to (Haryono & Marniyati, 2017).

- 1. Customer orientation, i.e. the company focuses each product on customer needs
- 2. Market demand orientation, namely how the company prepares products according to market demand
- 3. Competitor information, namely the superiority of the company's products over competitors' products
- 4. Cross-functional coordination, namely good cooperation between the company and third parties in marketing products

#### **Model and Hypothesis**

The study framework and its hypothesis were formulated as follows.



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# Figure 2. Study Model

H1: Strategic Innovation affects Advantage,

H2: Market Orientation affects Advantage,

H3: Strategic Innovation affects Marketing Performance,

H4: Market Orientation affects Marketing performance,

H5: Advantage affects Marketing performance,

H6: Advantage mediates the Strategic Innovation effect on Marketing performance, and

H7: Advantage mediates the Market Orientation effect on Marketing performance

#### 3. METHOD

In this study, the population was all employees at PT. Pupuk Iskandar Muda totaling 125 employees. All members were taken as respondents (census method). This was carried out because the population was relatively small. The analysis method used structural equation modeling (SEM) (Hair, Hult, Ringle, & Sarstedt, 2016) through AMOS software. The data required/collected were primary data and secondary data. Before testing the hypothesis, a confirmatory factor analysis (CFA) test was conducted (Hair et al., 2016). And the hypothesis was tested with a structural model analysis test.

## 4. RESULT

The results are shown below.

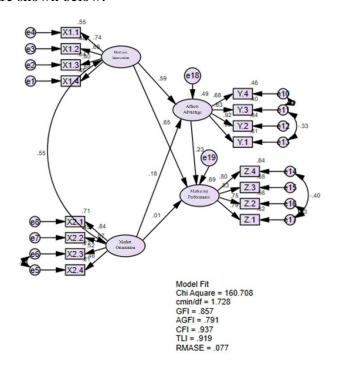


Figure 3. Structural Test

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After all the assumptions were met, The 8 hypotheses were carried out based on the Critical Ratio (CR) and P values as shown in Table 1 below.

**Table 1. Standardized Regression Weight** 

		Influence	Estimate	SE	CR	P	R-Square
Advantage affects	<	Strategy Innovation	0.586	0.077	4,377	0.000	0.493
Advantage affects	<	Market Orientation	0.182	0.069	2,584	0.043	
Marketing Performance	<	Strategy Innovation	0.649	0.114	4,516	0.000	
Marketing Performance	<	Market Orientation	0.007	0.112	0.074	0.941	0.692
Marketing Performance	<	Advantage affects	0.234	0.053	2,621	0.000	

Source: Primary Data Processed, (2022)

The statistical equations are formulated below.

Competitive Advantage = 0.586 Strategic Innovation + 0.182 EnvironmentMarketing Performance= 0.649 Strategy Innovation+ 0.007 Market Orientation + 0.234 Competitive Advantage

Based on Table 1, the R square for the Strategy Innovation and Market Orientation effect on Competitive Advantage is 0.493. This reveals that together the variables of Strategy Innovation and Market Orientation can explain the Advantage by 49.3%, while the remaining 50.7% is explained by other variables (outside this study).

The R square for the Strategic Innovation, Market Orientation, and Advantage effect on Marketing Performance is 0.692. This shows that together, the variables of Strategy Innovation, Market Orientation, and Advantage can explain the Marketing Performance by 69.2%, while the remaining 30.8% is explained by other variables (outside this study).

## **Strategy Innovation role in Advantage**

The results indicate that Strategic Innovation affects Advantage. "The magnitude of the Strategic Innovation effect on Advantage is 0.586 or 58.6%. This indicates that the better the Strategic Innovation will increase the Advantage. Competitive strategy is one of the strategies that can be used by business actors in facing competition. These advantages have two roles, namely as a tool to generate performance and as a tool to neutralize assets and competitive competencies owned by competitors. Several studies have stated that there is a relationship between competitive advantage and innovation. (Narastika & Yasa, 2017) are business actors who have competitive advantages and must have the ability to think creatively and innovatively.

## **Market Orientation role in Advantage**

The results indicate that Market Orientation affects Advantage. The magnitude of the Market Orientation effect on Advantage is 0.182 or 18.2%. This indicates that the higher the level of Market Orientation will increase the Advantage. (Udriyah et al., 2019) state that market orientation influences competitive advantage and marketing performance, as well as (Satwika & Dewi, 2018) state that market orientation and innovation can increase advantage and marketing performance. Research with different results by (Narastika & Yasa, 2017) states that market orientation does not have a significant effect on competitive advantage.

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#### **Strategy Innovation role in Marketing Performance**

The results indicate that Strategic Innovation affects Marketing Performance. "The magnitude of the Strategic Innovation effect on Marketing Performance is 0.649 or 64.9%. This explains that the higher the level of Strategic Innovation will further improve Marketing Performance. Innovation is a company mechanism to adapt to a dynamic environment to create service performance that satisfies customers and improves marketing performance. The result by (Narastika & Yasa, 2017) show that innovation affects marketing performance. (Nduati, 2020) states that innovation affects organizational performance. (Sain, 2019) states that innovation affects marketing performance. (Utaminingsih, 2014) states that innovation affects marketing performance. (Naqbi et al., 2020) stated that innovation affects marketing performance."

## **Market Orientation role in Marketing Performance**

The results reveal that Market Orientation does not influence Marketing Performance. The higher the market orientation, will not affect the marketing performance. So the companies need to strengthen their market orientation by setting up other variables. This statement does not support (Jyoti & Sharma, 2013) who states that market orientation affects marketing performance. This is the same as (Narastika & Yasa, 2017) research showing the results that Market Orientation affects marketing performance."

## **Advantage role in Marketing Performance**

The results explain that Advantage affects Marketing Performance. The magnitude of the Advantage effect on Marketing Performance is 0.234 or 23.4%. This reveals that the higher the Advantage will improve the marketing performance. In previous research, (Narastika & Yasa, 2017) stated that market orientation affects marketing performance, it explains that companies that carry out market orientation well will improve the company marketing performance. Usvita (2015) states that advantage affects marketing performance. Alimudin (2016) from his empirical evidence research states that advantage has a relationship with marketing performance. The research of (Hajar & Sukaatmadja, 2016) found the results that competitive advantage affects marketing performance.

#### Strategic Innovation role in Marketing Performance through Advantage

The results show that Advantage mediates the Strategic Innovation effect on Marketing Performance. (Sugiyarti, 2015) said the important key to winning the competition lies in the company's ability to create an advantage by understanding market needs and continuing to innovate so that the products produced are in line with market developments and needs. Innovation is the process of turning an opportunity into a marketable idea. A company can gain greater benefits if they develop, communicate, and explore innovations that are appropriate to the market (Udriyah et al., 2019).

## Market Orientation role in Marketing Performance through Advantage

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The results indicate that Advantage mediates the Market Orientation effect on Marketing Performance. Market orientation is the strategic planning of business units to meet market demands by paying attention to all functions in the company that can absorb important information related to matters affecting purchasing, inter-functional and inter-divisional decision-making strategies carrying out marketing activities (Herman et al., 2018). Rokhman (2019) stated that the orientation of the market can improve marketing performance through advantage

#### 5. CONCLUSION

The result reveals that Strategic Innovation affects Advantage, Market Orientation affects Advantage, Strategic Innovation affects Marketing Performance, Market Orientation does not affect Marketing performance, Advantage affects Marketing performance, Advantage partially mediates the Strategic Innovation effect on Marketing performance, and Advantage fully mediates the Market Orientation effect on Marketing performance. These findings prove that the marketing performance improvement model at PT Pupuk Iskandar Muda is a function of increasing innovation and strengthening orientation towards the existing market so that it can have an impact on increasing product superiority in its competition. This tested model can be the basis for strengthening the theory and the combination of these verified models becomes a unified whole academic marketing performance model. This model can be developed again with further research by adding new variables. Several recommendations for the research subject (PT Pupuk Iskandar Muda) were successfully mapped from the results of the study facts.

- 1) The Strategy Innovation variable has the lowest average value on the investment level indicator, which shows that companies do not always invest in product development research and enterprise. This can be input for companies to be active in developing research for product development so that they can compete in the market
- 2) The Market Orientation variable has the lowest average value on the market demand orientation indicator, which shows that the company does not always prepare products according to demand. This can be an input for company management to always actively prepare products according to market demand
- 3) The Competitive Advantage variable has the lowest average value on the indicator of customer relations, which shows that the company does not maintain a good relationship with customers. This can be input for company management to always maintain good relations with customers
- 4) The Marketing Performance variable has the lowest average value on the marketing area coverage indicator, which indicates that the employee's marketing area is too broad and cannot be easily reached properly.

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