Effect of Entrepreneurial Innovativeness Orientation, Product Innovation, and Value Co-creation on Marketing Performance

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Abstract- The aim of this study is to analyse the effect of entrepreneurial innovativeness orientation, product innovation, and value co-creation on marketing performance. Handicraft firms in Indonesia used as a sample. Sampling was done using purposive sampling technique. Data were collected using a questionnaire given directly to the respondent. The total data that can be further analysed as much as 192 respondents. Data analysis using Structural Equation Modelling - SEM with the AMOS program assistance. The results showed that the entrepreneurial innovativeness orientation has significant effect on product innovation. In addition, product innovation and value co-creation have a significant effect on marketing performance, and value co-creation to be a mediator in the relationship of product innovation and marketing performance.

Keywords: entrepreneurial innovativeness orientation; product innovation; value co-creation; marketing performance

1. INTRODUCTION

In an era of tight competition today, firms faced with the choice of innovative or die, therefore to sustain the survival of the firms, the company should choose to innovate (Madhoushi, Sadati, Delavari, Mehdivand, & Mihandost, 2011; Stock & Zacharias, 2010). Innovation plays a key role as a main driving force in economic development, and in the context of the company is considered as a vital source of innovation for strategic change by which a firm generates positive outcomes, including a sustained competitive advantage (Gunday, Ulusoy, Kilic, & Alkan, 2011; Salavou, 2004). Dunk (2011) stated that the firms’ ability to develop and market innovative products is consider as an effort to support their global competitiveness, and the evidence show that product innovation also facilitates new companies to enter the industry and gain competitive advantage. Nakata, Im, Park, and Ha (2006) argues that firms achieve competitive advantage through new product advantage, where the advantages of the new products seen on superior quality, value, and uniqueness that is contained in the product to meet the needs of the market compared with that provided by competitors. Therefore, as a consequence, product innovation is considered as very important for firm performance. Although it is generally, the product innovation accepted as the main key to achieving better performance, but still there are differences in the results of previous studies on the relationship between product innovation and firm performance. Koellinger (2008); Akgun, Keskin, and Byrne (2009); and Augusto, Lisbon, and Yasin (2011) conducted a study to examine the effect of product innovation on firm performance and found a positive and significant effect of product innovation on firm performance. In contrast, Lee (2010) and Cillo, De Luca, and Troilo (2010) found that product innovation does no significantly effect on firms performance. Based on the inconsistencies effect of product innovation and firm performance in the previous studies, this study conduct to analyze the role of value co-creation in mediated the relationship of entrepreneurial innovativeness orientation, product innovation, and marketing performance.

2. CONCEPT DEVELOPMENT AND HYPOTHESES

2.1 Entrepreneurial Innovativeness Orientation and Product Innovation

Lumpkin & Dess (1996) considers that innovativeness reflects the tendency of firms to implement and support new ideas, novelty, experimentation, and creative processes that producing the products, services, or processes of new technologies. Meanwhile, Hurley and Hult, (1998) and Hult, Hurley, and Knight (2004) confirm that innovativeness is the tendency of openness to new ideas as an aspect of organizational culture, which resulted in the innovation capacity of a firm’s ability to adopt or implement ideas, processes, and new products successfully. Salavou (2004) stated that the majority of researchers consider innovativeness of organization as a unidimensional phenomenon is seen in three aspects: first, technology-related aspects - that define innovativeness as the tendency of the firms to the adoption of new technology that represents the ability to adjust to the opportunities in the different environmental. The second aspect is the behavior-related, which indicates a change in behavior refers to the degree to which an individual or organization is relatively adopt new ideas, so innovativeness considered as the ability to generate new ideas and combinations of existing elements to create the
new source of value. And the third aspect is product-related of innovativeness as a reflection that defines the firm’s capacity to develop new products or services. Avlonitis & Salavou (2007) identifies product innovation into three dimensions, namely new product for customers, the new product for the company, and a unique new product. They argue that innovation is a condition that is inherent in the domain of entrepreneurship, therefore firm’s ability to successfully introduce new product should be considered in parallel. Furthermore, they stated that the adaptation to shift the view through entrepreneurship and success of product innovation is a major concern of the firms, in particular small and medium enterprises. Hausman (2005) used a qualitative approach to examine innovativeness in small business for the reason that the quantitative approach is sometimes less valuable in examining innovativeness on small businesses, because innovativeness in small business has different characteristics with large businesses, where innovation-oriented small firms more adopt the innovative products. In line with Hausman (2005), Cassia, De Massis, and Pizzurno (2012) used a qualitative approach and found the difference in the in innovation orientation of the family firms and non-family firms. The difference in innovation orientation is an important factor in the success of new product development. They found that family firms have a low level of propensity to innovation, while non-family firm has a high level of propensity to innovation, which proves that non-family firms are more successful than family firms in the development of new products. Previous studies conducted by Suomala and Jokioinen (2003), Verhees and Meulenberg (2004), Zhou, Gao, Yang, and Zhou (2005), Branzei and Vertinsky (2006), Naldi, Nordqvist, Sjoberg, and Wiklund (2007), Droge, Calantone, and Harmancioglu (2008), Baker and Sinkula (2007), Szymanski, Kroff, and Troy (2007), Solomon, Talke, and Strecker (2008), Saekoo and Ussahawanitchakit (2009), Rosenbusch, Brinckmann, and Bausch (2011) and Stock and Zacharias (2010) emphasizes the development of new products as an indicator for product innovation, while the approach to defining the concept of innovativeness of each of these different studies, where Suomala and Jokioinen (2003) emphasizes on innovation drivers, Zhou et al. (2005) and Branzei and Vertinsky (2006) refers to the innovation strategy, Naldi et al. (2007), Droge et al. (2008), Baker and Sinkula (2007), Solomon et al. (2008), Saekoo and Ussahawanitchakit (2009), Rosenbusch et al. (2011) and Stock and Zacharias (2010) refer to the orientation or inclination of innovation. The results of these studies found that the innovation orientation positively effect on new products development. It can be hypothesis:

**Hypothesis 1:** The higher the entrepreneurial innovativeness orientation, the higher degree of product innovation

### 2.2 Product Innovation and Marketing Performance

Tung (2012) states that product innovation is the introduction of new products on the market that use different technologies and have a high benefit to consumers than the existing product. Studies conducted Tung (2012) is to examine the effect of product innovation on firm performance and found that product innovation has a positive effect on firm performance. Further Tung (2010) argued that product innovation enables the product differentiation that provide consumers with a wide selection of products to select it, and ensure performance improvement through building the entire monopoly profit by satisfying consumer needs. Verhees, Meulenberg, and Pennings (2010) argued that product innovation is a consequence of the focus of the marketing managers in the pursuit of performance, because the level of product innovation will reflect the company's long-term prosperity. Studies conducted Verhees, Meulenberg, & Pennings (2010) proved that product innovation has a positive and significant effect on firm performance. Similarly Rosenbusch et al. (2011) using meta-analysis to examine the relationship of innovation and performance in small businesses. The results showed that the relationship of innovation and small business performance is highly dependent on the particular situation. Under conditions of resource scarcity, companies benefit from the innovation. They found an association of small business innovation and performance is moderated by factors such as age of the firm, the type of innovation, and the influence of cultural context. Lee (2010) states that product innovation is an alternative marketing strategy to support the firm's performance. Offering the innovative products, the firm can differentiate itself with its main competitors and potentially increase market demand, which in turn have a positive impact on firm performance. Lages, Silva, and Styles (2009) argued that product innovation that produces high quality products lead to positional advantages that drive end-user demand and able to pay at the premium price can result in increased revenue and margins. Furthermore, Akgun et al. (2009) explains that companies gain a competitive advantage and improve its performance by channeling resources into the development of new products, services, and processes. The results of the study Akgun et al. (2009) showed a positive impact on firm performance. Therefore:

**Hypothesis 2:** The higher the product innovation, the greater the firms marketing performance.

### 2.3 Product Innovation and Value Co-Creation

Vargo, Maglio, and Akaka (2008) states that value creation is a core purpose and central process of economic exchange. Value is co-created by this reciprocal and mutually beneficial relationship. Furthermore Pagani (2013) states that essentially the value creation as a contribution to the benefit of the end product or service, and the difference between benefits and costs charged by the company on the product or service. Value co-creation is a coalition of different economic actors for reconfiguration and integration competence to generate
shared value. Saarijärvi, Kannan, and Kuusela (2013) explain that the value co-creation has always two sides, which are value creation based on the perspective of corporate and customers. Both parties then provide resources in order to process of value creation by integrating the resources of each party through the mechanism of co-design, co-development, or co-distribution. Value creation is a concept which describes the firms’ efforts to delivers superior performance for the desired customers through innovation. Innovation enables companies to update their products with the attributes that ultimately meet the needs of customers more than existing products (O’Cass & Ngo, 2012; O’Cass & Sok, 2013). Van Horne, Frayret, and Poulin (2006) and Voelpel, Pierer, and Streb (2006) emphasized that the creation of more value can be gained through product innovation is not innovation process. Study of Yaşlıoğlu, Çalışkan, and Şap (2013), O’Cass and Sok (2013), and Parthasarathy, Chenglei, and Aris (2011) found that product innovation is an instrument to the creation of value. Therefore: 

**Hypothesis 3:** The higher the product innovation, the higher the level of value co-creation

### 2.4 Value Co-Creation and Marketing Performance

Payne, Storbacka, and Frow (2007) argue that the value creation process involving suppliers and customer to create value proposition, where customers determine the value when goods or services are consumed. Relevant superior value proposition to the target customers should be result in opportunities of the co-creation and generate a benefit or value. Successful in manage the value co-creation and exchange, firms can achieve revenue and profit maximization. Furthermore Edvardsson, Tronvoll, and Gruber (2010) states that essentially the process of creating value can be understood through the social structures and social systems are expressed through norms, values, and ethical standards guided by whether an interaction or relationship between individuals or groups can acceptable or not, which has implications for the process of exchange and mutual value creation. Aspara and Tikkanen (2012) stated that in the contemporary terminology, there are two approaches different strategies: value capture - strategies that ensure that the maximum value of the portion captured or provided by the firm itself in the form of profits, instead of members of the value chain or competitors. Meanwhile, value creation - as a strategy that refers to the value of the utility (benefit) in which products or other offers of the company created by the customer. They hypothesized that the emphasis on value capture strategies has a negatively affect on firms performance, while the emphasis on value creation strategy has a positive effect on firm performance. The results of the study Aspara and Tikkanen (2012) showed a positive and significant effect of the emphasis on value creation strategy on firm performance, while the emphasis on value capture strategies has no significant effect on firms performance. Similar results were also found by Sullivan, Peterson, and Krishnan (2012) that positively influence the value creation on firms’ sales performance. Haas, Snehota, and Corsaro (2012) highlights the value creation in business relationships between companies as a process of interaction, which is reflected in the four characteristics of the value creation process of togetherness, balance initiatives, interactive value, and the value of socio-cognitive construction that result in improved firm performance. O’Cass and Sok, 2013) emphasizes the role of strategic value creation from the firm’s perspective is important, because from this perspective, the value as a guide in the development, delivery, and customer value management. Restuccia (2009) uses the term value co-creation orientation is defined as the process of integration and transformations of resources (human, technological, organizational, and sharing information) which has implications for the value of networking. Restuccia (2009) then proposed that the co-creation of value has a positive effect on firm performance. Therefore: 

**Hypothesis 4:** The higher the level of value co-creation, the greater the firms marketing performance

### 3. RESEARCH METHOD

#### 3.1 Sample and Data Collection

This research focused on creative industry in Indonesia, and specially on handicraft industry in Yogyakarta, Solo, and Bandung used as a population. The sampling technique is done by using a purposive sampling technique, where long time of firms operating as a requirement for sampling. Data collection is done by providing direct questionnaire developed the 200 respondent managers and business owners. The data were analyzed using structural equation modeling with AMOS program assistance.

#### 3.2 Data Analysis

Validation of the data collected is done with the data screening and trimming of 200 questionnaires were collected and there is 192 data that can be used for further testing. Our preliminary analysis indicates that there is a non-normal of the data, therefore, to normalize the data, we used data normalization techniques proposed by Tabachnick and Fidell (2007) that in order to normalize the non-normal data that has a moderate negative skewness using the formula SQRT (K-X) where K is a constant from each score usually equal to the largest score + 1. The results of further testing are done by using a dataset that has been transformed and produce normal data. Thus, the analysis of hypothesis testing can be done. The results of hypotheses testing based on hypotheses that have been formulated can be seen in the following figure:
Fig 1: Model of Proposed Hypotheses

Figure 1 shows that the goodness of fit test of the constructed model is showing good value for overall goodness of fit indices, where small chi-square, probability = 0.067, GFI = 0.967, AGFI = 0.919, CFI = 0.984, TLI = 0.978, and RMSEA = 0.041, so that the model is accepted. The analysis highlights the regression coefficient value of the causal relationship is shown in the following table.

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<th>Table 1. Structural Coefficient of Regression</th>
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The output of the regression coefficients as shown in Table 1, indicate that there is strong support for all hypotheses that have been formulated. These results proved that there are positive and significant effect of entrepreneurial innovativeness orientation on product innovation (H1 supported), product innovation has a positive and significant effect on marketing performance (H2 supported), product innovation has a positive and significant effect on the value co-creation (H3 supported), and value co-creation has a positive and significant effect on marketing performance (H4 supported).

4. DISCUSSION AND IMPLICATION

4.1 Discussion

This study found a positive effect of entrepreneurial innovativeness orientation on product innovation which means that the higher the level of entrepreneurial innovativeness orientation of the firms in the creative industries also increase the product innovation. This result has strong supports to Hurley and Hult (1998), Stock and Zacharias (2010), and Droge et al. (2008) that innovativeness as antecedents for competitive advantage where the higher the better firm’s innovativeness the higher level of firm’s competitive advantage, which is reflected in product innovation. This study found a positive and significant effect of product innovation on marketing performance, which means that the higher the product innovation of the firms in the creative industry, the higher the level of marketing performance. The results of this study confirm the argument that product innovation is a consequence of the pursuit of performance and prove that product innovation which is indicated by level of uniqueness, novelty, and difficult to replicated could improve marketing performance (Aydin, Cetin, & Ozer, 2007; Sandvik & Sandvik, 2003; Song, Im, Bij, & Song, 2011; Vaccaro, Parente, & Veloso, 2010; Wang & Wang, 2012). Further product innovation also have significant positive effect on value co-creation, which has the meaning that the higher the firms in creative industries improve their product innovation, the value co-creation will increase. Thus, these results support the view that the
value co-creation can be obtained through product innovation (Parthasarathy et al., 2011; Van Horne et al., 2006; Voelpel et al., 2006; Yaşlıoğlu et al., 2013). The analysis indicates a positive and significant effect of value co-creation on marketing performance, which means that the higher the level of value co-creation is done the firms in the creative industry will increase its marketing performance. These results confirm the argument of Gulati, Nohria, and Zaheer (2000), Payne et al. (2007) and Lavie (2007) that the value creation in the networking impact on enterprise performance improvement. This finding provide strong support for the importance of product innovation and value co-creation in improving marketing performance evidenced a significant positive effect of entrepreneurial innovativeness orientation on product innovation and a significant positive effect of product innovation on marketing performance. On the other hand the results of this study confirm the importance of value co-creation as an important aspect of relationship product innovation and marketing performance, which proved the positive effect of product innovation on value co-creation, and the positive effect of value co-creation to marketing performance.

4.2 Managerial Implication

The results of this study provide two possible alternative to be done by the owners and managers of small and medium enterprises in the creative industry in Indonesia is the first, managing product innovation by increasing the uniqueness of the product, including the attributes of the product, increasing the novelty of the product continuously, and increasing the level of difficulty imitated by others. With increasing product innovation can increase the marketing performance. The second alternative is using the value co-creation approach with customers to achieve high marketing performance. Owners and managers can manage value co-creation by increasing the responsiveness to changing in customer demand, increasing flexibility to changing customer needs, and deliver quality product to customers. The value creation occurs when product innovation improved.

5. LIMITATION AND FUTURE RESEARCH

This study has some limitations that can be used as an opportunity for future research. The first is the statistical test results that demonstrate the value of the squared multiple correlation of a variable product innovation, value co-creation, and marketing performance is less than 0.5 which indicates that there are other variables that could potentially be a determinant in addition to the variables in the model, thus future research agenda needs to add other variables beyond the variables already in the model. Second, this study focused on small and medium enterprises in the handicraft industry, especially the creative industries, therefore future research needs to expand the focus of research into other creative industries sector, which has the characteristics of different challenges.

6. REFERENCES


