The Influence of Product Innovation And Market Orientation On The Competitive Advantages of Fried Red Onion SMEs In Sumenep District

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ABSTRACT

SMEs have advantages compared to large businesses, among others: flexibility and quickly adapt to market changes, able to absorb relatively large unskilled labor, the majority of SMEs produce consumer goods and services with low elasticity of demand for income. With the majority of Indonesia's population having relatively low education, the ability of SMEs to absorb unskilled labor is very helpful in creating a workforce. The population in this study is the Small and Medium Enterprises (UKM) of Red Fried Onion in Basoka Village, Rubaru District, Sumenep Regency with a total of 20 SMEs. From the existing population, the sample in this study used the entire population, namely the perpetrators of the Red Fried Onion SMEs in Basoka, Rubaru District. The purpose of the study was to determine the effect of product innovation on the market orientation of Fried Onion SMEs in Sumenep Regency, to determine the effect of product innovation on the competitive advantage of Fried Red Onion SMEs in Sumenep Regency and to determine market orientation to the competitive advantages of Fried Red Onion SMEs in Sumenep Regency. The research method used in this study is to use data analysis techniques in this study using Partial Least Square (PLS). From the results of the study it can be concluded that market innovation has a significant positive effect on market orientation, product innovation has a significant positive effect on competitive advantage and market orientation has a significant positive effect on competitive advantage.

Keywords : *Product Innovation, Market Orientation, Competitive Advantage, Red Fried Onion SMEs*

1. INTRODUCTION

SMEs have advantages compared to large businesses, among others: flexibility and adapt quickly to market changes, able to absorb relatively large unskilled labor, the majority of SMEs produce goods consumption and services with a low elasticity of demand for income. With the majority of Indonesia's population having relatively low education, the ability of SMEs to absorb unskilled labor is very helpful in creating a workforce.

Some of the characteristics inherent in most SMEs and at the same time become a source of problems, among others: the low productivity of the workforce, the low quality of human resources working in the SME sector, the quality of the goods produced is relatively low (not yet

certified/standard), the lack of creativity and innovation. , lack of adoption of new technology in production, low understanding of market orientation and entrepreneurship.

Innovation according to Hurley and Hult in Maghfiroh (2017), is defined as the application of new ideas, products or processes. Meanwhile, Hurley and Hult themselves define innovation as a change mechanism to adapt in a dynamic environment. The concept of innovation is divided into three, namely: organizational innovation *(organizational innovation)*, the level of innovation *(innovativeness)*, and the ability to innovate *(capacity to innovate)* (Mahrus et al., 2017). The level of organizational innovation *(organizational innovativeness)* is the level at which the development and implementation of ideas that represent the capabilities of the company. Furthermore, it is said that the level of innovation *(innovativeness)* is more an aspect of organizational culture that reflects the level of openness to new ideas. The ability to innovate *(capacity to innovate)* is the ability of the organization to adopt or implement new ideas, processes and new products. Anggraeny (2013) defines organizational *innovation* as the adaptation of new ideas or behaviors within the organization. The degree of innovation *(innovativeness)* is defined as the degree to which an individual or unit of adoption is earlier in adopting a new idea than other members of the organizational system.

So by innovating, it is hoped that the ability of SMEs to exist and advance is very relevant to the competitive conditions in the market, especially the modern networked market which is the main goal in promotion, distribution and marketing strategies as well as product prices to compete. Even though through PP Permendag no 70/2013 article 9 which favors SMEs to enter the modern market, of course without innovation it will be difficult to compete in the competition between products themselves in the modern market.

Referring to Oktavinus (2019), that market orientation is a multidimensional concept that can be formulated through the concepts: customer orientation, competitor orientation, coordination between functions, and spending on customers. Based on the above concept, market orientation can be defined as a multidimensional concept that can be formulated through the following concepts: customer orientation, competitor orientation, coordination between functions, and customer learning.

It is clear that to enter the market requires market-oriented innovation so that it can compete with competing products. Market orientation determines the choice of where the product can be accepted by consumers.

Competitiveness *is* different from *competitive advantage.* Organizations that have competitiveness usually have a competitive advantage. Competitive *advantage* allows companies

to obtain superior performance over a certain period of time. The essence of the resource-based view is that companies differ fundamentally because they have a set of resources. The most effective achievement of competitive advantage is by using organizational competencies or capabilities.

Of the 200 fried shallot SME craftsmen around Probolinggo Regency, mainly in Tegalrejo Village, they think that this side business to help her husband, who is an average shallot farmer, does not all have the courage to innovate their products and market them en masse and are known by the outside world. in the Probolinggo Regency area. Of the 200 SME craftsmen, there are only 50 who have the ability to actively market and focus their business on this fried shallot product. The rest are side jobs that are more passive, such as receiving orders and taking advantage of the harvest.

It turns out that it is not wrong if this fried shallot has become a staple of the Indonesian culinary business and household needs. It is almost certain that all Indonesian specialties use fried shallots as a flavoring and topping for various dishes. With the increasing image of Indonesian culinary tourism and the increasing number of restaurants or restaurants for Indonesian culinary cuisine, the need for shallots also increases.

2. RESEARCH METHOD

is an explanatory research, namely research that aims to explain the relationship between variables by developing (generating) theory and testing hypotheses, while from the aspect of data collection methods, this research is included in the category of survey research, namely data collection and data analysis through questionnaires. which will be carried out directly and in writing or communicated from respondents individually or in groups (Sugiyono, 2017).

The population in this study is the Small and Medium Enterprises (UKM) of Red Fried Onion in Basoka Village, Rubaru District, Sumenep Regency with a total of 20 SMEs. From the existing population, the sample in this study used the entire population, namely the perpetrators of the Red Fried Onion SMEs in Basoka, Rubaru District.

The data analysis technique in this study uses Partial Least Square (PLS) with the help of SmartPLS 2.0 M3 software. PLS is a method for constructing predictable models when there are too many factors.

3. RESULTS AND DISCUSSION

Measurement Model

Convergent Validity of the measurement model with reflective indicators is assessed based on the correlation between *item scores* and *construct scores* calculated by PLS. Individual reflective measure is said to be high if the correlation is more than 0.70 with the construct to be measured. However, for research in the early stages of developing a measurement scale, a *loading* 0.5 to 0.6 is considered sufficient (Ghozali, 2015).

Discriminant validity of the measurement model with reflective indicators is assessed based on *cross loading* measurements with constructs. If the AVE square root value of each construct is greater than the correlation value between the constructs and other constructs in the model, then it is said to have a good discriminant validity value.

a. Indicator validity

is a *factor loading* greater than 0.5 and or *t_statistic* 1.96 (Z value = 0.05). *The loading factor* is the correlation between the indicator and its latent variable. If *the loading factor* is greater than 0.5 then the indicator is *valid.* The t_statistic value is the result of a statistical test that shows the contribution of the relationship between indicators and variables or between variables, if 1.96 then the relationship is said to be significant. It can be seen in the table below:

Table 1. Outer Loading Table (Measurement Model for Reflective Variables)

	Product Innovation (X1)	Market Orientation (X2)	Competitive Advantage (Y)
X1.1	0.896		
X1.2	0.768		
X1.3	0.496		
X2.1		0.939	
X2.2		0.845	
X2.3		0.357	
Y.1			0.579
Y.2			0.895
Y.3			0.632

Source: Data Analysis, 2021

Based on the outer loading table above, the product innovation variable shows that 2 indicators have a *factor loading greater* than 0.50 and 1 indicator is smaller than 0.50, so that not all of these indicators are measures/indicators of product innovation variables. Meanwhile, the market orientation variable also shows that not all indicators have the *factor loading* is greater than 0.50 only 2 indicators are more than 0.50 and 1 indicator is smaller than 0.50, so that not all of these indicators are indicators of market orientation variables.

In the competitive advantage variable, it shows that all indicators have a *factor loading greater* than 0.50, so all of these indicators are a measure/indicator of competitive advantage variables. Overall the estimation results have met the *convergent validity*. Overall the estimation results have met the *convergent validity*. So look at the value of the outer weight of each indicator and its significance value. See the *convergent vs. lidity outer weight* below.

Table 2. Outer weight table (T-Statistic Model)

	Product Innovation (X1)	Market Orientation (X2)	Competitive Advantage (Y)
X1.1	0.665		
X1.2	0.365		
X1.3	0.250		
X2.1		0.589	
X2.2		0.428	
X2.3		0.239	
Y.1			0.424
Y.2			0.578
Y.3			0.375

Source: Data Analysis, 2021

Processing Results The test results in the outer weight table show that the product orientation variable indicator X2.1 is significant because the T-Statistic value is greater than 1.645 (at Z = 0.10). So it can be concluded that the X2.1 indicator is the more dominant role as an indicator of the product orientation variable.

b. Variable Validity (Construct)

The next test of the measurement model is to look at the AVE (*Average Variance Extracted*) value, which is a value that indicates the amount of indicator variance that the latent

variable can contain. An AVE value greater than 0.5 also indicates a good adequacy of convergent validity for latent variables. The AVE value can be seen in the table below:

Table 3. Average Variance Extracted (AVE)

	Average variance extracted (AVE)
Product Innovation (X1)	0.546
Market Orientation (X2)	0.574
Competitive Advantage (Y)	0.512

Source: Data Analysis, 2021

The next measurement model is the *Average Variance Extracted (AVE)* value, which is the value indicating the size of the indicator variance contained by the latent variable. Convergent AVE value greater than 0.5 also indicates a good adequacy of validity for latent variables.

On variable Reflective indicators can be seen from the Average variance extracted (AVE) value for each construct (variable). A good model is required if the AVE value of each construct is greater than 0.5. The test results show that the AVE value for the construct (variable) of product innovation, market orientation and competitive advantage has a value greater than 0.5, so it is valid.

c. Reliability

Construct reliability as measured by the value of *composite reliability,* a reliable construct if the *composite reliability* is above 0.70 then the indicator is said to be consistent in measuring the latent variable.

Table 4. Composite Reliability

	Composite Reliability
Product Innovation (X1)	0.774
Market Orientation (X2)	0.782
Competitive Advantage (Y)	0.752

Source: Data Analysis, 2021

The test results show that the constructs (variables) of product innovation, market orientation and competitive advantage have a *composite reliability* greater than 0, 7. So reliable.

d. Structural Model

Testing on the structural model is done by looking at the R-Square value which is the *goodness-fit test of the model*. The inner model test can be seen from the R-square value in the equations between latent variables.

Table 5. R-square

	Composite Reliability
Product Innovation (X1)	
Market Orientation (X2)	0.158
Competitive Advantage (Y)	0.874

Source: Data Analysis, 2021

R^2 on market orientation variable = 0.158. It can be interpreted that the model is very good and is able to explain the phenomenon of product innovation by 15.80%. While the rest is explained by other variables (besides product innovation) that have not been included in the model and *errors*. This means that market orientation is influenced by product innovation by 15.80% while the rest is influenced by variables other than product innovation.

The value of R2. on the competitive advantage variable = 0.874It can be interpreted that the model is able to explain the phenomenon/problem of competitive advantage by 87.40%. While the rest is explained by other variables (besides market orientation) that have not entered into the model and *error*. It means competitive advantage influenced by market orientation of 87.40% while the rest is influenced by variables other than market orientation.

2. **Causality Test (Inner Model)**

In Partial Least Square (PLS) the path parameter coefficients are obtained through the weights of the inner model by first looking for the *t_statistic* procedure *standard error bootstrap* with the results of the *PLS smart software* as follows:
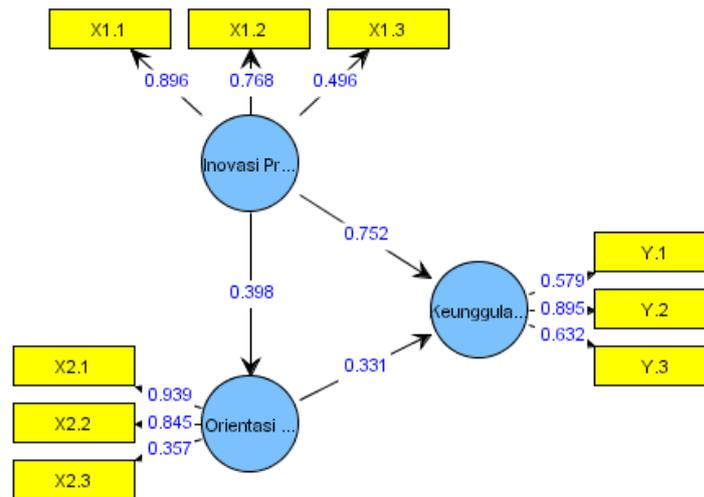
Figure 1. PLS Results Model

Table 5. Causality Test Results

	Coefficient Path	mean of subsamples	Standard deviation	T-Statistic
Product Innovation (X1) -> Market Orientation (X2)	0.398	0.418	0.094	4.226
Product Innovation (X1) -> Competitive Advantage (Y)	0.752	0.760	0.072	10.376
Market Orientation (X2) -> Excellence Competing (Y)	0.331	0.319	0.096	3,454

Source: Data Analysis, 2021

Based on the results of hypothesis testing that has been carried out to analyze the role of product innovation on the market orientation of fried shallots in Sumenep Regency, it is found that product innovation has a significant positive effect on the competitive advantage of fried shallots in Sumenep Regency. These results indicate that the greater the product innovation is in the existing fried shallot SME products, the more influential it is on the market orientation of fried onions. This can be seen from the value of T-Statistic = 4.226 which is greater than the value of $Z = 0.10$ (10%) = 1.645.

So that product innovations carried out by fried shallot SMEs in Sumenep Regency must continue to be improved to meet the needs and desires of the market. Because the better the innovations made to fried shallot products, the more market orientation is also increasing.

Meanwhile, from the results of hypothesis testing that has been carried out to analyze the role of product innovation on competitive advantage in fried shallot SMEs in Sumenep Regency,

the results show that product innovation has a significant positive effect on competitive advantage in fried shallot SMEs in Sumenep Regency. These results indicate that the greater the product innovation that is carried out by eating, the greater the impact on the competitive advantage of fried shallot products. This can be seen from the value of T-Statistic = 10.376 which is greater than the value of $Z = 0.10$ (10%) = 1.645.

So that the efforts made by fried shallot SMEs in Sumenep Regency are very successful in providing a competitive advantage in the results of fried shallot products with products from other regions or with other products.

In addition, based on the results of hypothesis testing that has been carried out to analyze the role of market orientation on competitive advantage in fried shallot SMEs in Sumenep Regency, it is found that market orientation has a significant positive effect on competitive advantage in fried shallot SMEs in Sumenep Regency.

This shows that the role of market orientation towards competitive advantage can be explained by the higher the market orientation of fried shallot SMEs in Sumenep Regency, the higher the competitive advantage possessed by fried shallot SMEs.

4. CONCLUSIONS

From the results of the research conducted, it can be concluded that market innovation has a significant positive effect on market orientation. Product innovation has a significant positive effect on competitive advantage, and market orientation has a significant positive effect on competitive advantage.

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