

# ICSH Ratih Michis

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# The Influence of Market Orientation on Competitive Advantage through Innovation in Fashion Sector

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**Abstract.** The success of a firm depends on its competitive advantage, market orientation and innovation so that it can sustain and excell the business process. Competitive advantage is a superior value in the firm that comes from the use of strategy so that the firm can be better than competitors. Firms that have a market orientation will understand the needs and desires of consumers to focus on their business activities. Innovation refers to new ideas, products, services and technologies, which are created through new production and sales methods. This study aims to determine the influence of market orientation on competitive advantage through innovation in the fashion industry for e-commerce users.

The type of this research is an explanatory, and the research method is a quantitative method. The sampling technique was purposive sampling. Respondents in this study were 100 business owners who used e-commerce and were engaged in the fashion industry in Indonesia. The analysis technique used was PLS with the help of smartpls software. The results showed that market orientation has a significant influence on competitive advantage. Market orientation also has a significant influence on innovation. Finally, innovation has a significant effect on competitive advantage.

**Keywords:** Market orientation, innovation, competitive advantage, fashion business

## 1 Introduction

Online business has spread along with the high number of internet users. The rapid development of the internet can help businesses in opening new business sectors. The internet has provided convenience in business, there is easy access to information without any limitations to support business activities (Irmawati, 2011) [1]. The changes in consumer behavior who do a lot of buying goods online encourage consumer spending, especially on fashion products. The development of the fashion industry on digital platforms such as E-commerce is getting stronger (Ulya, 2019) [2]. Retail sector sales dominate the growth of Indonesia's E-Commerce industry The retail sector covers various categories, such as fashion, consumer goods, and beauty products [4]. In addition, E-Commerce is able to achieve the highest revenue in the fashion sector which can be

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predicted to increase rapidly in 2023 [3]. The fashion sector is the most sought-after by customers with a percentage of 61% in 2018 [4].

Companies must understand consumers by observing current market conditions [5]. Market orientation creates a market strategy that is able to improve performance and compete superiorly [6]. The changing dynamic environment with a high level of competition is a challenge for business people who require knowledge of the market and the right competitive strategy [7]. Previous research explains that market orientation provides a sharpening of management activities so that they have a main focus on the market [8]. Companies can develop by understanding the needs and desires of consumers carefully first.

One way to develop a competitive advantage is through innovation. Innovation is one of the keys to determine and achieve competitive advantage [9]. Companies that innovate will produce good marketing performance [10]. In carrying out innovation, the company must be able to apply different strategies and values and cannot be imitated by its competitors. Innovation is used by businesses to generate profits and other benefits. Not only increasing the business in the company but also being able to increase the ability to adapt in improving performance [11].

Previous research explains that there is a positive relationship between market orientation and competitive advantage among manufacturing SMEs in Malaysia [12]. The market orientation of the company has an impact on the ability to innovate [13]. Another study [14] showed that innovation has a positive influence on competitive advantage. The higher the innovation ability, the higher the competitive advantage. The phenomenon described above illustrates that companies need innovation to achieve excellence in market competition. Business people should pay attention to changes in consumer behavior in order to make the right innovations. Therefore, this study wants to examine the effect of market orientation on competitive advantage through innovation in the fashion industry among business people who use E-Commerce.

12

## 2 Literature Review

### 2.1 Market Orientation

Market orientation is a company activity oriented in creating satisfaction by meeting customer needs and desires by paying attention to its marketing activities [15]. Market orientation is an activity involving market intelligence processes that are relevant to the company's activities, as well as an appropriate assessment of the market [11]. Market orientation enables companies to focus on satisfying the wants and needs of their customers [16]. Market orientation examines three important things [17]. Part of market orientation includes customer orientation, orientation to competitors, the ability to use company resources in a coordinated way.

Market orientation measures the company's willingness to obtain information about the market, the company's willingness to collect information about the actions of our competitors in the market systematically [11]. Market orientation also describes a company's willingness to collect information about any changes in the environment in a systematic way. [18] Market orientation has the characteristics of observing customer interests. This includes the company's ability to generate, distribute, and analyze market value.

## 2.3 Competitive Advantage

Competitive advantage is the ability of a company in the field of sales, innovation, and production that can be used as sources to generate advantages to provide more value to its products (Supranoto, 2003) [19]. Competitive advantage as a unit of several items that can distinguish the company from their competitors and provide a unique and superior position in the market [20]. Previous research [21] explained that competitive advantage is the ability of a company to achieve better profits than competitors in the market in the same industry. There are five factors that influence competitive advantage including price, product quality, ability to provide product types and volumes, ability to introduce new products or features in the market [22]. Udriyah et al explained that companies should pay attention to important steps in establishing and maintaining competitive advantage. These actions include the creation of good product conditions, improvement of production processes, product modification, and marketing [20].

## 2.3 Innovation

Astuti and Purwanti argue that innovation refers to new ideas, products, services, and technologies [10]. Innovation supports new ways of producing and selling. Innovation is understood as a tool for change within a company either in response to changes in the external environment or predictions for changing the environment [23]. Udriya et al. (2019) explains that innovation is the process of turning opportunities into marketable ideas [20]. The diversity of resources, can be a source of innovation that can change the company's internal ability to produce value advantages [13]. There are three factors that influence innovation, namely product innovation related to the activities of creating new products with new materials or changing products [24].

## 2.4 Hypothesis Development

### 2.4.1 *The Relationship between Market Orientation and Competitive Advantage*

The results of Herman et al. (2018) [15] explained that market orientation and competitive advantage make a positive and significant contribution to organizational performance. Furthermore, Supranoto (2019) [19] said that market orientation plays a role in achieving and maintaining a competitive advantage. Companies that have a market orientation always see changes in the market so that they adjust the design of their business activities. Marketing planning and coordination that is done well within the company can satisfy customer wants and needs. Jayaningrum and Sanawiri (2018) [25] argue that companies that use market orientation have an advantage in terms of customer knowledge. Knowledge of customers is a source of information to produce products that meet market needs.

H<sub>1</sub>: **Market Orientation** has significant influence toward competitive advantage

### 2.4.2 *The Relationship between Market Orientation and Innovation*

Market orientation implements an understanding of market conditions and consumers. Market orientation is a source of ideas for developing new services and products. Observation of the market inspires the development of innovation within the company [16]. The company's understanding of market orientation and innovation helps companies develop resources to excel compared to their competitors [17]. According to Serna, Guzman, and Castro [18], companies that have a high market orientation will increase their capabilities in product and process innovation.

H<sub>2</sub>: Market orientation has significant influence toward innovation

#### *2.4.3 The Relationship between Innovation and Competitive Advantage*

Effective innovation is the key to sustainable success. The company's ability to provide superior value to customers can create a competitive advantage [9]. Effective innovation shapes the company's competitive advantage to survive in market competition (Sukmawati, 2016) [34]. Previous research from Setyawati et al. (2017) shows that innovation has a positive and significant effect on competitive advantage [13]. Innovation has a significant influence on competitive advantage so that innovation can affect competitive advantage and increase business performance [13].

H<sub>3</sub>: Market innovation has significant influence toward competitive advantage

#### *2.4.4 The Relationship between Market Orientation, Innovation, Competitive Advantage*

Innovation has a significant influence on competitive advantage and market orientation. According to Suharto and Subagja (2018), companies with superior values can survive in a highly competitive environment [30]. Companies use market orientation to focus on customer wants and needs. A company's strategy that focuses on customer needs determines the company's success [30]. Companies must create superior value to gain a competitive advantage over their competitors (Suharto & Subagja, 2018) [30]. Innovation can be used as a strategy in achieving a competitive advantage. The company's orientation to the market will drive the company's innovation capabilities, ultimately increasing its competitive advantage.

H<sub>3</sub>: Market innovation has significant influence toward competitive advantage through innovation

### **3 Research Method**

This type of research uses quantitative methods to examine the effect of market orientation on competitive advantage through innovation. According to Sugiyono (2017) [31], quantitative research is used to certain populations or samples, collecting data using research tools to test research hypotheses. [32].

The population in this study are business owners who use E-Commerce in Indonesia. The sampling method used was the purposive sampling technique using a sample of the target group who meet certain criteria that have been determined by researchers (Ferdinand, 2014, p. 179) [37]. The criteria in this study are business owners who use E-Commerce in Indonesia. The sample in this study is business owners who have a business in the field of fashion in E-Commerce Indonesia. The respondents studied were 100 respondents by calculating the Lemeshow formula. Questionnaires are distributed through the Google form application, distributed to business people who do business in the fashion sector in Indonesia.

This study uses data analysis technique is PLS (Partial Least Squares) [33]. Partial Least Square is a method of choice that can move from a covariance-based SEM approach to a covariance-based SEM approach. The purpose of this PLS is to be able to assist researchers in examining the complexity of the relationship between a variable and other variables, as well as the relationship between a variable and its indicators. [39]

### **4 Data Analysis and Discussion**

## Outer Model Evaluation

**Table 4.1**  
**Convergent Validity Test**

	<b>Innovation</b>	<b>Competitive Advantage</b>	<b>Market Orientation</b>
<b>11</b>			
X1.1			0.777
X1.2			0.660
X1.3			0.877
X1.4			0.577
X1.5			0.841
X1.6			0.641
X1.7			0.768
X1.8			0.802
X1.9			0.767
Y1.1		0.803	
<b>6</b> 1.10		0.756	
Y1.2		0.661	
Y1.3		0.890	
Y1.4		0.560	
Y1.5		0.859	
Y1.6		0.820	
Y1.7		0.798	
Y1.8		0.764	
Y1.9		0.802	
Z1.1	0.759		
Z1.2	0.819		
Z1.3	0.865		
Z1.4	0.870		
Z1.5	0.865		
Z1.6	0.504		

The table shows that none of the indicators should be excluded from the study because they are invalid. All indicators in this study can be declared valid due to the outer loading of > 0.5 (Jogiyanto et al. 2009, p. 60) [38].

**Tabel 2**  
**Cross Loading Score**

<b>5</b>	<b>Innovation</b>	<b>Competitive Advantage</b>	<b>Market Orientation</b>
X1.2	0.499	0.661	<b>0.660</b>
X1.3	0.831	0.890	<b>0.877</b>
X1.4	0.416	0.560	<b>0.577</b>
X1.5	0.770	0.859	<b>0.841</b>
X1.6	0.600	0.559	<b>0.641</b>
X1.7	0.649	0.673	<b>0.768</b>
X1.8	0.734	0.802	<b>0.802</b>
X1.9	0.695	0.756	<b>0.767</b>
Y1.1	0.759	<b>0.803</b>	0.744
Y1.10	0.695	<b>0.756</b>	0.767
Y1.2	0.499	<b>0.661</b>	0.660
Y1.3	0.831	<b>0.890</b>	0.877

10	Innovation	Competitive Advantage	Market Orientation
Y1.4	0.416	<b>0.560</b>	0.577
Y1.5	0.770	<b>0.859</b>	0.841
Y1.6	0.870	<b>0.820</b>	0.759
Y1.7	0.865	<b>0.798</b>	0.744
Y1.8	0.696	<b>0.764</b>	0.777
Y1.13	0.734	<b>0.802</b>	0.802
Z1.1	<b>0.759</b>	0.803	0.744
Z1.2	<b>0.819</b>	0.708	0.695
Z1.3	<b>0.865</b>	0.788	0.766
Z1.4	<b>0.870</b>	0.820	0.759
Z1.5	<b>0.865</b>	0.798	0.744
Z1.6	<b>0.504</b>	0.428	0.435
X1.1	0.696	0.764	<b>0,777</b>

All items in the studied variables meet discriminant validity. Based on the results of the cross loading score, it shows that the entire cross loading value of the indicators that make up each variable in this study is greater than the other variables

**Tabel 3**  
**Reliability Test**

3 Variabel	Composite Reliability	Cronbachs Alpha	AVE
Innovation	0,907	0,874	0,626
Competitive Advantage	0,937	0,925	0,603
Market Orientation	0,920	0,901	0,565

Table 3 shows that all variables have an AVE value above 0.5 so that it can be said that all the variables used in this study have been declared to meet the reliability requirements.

### Inner Model Evaluation

**Tabel 1**  
**R-square (R<sup>2</sup>) Test**

	R <sup>2</sup>
Innovation	0,786
Competitive Advantage	0,975

The results show that the R<sup>2</sup> value is 0.786, it can be concluded that market orientation affects innovation by 78.6% so that 21.4% is explained by other variables. The R<sup>2</sup> value of competitive advantage is 0.975, indicating that market orientation has an effect of 97.5% on competitive advantage, and 2.5% is explained by other variables.

### Predictive Relevance

$$Q^2 = 1 - (1 - R^2_1)(1 - R^2_2) = 0,99465$$

From the calculation above, it shows that the Q<sup>2</sup> value is 0.99465 which is close to the value 1, so that the model has predictive relevance.

**Tabel 5**  
**Path Coefficient**

Hypothesis	Deirect/Indirect Effect	Path Coefficient	T Statistics	P Values	Result
H1	MO → CA	0.699	20.829	0.000	Accepted
H2	MO → INO	0.887	41.227	0.000	Accepted
H3	INO → CA	0.314	9.160	0.000	Accepted
H4	MO → INO → CA	0.278	8.738	0,000	Accepted

Hypothesis testing are as follows :

- The results of T-statistics show the number 20.829 which explains that the market orientation variable has a significant influence on competitive advantage, because the T-statistics value is 20.829 which is greater than the T-table 1.96.
- The results of T-statistics show the number 41.227 which explains that the market orientation variable has a significant influence on competitive advantage, because the T-statistics value is greater than the T-table 1.96.
- The results of T-statistics show the number 9.160 which explains that the market orientation variable has a significant influence on competitive advantage, because the T-statistics value is greater than the T-table 1.96.
- The results of T-statistics show the number 8.738 which explains that the market orientation variable has a significant influence on competitive advantage, because the T-statistics value is greater than the T-table 1.96.

### 4.1 The Influence of Market Orientation to Competitive Advantage

The results in this study indicate that market orientation has a significant effect on competitive advantage in the fashion industry. Business actors in Indonesian E-Commerce have a high market orientation, supporting business actors in Indonesian E-Commerce to gain a competitive advantage to be superior to their competitors. The results show that by increasing market orientation, the competitive advantage of business actors in Indonesian E-Commerce will also increase.

Business actors who know information about the market will understand information about the market and how to respond. When business people know the market demand, the company will achieve a high level of customer satisfaction [16] which further increases market share. The results of the study are in line with previous studies [15], [19]. Market orientation has a significant positive influence on competitive advantage. The customer-focused businessperson seeks to maintain and enhance the ability to create superior value over its competitors. This can help businesses to gain an edge over their competitors.

### 4.2 The Influence of Market Orientation to Competitive Advantage

The results of this study indicate that market orientation has a significant effect on innovation. The higher the market orientation, the higher the innovation ability of business actors in Indonesian E-Commerce. Innovation is to produce a new product or process [14]. Innovation is not only related to technology, but also in the form of new products and improvements [34]. Several studies examine that market orientation has a significant positive effect on innovation [16][18] [28]. Market-oriented business people will be able to increase the level of innovation. Businesses need the latest technological capabilities that can assist in developing innovative solutions to meet customer needs, partnering with customers in the long term and conducting market searches. The more market-oriented

business people are, the more they can encourage companies to innovate products, processes and markets.

### 4.3 The Influence of Innovation to Competitive Advantage

The results in this study indicate that innovation has a significant positive effect on competitive advantage. The calculation of the mean show that business actors in E-Commerce Indonesia are innovative. Business actors in Indonesian use innovation to generate competitive advantage. The results show that the higher the innovation ability, the higher the competitive advantage of the business Company strive to sell and display products to increase customer satisfaction with products. When a business sells a good product, it will differentiate the company from competitors. Furthermore, different values can create advantages in the market. [20] This result is in line with previous research [14] [34] which stated that innovation has a significant positive effect on competitive advantage. Competitive advantage can be created through innovation. Customers who receive high value from the company's products will feel satisfied. For this reason, companies must have the ability to innovate in processes, technology, and ideas to produce value-added products. Innovations can be made such as new product designs, product development using technology, and new equipment that encourages efficient production and prices.

## 5 Conclusion

The results showed that the market orientation variable has a significant influence on competitive advantage and innovation. This study also gives results that the innovation variable has a significant and positive effect on competitive advantage. On the other hand, the results of data processing show that market orientation has a significant influence on competitive advantage through innovation. Business owners in Indonesian online fashion must pay attention to information about competitors. Knowing competitors' market segments will provide a source of information to develop marketing strategies that are able to face the target market. Business actors in the fashion sector should focus more on providing products that suit customer needs. Business actors in the fashion sector are expected to increase innovation in service processes and product features. Companies that have innovation capabilities can respond to customer requests more quickly.

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