

THE INFLUENCE OF INNOVATION MANAGEMENT TOWARDS THE BUSINESS PERFORMANCE OF GARMENT INDUSTRIES IN INDONESIA

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ABSTRACT

The objective of this research is to analyze the influence of unique resources, market orientation and innovation management against the business performance of the garment industries in DKI Jakarta. This research is a descriptive and verificative research, and the construct of the research is based on the concept and the relationship between the variables in order to form the research paradigm. This study conducted a distribution of questionnaires and observations on the garment industries in Jakarta. The research method used in this study is descriptive method by using scoring analysis and verification method by using quantitative analysis. The sample determination was done through Simple Random Sampling as the garment industries has the same character, and the tool of analysis is using Partial Least Square (PLS). The results indicated that market orientation has provided a greater significant influence compare to unique resources on the business performance. Innovation management also provide a significant influence on business performance, because either unique resource and market orientation have no value if they are not developed innovatively. Understanding the customer's needs and wants and continue with developing the company resources can definitely improve the garment business performance.

Key works: Unique Resources, Market Orientation, Innovation Management, Business Performance

1. Introduction

Indonesia is one of the developing countries with a rapid growing of industrial sector, the Ministry of Industry of the Republic of Indonesia target to grow the production of non-oil and gas processing by 5,67 percent in 2018 from the earlier achievement of 4,98 percent. This achievement will be driven by all sectors and sub sectors including the garment industries. (Ministry of Industry, National Seminar on Industry Outlook, 2018) Garment industries is somehow classified as the small and medium enterprises sector with a huge niche market. This market has been growing rapidly based on the low level market requirement.

The rapid growth of garment industries is due to high consumption of clothing as the basic needs because Indonesia has the population of around 250 million people throughout the whole Indonesia island. The growth of garment industries is supposed to be quite successful and reach the amount of 21 percent of GDP in 2015. But the number drops to 19 percent of GDP in 2017. This is a significant fall back of industrial growing, compare to the rest of the sectors, this is the purpose of the writer to do the research. (Ministry of Industry of the Republic of Indonesia, 2016)

The preliminary research finding done based on the observation of 15 garment industries has come out with the result that almost all of the industries possess similar characteristic of production. The garment industries also classified as the fashion industries where products from the industries can be either fashion or basic apparel. Fashion apparel are produced based on up-to-date model and change according to the fashion design and customer desire, where basic apparel is normally the basic model that do not continuously change based on the design and fashion.

The other issues observed from the research that all garment industries are using the same fabric resources imported from China with the risk of cost materials based on fluctuation of currency. In some cases, they might be a time where there is deficiency of materials from China because of conversion of exchange rate and international customs issues. Based on these issues the writer tends to explore further to find out the main purpose of the closing down of these garment industries.

The objective of this research is based on the phenomenon issue and the intended variables to explore further are limited to resources, market orientation, innovation management and the performance of business. The intention of this research is to obtain the results of studies on the level of resources development, the level of application of market orientation, the level of innovation management development and the business performance of the garment industries. Besides, the results of this study is also expected to obtain usefulness in contributing ideas and contributions based on the novelty ideas of this finding.

2. Literature Review

Unique Resources

Resources can be defined as anything owned by a company that can be utilized by the industries in order to optimize the market strategy and improve the company's performance. Unique resources can also be classified as something which is valuable and

strategic that can be utilized by the company to obtain productive, rare, difficult to imitate and also difficult to be replaced by the resources owned by competitors.

Augustina Kurniasih & Heliantono (2016) explain that according to Barney's theory (1991) that an organization can be successful if they can achieve and maintain its competitive advantage. The successful point can be achieved if company allocates what competitors do not have, and the efficient and effective use of resources is the best achievement of competitive advantage and the improvement of company's performance.

David (2015:191) assert that the resource-based view (RBV) approach to competitive advantage contends that internal resources are more important to a firm than external factors in achieving and sustaining competitive advantage. In contrast to the Industrial Organization theory, proponents of the RBV view organizational performance primarily be determined by internal resources. RBV theory asserts that resources are actually what helps a firm to exploit opportunities and neutralize threats. David explain that internal resources can be grouped into three all-encompassing categories:

- **Physical Resources** : all plant and equipments, locations, technology, raw materials, and machines.
- **Human Resources** : all employees, training, experience, intelligence, knowledge, skills, and abilities.
- **Organizational Resources** : firm structure, planning processes, information systems, patents, trademarks, copyrights, and databases.

Market Orientation

Market orientation is the measure of behavior and activity that reflects the implementation of marketing concept. Market orientation is a process and activity that related to customer creation and satisfaction by assessing customer needs and wants. The application of market orientation normally improve the organization performance, and it is very effective in gaining and maintaining competitive advantage that begins with planning and coordinating with departments in an organization to analyze efficiently and effectively in order to enter a segmented market.

Kotabe & Helsen (2013:12) explain that market orientation is a fundamental philosophy of marketing. It is an organizational culture that puts customers' interests first in order to develop a long-term profitable enterprise. In essence, market orientation symbolizes the market-driven firm that is willing to constantly update its strategies using signals from the marketplace. Thus, marketing managers take market cues from the expressed needs and wants of customers. Consequently, the dominant orientation is that a firm reacting to forces in the marketplace in order to differentiate itself from its competitors. This reactive "outside-in" perspective is reflected in the typical marketing managers' reliance on marketing intelligence, forecasting, and market research.

Kotabe & Helsen also explained that market orientation approach has three behavioral components in determining the long-term profit where organization need to focus on this three components explained in detail as follows:

- **Customer Orientation** is the review and understanding of the needs and wants of the customers.
- **Competitor Orientation** is the review and understanding of the competitors.
- **Interfunctional Coordination** is the coordination and utilization of resources owned by the organization to understand the customers' needs and wants and also the activities of competitors.

Innovation Management

Hapsi Ali et al. (2017) reveals that innovation is the ability to turn ideas into goods, services or processes to solve problems and take advantages of the opportunities it faces. Innovation is a process by which the organization uses its capabilities and resources to develop new products or new systems procedures to enhance better performance. Innovation is the desire to take risks and learn among the members of the community learning organizations.

Tidd and Bessant (2013:24) explain that innovation is driven by the ability to see connections, to spot opportunities and to take advantage of them. Innovation is not just opening up new markets—it can also offer new ways of serving established and mature ones. Innovation is of course not confined to manufactured products but also can be found in services and in the public and private sector. Whilst competitive advantage can come from size, or possession of assets, etc. the pattern is increasingly coming to favour those organizations which can mobilize knowledge and technological skills and experience to create novelty in their offerings. Organization that implement innovation generally achieve better growth compare to those who do not innovate. Companies that increase their market share and profit are those who innovate their products.

Tidd and Bessant express that innovation are essentially talking about change and this can take several forms, the purposes of this discussion will focus on four broad dimensions:

- **Product Innovation**—changes in the things (products/services) that an organization offers.
- **Process Innovation**—changes in the ways in which they can be created and delivered.
- **Position Innovation**—changes in the context in which the products/services are introduced.
- **Paradigm Innovation**—changes in the underlying mental models which frame what the organization does.

Business Performance

According to Best (2013:64) that the purpose of the assessment of the portfolio of a company is to strategically determine where a business at this time and the purpose of the business for the future with a portfolio of current products and the products that will be developed in the future. A portfolio analysis provides a strategic snapshot of the current situation. Strategic market plans are forward looking and enable a company to make strategic changes to its product portfolio that is in line with the company's strategic vision and long run performance objectives. Each product-market in a business's portfolio in some way affects both the short and long-run performance of the business.

Best (2013:419) assert that a company's performance appraisal is to evaluate a business, product or market that observes the market appeal and strategic position of the company. Best also explain that a company's business performance can be measured based on share performance, sales growth, and profit performance. The three dimensions of the business performance can be explained more in detail as follow:

- **Share Performance** is the assessment of the number of transactions and the growth of shares in a company.
- **Sales Growth** is the volume or number and sales growth achieved by the company.
- **Profit Performance** is the ability of a company to get benefit or profit within a certain period of time.

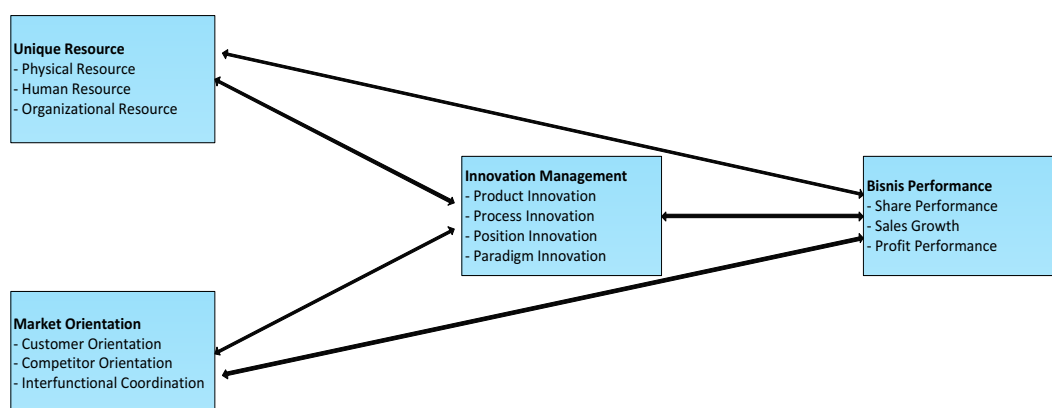


Figure 1
Research Paradigm

3. Methodology

The research designed in this study is using strategic management approach that includes the operationalization variables, data collection method and information collection, defining the population, calculating the sample size and sampling techniques and the design of the analysis conducted in the testing research hypothesis, by conducting the study of garment industries located around DKI Jakarta. This research begins with the observation of garment industries as the preliminary research, and follow by formulating strategies to examine the performance of the garment industries. (Hair Jr. 2011)

Based on the analysis done earlier, the formulation and the purpose of this study is to describe and reveal the interrelationship between the variables explained above. This research is using descriptive and verification method with the type of causal investigation on the relationship and influence between the exogenous and endogenous variables.

The process of observation in this research is using time horizon with cross section/one shot, the collective data is obtained through research done in 2018, the unit of analysis are the garment industries in DKI Jakarta and the observation unit is the manager of the industries. The design of analysis used to test the hypothesis and to examine the relationship between research variables by using Partial Least Square (PLS), one the alternative method of structural analysis from Structural Equation Modeling (SEM).

The validity testing was done by using the sample of 58 respondents randomly on the garment industries. The attempt of this validity testing is to find out the eligible of the selected items including the overall data collection process. The results of the validity test are as follows:

Table 1
Validity Test Results

Variable	Dimension	Item	Correlation	Description
Unique Resources	Physical Resources	X11	0.567	Valid
		X12	0.627	Valid
		X13	0.873	Valid
		X14	0.661	Valid
		X15	0.825	Valid
	Human Resources	X21	0.688	Valid
		X22	0.567	Valid
		X23	0.688	Valid
		X24	0.688	Valid
		X25	0.536	Valid
	Organizational Resources	X31	0.567	Valid
		X32	0.688	Valid
		X33	0.536	Valid
		X34	0.567	Valid
		X35	0.688	Valid
Market Orientation	Customer Orientation	X41	0.825	Valid
		X42	0.567	Valid
		X43	0.688	Valid
	Competitor Orientation	X51	0.536	Valid
		X52	0.567	Valid
		X53	0.688	Valid
	Interfunctional Coordination	X61	0.688	Valid
		X62	0.661	Valid
		X63	0.823	Valid
Innovation Management	Product Innovation	Y11	0.688	Valid
		Y12	0.627	Valid
	Process Innovation	Y21	0.823	Valid
		Y22	0.725	Valid
	Position Innovation	Y31	0.513	Valid
		Y32	0.707	Valid
	Paradigm Innovation	Y41	0.725	Valid
		Y42	0.536	Valid
Business Performance	Share Performance	Z11	0.735	Valid
		Z12	0.560	Valid
	Sales Growth	Z21	0.612	Valid
		Z22	0.600	Valid
	Profit Performance	Z31	0.612	Valid
		Z32	0.553	Valid
		Z33	0.612	Valid

Reliability test of this research data is using Cronbach's Alpha coefficient method. The Cronbach's Alpha coefficient is the reliability coefficient most commonly used because coefficient will indicate the variance of items with either right or wrong format such as Likert scale format. The Cronbach's Alpha coefficient is mostly used to evaluate internal consistency. (Lewis, 1999)

The criteria for determining a valid item and having a reliable value that can be accepted are based on the table describe below:

Table 2
Standard Criteria of Validity and Reliability Research

Description	Reliability	Validity
Good	0.8	0.5
Acceptable	0.7	0.3
Marginal	0.6	0.2
Poor	0.5	0.1

Source: Barker, Pistrang and, Elliot (2002:70)

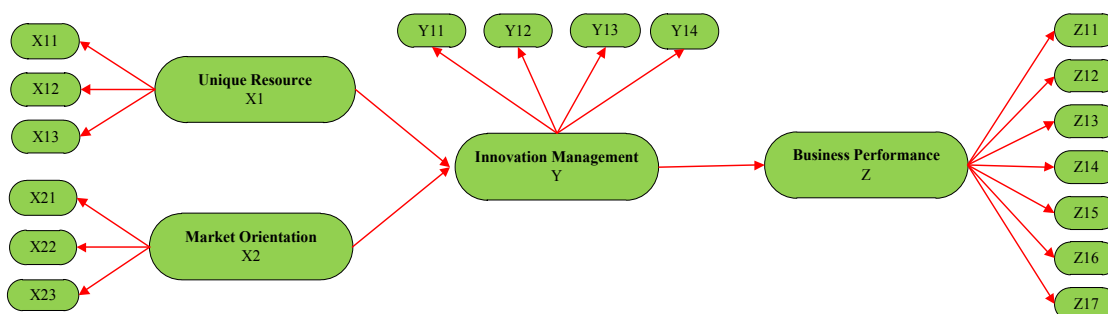


Figure 2
The Coorelation of Variables
Source: From Data Processing (2017)

4. Result and Discussion

The results of the descriptive analysis of the uniqueness of resources are assets owned by company and which are not owned by competitors in the industries. Resources owned by company are relatively better compared to the existing competitors or potential competitors. Conversely, the resources may be classified as the weaknesses of the company when the resources owned by company are not uniquely innovated.

The measurement model of analysis above showed the link between manifest variables (indicators) and each of the latent variables. The analysis of the measurement model is to test the validity and reliability of each of the dimensions and the indicators utilized to measure the variables constructed earlier. The analysis of the measurement model will describe the value of discriminant validity by looking at the value of square root of Average Variance Extracted (AVE) with suggestion value above 0.5, loading factor (>0.5), constructed Composite Validity and Reliability (Cranbachs Alpha >0.70 (Nunnaly, 1994), can be concluded that the dimensions and indicators are classified as reliable. As showed below.

Table 3
Goodness of Fit Model (GoF)

Variables	AVE	Composite Reliability	Cronbach's Alpha	R Square	Q Square
Unique Resources	0,534	0,872	0,835	-	0.238
Market Orientation	0,586	0,903	0,885	-	0.279
Innovation Management	0,514	0,893	0,861	0.633	0.354
Business Performance	0,602	0,913	0,888	0.554	0.602

Source: From Data Processing (2017)

The value of R² shows that the criterion is strong, with large Q value, this can be concluded that the propose model supported by the empirical research classified as fitted. Similarly, the values of AVE is >0.5, indicate that all the variables in the model were estimated to meet the criteria of discriminant validity. The value of both Composite Reliability and Cronbach's Alpha for each of the variables are >0.70 (above 0.70) means that all the researched variable are classified as reliable.

Table 4
Loading Factor of Dimension-Indicator

Dimension-Indicator	Loading Factor (λ)	Standard Error (SE)	T Statistics (λ/SE)	Conclusion
Physical Resources → X11	0.748	0.050	14.790	Valid
Physical Resources → X12	0.844	0.114	5.212	Valid
Physical Resources → X13	0.717	0.059	13.749	Valid
Physical Resources → X14	0.506	0.062	12.246	Valid
Physical Resources → X15	0.751	0.064	10.804	Valid
Human Resources → X21	0.526	0.033	25.311	Valid
Human Resources → X22	0.466	0.061	12.183	Valid
Human Resources → X23	0.846	0.044	17.122	Valid
Human Resources → X24	0.855	0.089	7.581	Valid
Human Resources → X25	0.712	0.051	13.334	Valid
Organizational Resources → X31	0.822	0.053	14.567	Valid
Organizational Resources → X32	0.846	0.065	10.000	Valid
Organizational Resources → X33	0.771	0.074	8.384	Valid
Organizational Resources → X34	0.687	0.063	11.524	Valid
Organizational Resources → X35	0.574	0.052	14.043	Valid
Customer Orientation → X41	0.778	0.046	17.268	Valid
Customer Orientation → X42	0.869	0.041	16.708	Valid
Customer Orientation → X43	0.806	0.044	16.207	Valid
Competitor Orientation → X51	0.038	0.041	19.493	Valid
Competitor Orientation → X52	0.002	0.046	15.279	Valid
Competitor Orientation → X53	0.907	0.064	10.175	Valid
Interfunctional Coordination → X61	0.861	0.031	26.824	Valid
Interfunctional Coordination → X62	0.886	0.050	15.284	Valid
Interfunctional Coordination → X63	0.812	0.041	18.487	Valid
Product Innovative → Y11	0.893	0.019	46.857	Valid
Product Innovative → Y12	0.864	0.030	29.295	Valid
Process Innovation → Y21	0.860	0.020	43.361	Valid
Process Innovation → Y22	0.770	0.051	14.958	Valid
Position Innovation → Y31	0.789	0.041	19.180	Valid
Position Innovation → Y32	0.871	0.017	51.756	Valid
Paradigm Innovation → Y41	0.794	0.062	12.888	Valid
Paradigm Innovation → Y42	0.831	0.031	26.496	Valid
Share Performance → Z11	0.686	0.031	27.594	Valid
Share Performance → Z12	0.864	0.009	107.642	Valid
Sales Growth → Z21	0.915	0.023	37.562	Valid
Sales Growth → Z22	0.860	0.018	47.687	Valid
Profit Performance → Z31	0.866	0.027	31.922	Valid
Profit Performance → Z32	0.912	0.034	24.667	Valid
Profit Performance → Z33	0.857	0.026	34.761	Valid

Source: From Data Processing (2015)

The result of measurement based on the data processing of model analysis on the dimensions indicates that the overall indicator processed above are classified as valid where most of the value of loading factors is greater than >0.70 .

The following table presents the results of the measurement model analysis of each latent variable on the dimensions.

Table 5
Loading Factor Between Latent-Dimensional Variables

Latent-Dimensional Variables	Loading factor (λ)	Standard Error (SE)	T Statistics (λ / SE)
Unique Resources → Physical Resources	0.497	0.032	27.077
Unique Resources → Human Resources	0.531	0,028	30.760
Unique Resources → Organizational Resources	0.435	0,037	22.164
Market Orientation → Customer Orientation	0.566	0.023	38.820
Market Orientation → Competitor Orientation	0.107	0.027	33.539
Market Orientation → Interfunctional Coordination	0.601	0.023	37.709
Innovation Management → Product Innovation	0.686	0.014	66.840
Innovation Management → Process Innovation	0.864	0.026	32.122
Innovation Management → Position Innovation	0.915	0.024	35.923
Innovation Management → Paradigm Innovation	0.860	0.047	16.876
Business Performance → Share Performance	0.866	0.031	27.052
Business Performance → Sales Growth	0.912	0.026	34.396
Business Performance → Profit Performance	0.857	0.014	66.120

Source: From Data Processing (2017)

The results of the measurement model analysis of the research variables on the dimensions shows that almost all dimensions are valid with the value of t count $>t$ table (2.01).

Based on the varificative analysis, the concerning testing variables are shown as follow:

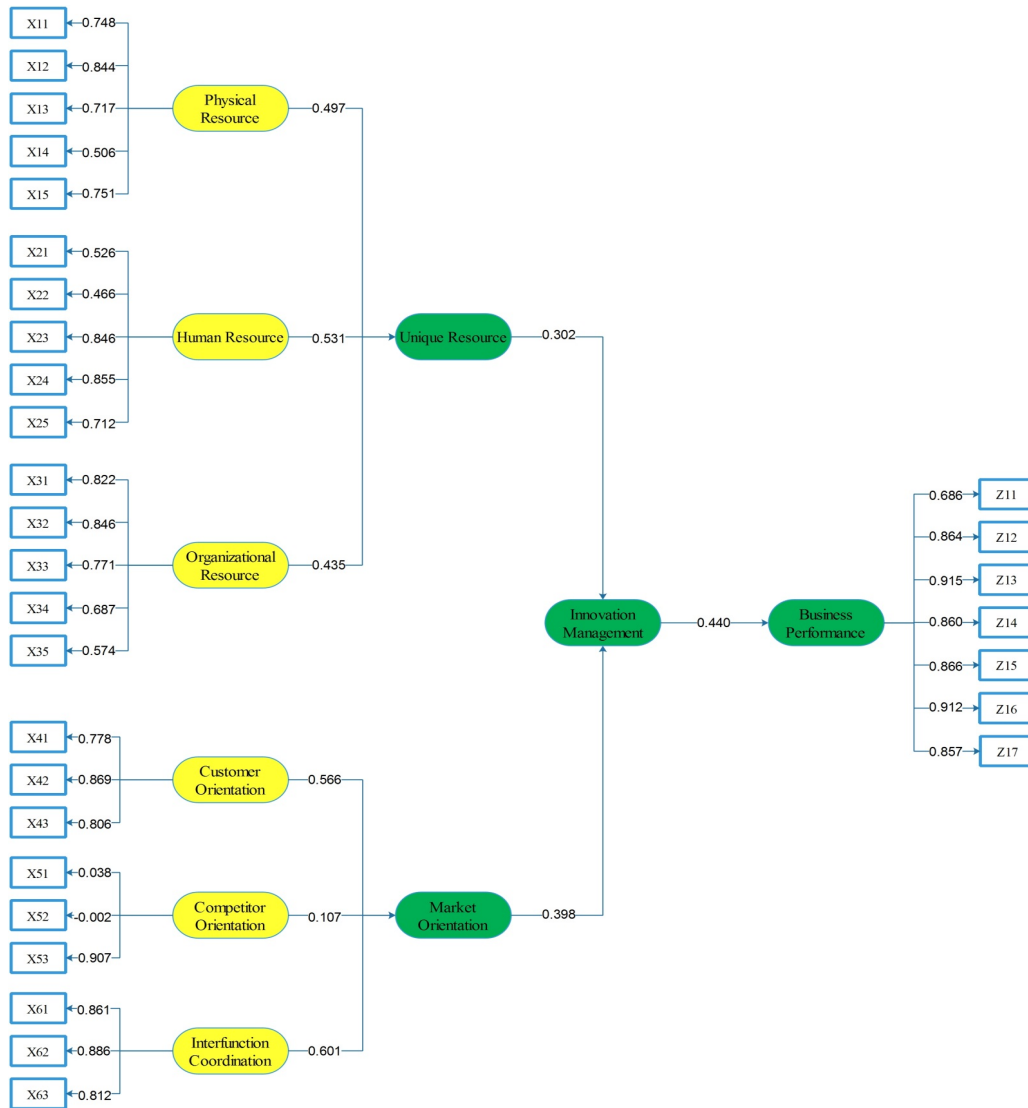


Figure 3
Hipotesis Testing
Source: From Data Processing (2017)

From the testing hypothesis, it was revealed that market orientation has a greater influence than the uniqueness of resources in influencing innovation management. Innovation management also has a dominant influence on business performance. In order to improve the business performance, market orientation to further understand the needs and wants of the customers' desires and aware of the competitors' movement can coordinate with all functional resources in the organization to improve competitive advantage. The development of company's resources innovatively can also help to improve the market requirement and enhance the business performance of the garment industries in DKI Jakarta.

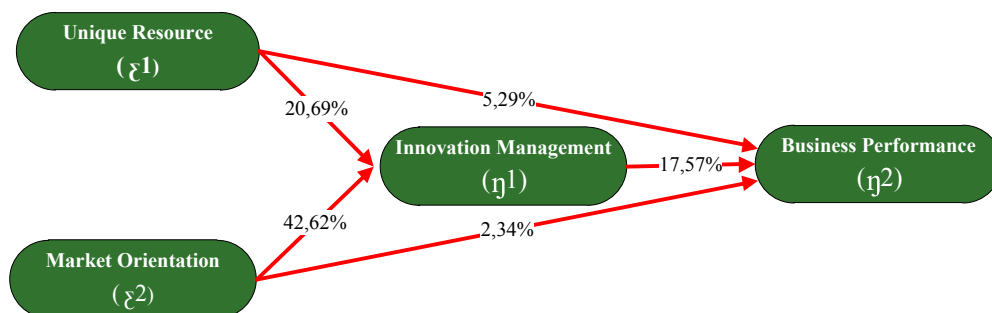


Figure 4
Testing Result
Source: From Data Processing (2017)

Based on the testing result above, the hypothesis indicate that that market orientation provide significant effect on the innovation management with the percentage of 42.62%. The effect of uniqueness resources on innovation management with the percentage of 20.69. Thus, the result provide a clear understanding that market orientation provide a positive and significantly related to business performance.

The hypothesis effect of both unique resources and market orientation towards business performance are not significantly effected with 5.29% and 2.34%, without innovation management which confirm that innovation management is important and a positive relationship to business performance.

5. Conclusion and Recommendation

Conclusion

The garment industries are reported facing problems lack of customers, competitors selling similar items, purchasing similar raw materials and limited capital. Other issue is not proper support by government to the garment industries. Based on the quantitative research and hypothesis testing for this study emphasise a need for a greater adoption of innovation management practices, including the study of the customer behavior based on market orientation. The garment industries may require dramatic changes on their resources.

The objective of this research is to find out the basic problem faced by the garment industries in DKI Jakarta based on the four research variables, unique resources, market orientation, innovation management and business performance, the following conclusions were made as follows:

- 1 The garment industries do not produce garments based on customer and market orientation and are not clear with the needs and wants of the customer.
- 2 The research finding also shows that most of the garment industries do not implement innovation management to innovate their products to meet the customers' intention to purchase.
- 3 The garment industries also do not frequently do the market analysis on the competitor orientation in order to be able to compete in the market.
- 4 The garment industries do not improve their raw materials by using the local content of fabric and innovate them even the price are sometimes higher compare to the imported materials.

The scope of this study was limited to the garment industries in DKI Jakarta. During the study, it was noted that more industries sectors may encounter the same competitive strategies. It would be worthwhile to study the industries of other sectors worldwide especially for those countries that provide garment industries.

Recommendation

Based on the conclusion above, numbers of issues during the study leads to the following recommendations: garment industries must implement innovation management both on the production and resources purchased. The industries must impose a frequent control system on reviewing the current status of market orientation in order to innovate properly and keep pace of the competitors movements.

Many countries that provide garment industries may take this study as a guidance to proceed with further research that has not been include in this study for a better conclusion and recommendation.

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