

## Determinants of Market Performance: The Role of Proactive and Reactive Innovation on Product and Organizational Innovation



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**ABSTRACT:** This study is to investigate the inconclusiveness of product innovation on market performance in the context of Indonesian furniture company association's members (HIMKI). We refer to Resource Advantage Theory of Competition to develop an integrated model using proactive and reactive innovations as independent variables while product and organizational innovations as mediating variables. The population of this research is 227 furniture companies with the minimum revenue of over IDR 5 billion per year and remains in business for the last of five consecutive years. We use simple random sampling techniques and 143 companies were selected as respondent then analyzed using Structural Equation Modeling. The result finds that product innovations directly and indirectly effect significantly by proactive and reactive innovations on market performance. Surprisingly, organizational innovation does not effect significantly on market performance neither as its mediating variable of proactive innovation. The originality of this study is that, this integrated model proves the direct and indirect effect of proactive and reactive innovation on product innovation and market performance significantly positive. This study has successfully identified adoption level of innovation that makes organizational innovation has no effect on market performance.

**KEYWORDS:** Competitive Strategy, Proactive Innovation, Reactive Innovation, Product Innovation and Market Performance

### I. INTRODUCTION

Furniture has a significant added value as an economic multiplier effect. Therefore, this industry is a priority sector for Indonesia. Employs more than 437,000 workers, 2.5 million indirect labor and generates 140,000 businesses with an investment value of Rp. 5.8 trillion (BRIK, 2017). On the other hand, due to the sector's large contribution, the furniture industry still shows a lag in growth. It can be seen from the market performance in the export and domestic markets. The export market performance, for example, is still depressed by the growth of imported furniture products, so that the accumulation of exports and imports has never reached the level of 2015 (BPS, 2019). In fact, a significant increase in market growth has been seen in each of these markets, but the Indonesian furniture business players have not yet succeeded.

When viewed more deeply, the market performance of local furniture products in the domestic market shows an alarming development. The Indonesian Furniture & Crafts Industry Association (HIMKI) reports that the growth of Indonesian furniture products is much lower than the growth of imported products, which is 3-5% compared to 10-15% (Sobur, 2021). This situation is made possible by the presence of local and global retailers by which aggressively selling 90% of imported furniture products offering innovative furniture products. A global retailer such as IKEA has followed the growing trend of the domestic market, marked by the opening of 4 new stores (Tempo. co, 2021). IKEA's marketing performance then grew by 15.28%, or Rp. 5.861 trillion (Kontan.co.id, 2022). While Informa, a local retailer, targets 100 new outlets and Ace Hardware up to 300 outlets (Tempo. co, 2019). Maybe only Olympic has wide network in penetrating the Indonesian furniture products because of its distribution channel. Another Indonesian company, apart from PT Chitose Indonesia Tbk, is PT Integra Cabinet Tbk, which has shown its optimism toward the domestic market by investing a capital expenditure of Rp. 200 billion in 2019. Like Olympic, the company's three marketing networks still haven't outperformed the rush of imported products.

The above phenomenon clearly sending a strong message to Indonesian Furniture's owners to play more proactive initiative. Being proactive in strategic breakthroughs means the company mobilizes its internal resources, manages various sources of information and analyzes them to uncover latent customer needs. The evidence above implies that different proactive market orientations are still important for organizations to understand the level of novelty generated and their impact on firm performance. It further strengthens RAToC's proposition that intangible assets in the form of information and knowledge

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management influence company leaders to direct the organization's sustainability. They do not hesitate to directly meet market demands by involving managers in marketing, R&D, production and other fields. Management initiatives to improve firm performance by generating innovation encourage companies to transform into organizational innovation. It is clear that innovation is one of the strategies to win the competition. Previous studies have linked innovation to an effort to increase competitiveness in maintaining and improving company performance. Experts include: Tutar et al. (2015), who linked innovation capability to market performance, and Guimarrés et al. (2016), linking product innovation to organizational performance. Jansen et al. (2006) link it with financial performance, and Morgan and Berthon (2008) and McDermott and Prajogo (2012) link exploitative and explorative innovation to performance. The study of Kusumawardhani et al. (2017) reported on incremental innovation when researching the business performance of furniture companies in Central Java; even one of the widely known theories, Resource Advantage Theory of Competition (RAToC), also stated that innovation is an inseparable part of the competition. Various advantages of imported product innovation are followed by after-sales service. First, it strengthens consumer preferences for the products offered. Sriwong and Kreling (2004) adopted the notion of the so-called total product (Levitt, 1980; Visnjic et al., 2016). That is the conception of the whole product that combines the value-added process from the raw material chain, design, marketing, and distribution, including after-sales service. This totality can be seen when conducting initial observations at several furniture retail outlets in Great Jakarta. It was found that the store management space arrangement presented a variety of atmosphere themes. The store manager tries to highlight the function and aesthetics of the product so that it is clearly visible to customers and can arouse customer interest in buying. The approach was developed to be able to convey aspects of the benefits and image of the product that customers want. The store manager adds free and paid delivery services and still compensates for complaints if there are discrepancies in the product. For the company's competitive advantage position to be maintained, RAToC mentions three conditions that must be met, namely: Engaging in proactive innovation, continuing to reinvest in resources that generate competitive advantage and, the acquisitions and thwarts competitors' reactive innovations. The three conditions above indicate the need for other qualities the company needs besides the ability to produce product innovation. RAToC recommends that companies develop proactive and reactive innovation. Proactive innovation is related to anticipatory efforts for latent needs that customers have not realized to improve business performance, and reactive innovation is related to meeting customer needs that are explicitly stated (Narver et al., 2004). The ability to produce product innovation has required business actors to capture every latent need of their customers and isolate them.

Companies with reactive innovations can enter the market if the first mover companies take the initiative to offer and demonstrate their success. This type of company only responds to its external environment, whether competitors or government regulations. The company's responses tend to be imitative or defensive when responding to competitors. Imitative means to offer similar products, and defensive means to offer as a reaction to competitors' new products (Urban and Hausser, 1984). Likewise, when reacting to government regulations, these companies tend to wait and then adjust their internal business processes. His prudence in producing innovations causes the tendency to take early initiatives to be avoided, especially when it comes to innovation inputs that require large investments in the fields of: technology, marketing and R&D. They are not the type who is willing to take high risks. Organizational innovation itself is measured by the level of innovation adoption (Damanpour, 1991). Every company that is able to follow up on information to produce innovation has essentially become an organizational innovation. The impetus for large or small companies to adopt innovations is their desire to produce different products or services that are better. New methods, technologies and administrative processes are implemented to generate innovation. Amid the pressures of dynamic environmental changes, some experts report that organizational innovation improves organizational performance (Prajogo and Sohal, 2006; Caroli and Van Reene, 2001; Greenan, 2003; Wolfe, 1994). Other experts assert that organizational innovation is a follow-up to a collection of information that the company has collected. Information that guides the company directs product innovation to satisfy customer needs and protect the target market segment (Hunt, 1997). Thus, the construct of organizational innovation becomes important to investigate its role in market performance.

## **II. LITERATURE REVIEW AND HYPOTHESIS**

Urban and Hauser (1984) and Ernst (2002) assess that the company's performance can be achieved by creating new products with differentiation. At the strategic leadership level, product innovation success requires a mental model to dare to direct the organization's strategic orientation in managing internal resources that proactively responds to latent customer needs by creating a comparative advantage in achieving sales performance. Proactive innovation implies that a firm's innovation strategy is oriented towards the latent wants of existing customers or customer needs through the introduction of new products, the creation of new markets, or the adoption of new distribution channels (Ahuja and Lampert 2001; McGrath, 2001; Danneels 2002; Jansen et al., 2006). McGrath (2001) considers that a decentralized hierarchy in organizational management is useful for developing proactive

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innovation to meet local requirements. Bierly and Chakrabarti (1996) Strengthened refers to a flexible strategy that accelerates the ability to adapt to changes in the external and internal environment by changing strategies to help companies manage risk quickly, responding proactively or reactively (Growal and Tansuhaj, 2001). In various studies, proactive innovation can improve market performance because of its ability to direct product innovation in finding, offering and satisfying latent customer needs. H1: Proactive innovation has a significant positive effect on market performance.

Referring to Narver et al. (2004), Atuahene-Gima et al. (2005) and Tsai et al. (2008), being reactive innovation means that the company focuses on discovering, understanding and satisfying customer needs that are expressed, managed quickly and motivated by a leadership model mentality taking the initiative to mobilize internal resources. Gary Holt (2015) reports that the construction industry in the UK can survive through reactive innovation for 200 years. Reactive innovation means that companies have increased resources to choose more flexible methods of allocating resources to adapt to environmental changes. In addition, it can strengthen the possibility of entering new markets by improving existing products and techniques. It means that reactive innovation encourages companies to have rich experience and knowledge in related fields that offer clear benefits and immediate improvements in performance. The capability developed through reactive innovation implies that the company's capability to enter the market is relatively mature. Various previous research pieces of evidence then suggest that organizations must always carry out renewal competencies and encourage each organization to produce continuous innovations to maintain and seize its competitive advantage position and achieve superior financial performance. "To innovate or die" has become a widely known adage, implying that the challenge of achieving market performance requires a continuous response to innovation.

H2: Reactive innovation has a significant positive effect on market performance.

Product innovation has become a source of profit, especially for companies that are early to innovate in dynamic industries (Lieberman and Montgomery, 1998, 2013). Product innovation which is called by Barney (1991) as a source of heterogeneity between competitors in the study of Irwin et al. (1998) have found a positive relationship between technological innovation and organizational performance and stated that the characteristics of product innovation that are rare, valuable, and non-immutable moderate this relationship. Product innovation is important to increase company productivity because it can be a source of competitive advantage needed to satisfy the needs of customers and targeted market segments. With its influence on organizational performance, Levitt (1990) has reminded the conception of what is called 'total product'.

H3: Product innovation has a significant positive effect on market performance.

Studies on organizational innovation are considered to be still rare (Armbruster et al., 2008), especially in terms of empirical evidence (Battisti & Stoneman, 2010), but several studies were found on the effect of organizational innovation on organizational performance, which consistently shows a significant positive relationship (Prajogo & Sohal, 2006; Caroli & Van Reene, 2001; Greenan, 2003; Osterman, 1994). In the face of a changing environment, new entrants in the industry can replace established organizations that cannot adapt quickly enough. Meanwhile, new organizations will develop new company entrepreneurship to achieve market performance. It makes organizational innovation produce dynamic capabilities in achieving market performance through superior financial performance. For Schlegelmilch et al. (2003), strategic innovation is the "fundamental conceptualization of the business model and redefinition of the existing market through changing the rules of the game and the level of competition to obtain a significant increase in value for customers and high growth for the company".

H4: Organizational innovation has a significant positive effect on market performance.

Proactive innovation is used to predict future markets accurately, preferences, competitive conditions and the evolution of environmental forces, as well as respond to unarticulated customer needs that have particular relevance to the innovation context (Miles and Snow, 1978; Milliken, 1987; Atuahene-Gima, 2005; Narver et al., 2004). Being proactive means reducing threats by taking preventive steps to implement product development strategies actively and becoming the basis of the company's innovation efforts because it results in new product performance (Narver et al., 2004; Tsai et al., 2008).

H5: Proactive innovation has a significant positive effect on product innovation.

Challenges from followers require agility and speed in action. The key to its success lies in the ability to manage internal resources to generate new offerings in the form of products with new benefits, although reactive innovation does not always only produce incremental innovation. Some studies even mention that reactive innovation will require a different structure than proactive innovation. The previous study requires a deeper concept because it considers the adjustment of the organization to the environment as well as the effect on the organization to organize itself. Atuahena-Gima et al. (2005) stated that being responsive will only be positive for new product performance under specific conditions, i.e., when a high strategic consensus is reached among managers.

H6: Reactive innovation has a significant positive effect on product innovation.

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The need to continuously update competencies to develop organizational innovation coupled with strategic leadership capable of producing innovation-oriented capabilities is a basic prerequisite for managing survival or growth (Arbore and Ordanini, 2006). Perceived market uncertainty is an important variable that influences the company's business policy to seize the market by developing a strategy that emphasizes accurately mastering demand in market dynamics, especially due to changes in customer preferences and expectations (Saeed 2015). Proactive innovation can be a strategy that can guide management in finding new opportunities, ways and approaches to satisfy customer expectations. Strategic leadership that can produce creative destruction to isolate the competitiveness of competitors and, at the same time, develop experience through the utilization of methods to form new companies that can sustainably move the market. Affirming a mental model that comprehensively maps and directs competition to a new form of regulation that is more profitable for the company in the long term.

H7: Proactive innovation has a significant positive effect on organizational innovation.

Each company will try to provide new offers to meet its market segment in the competition for customers. Offers with a value market offering are the company's goal in moving the market. Considering this, companies that can manage and predict customer needs will try to produce product innovation. Company leaders will always be challenged to produce product innovation to increase the chances of company sustainability achieved through market performance. For corporate leaders, there has never been a stable market, other than a market that moves dynamically to meet new customer needs, and each customer segment has heterogeneous needs that require products according to their wishes. It follows the RAToC proposition, which states that market heterogeneity can be met with different products. It can also be interpreted that RAToC encourages the creation of new markets, new distribution channels in addition to new products through innovation, according to the characteristics of proactive innovation. Various business practices resulting from this proactive innovation require the introduction and target of the resulting product innovation.

H8: Product innovation mediates proactive innovation on market performance significant positive.

To respond to the challenges of followers, companies are faced with developing reactive innovation. Experts previously argued that reactive innovation was only effective in influencing performance, especially in product innovation. Empirically, it can be understood that the urge to protect its market segment often occurs by producing product innovation in various forms of innovation, it can be in the form of new brands, new programs to incentives for certain benefits that have never been offered before, even in the form of something that is difficult to imitate by its competitors. The characteristic of this effort is a form of reactive innovation through product innovation to protect market performance.

H9: Product innovation mediates reactive innovation on market performance in a significantly positive way.

Most of the researchers underlined that producing proactive innovation is related to the ability to develop knowledge about latent customer needs; this means that organizations can manage predictions of customer needs earlier than competitors, even those that the customers themselves have not realized. A number of these pieces of information are analyzed following the trend of future trends to encourage organizations to apply various elements of novelty, both raw materials, technology, and new operational standards that add elements of novelty according to organizational goals. Previous researchers also stated that developing proactive innovation means being a trendsetter in producing and introducing new products. In other words, proactive innovation will result in organizational innovation and, in turn, will improve market performance. RAToC calls it an effort to carry out a competent renewal in an organizational manner.

H10: Organizational innovation mediates proactive innovation on market performance in a significantly positive way.

We, then develop all those hypotheses into an integrated conceptual model based on Chen et al. (2016) and Anderson et al. (2009) as shown at figure 1 as below:

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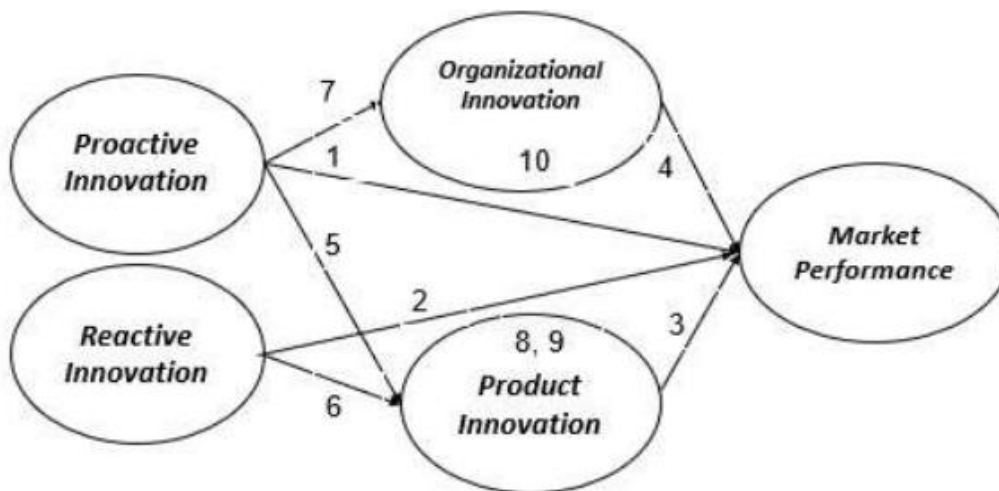


Figure 1: Conceptual Model

### III. RESEARCH METHODS

This research is quantitative research to test the hypothesis empirically. This research was conducted at a manufacturing company in the furniture sub-sector that is a member of HIMKI (Indonesian Furniture & Handicraft Industry Association). HIMKI became the only furniture and handicraft organization in Indonesia according to the agreement and mandate of the Indonesian FurnitureCrafts Association (AMKRI) and the Indonesian Furniture-Crafts Industry Association (ASMINDO) through the inauguration on May 31, 2016, in Jakarta. The study took the population of Indonesian furniture business entities that are members of HIMKI, with a turnover of more than IDR 5 billion/year, as many as 227 companies. After going through the Slovin calculation, data collected through survey with 98.62% response rate of 145 total respondents. The research variable consists of the dependent variable, namely market performance, the dependent variable is organizational innovation, while the dependent variable in this study is proactive innovation. The data processing results with the SEM-PLS technique with the help of WARP PLS 8 software.

### IV. RESULT AND DISCUSSIONS

Convergent validity relates to the principle that the manifest variables of a construct should be highly correlated. Convergent validity tests on reflective indicators can be seen from the loading factor value for each construct indicator. Referring to (Chin, 1998), the requirement used for convergent validity in confirmatory research is that the loading factor value must be greater than 0.7, while for exploratory research, the loading factor value between 0.6 and 0.7 is still acceptable (Solimun, 2017 and Ghozali, 2013). For research in the early stages of developing a measurement scale, a loading factor of 0.5 – 0.6 is still considered sufficient (Chin, 1998). In addition, the Average Variance Extracted (AVE) value must be greater than 0.5 (Fornell & Larcker, 1981). In this study, the loading factor value was obtained for each indicator, and the AVE value was known that the measurement of the reflective variable loading factor in this study was higher than 0.71, and the AVE was higher than 0.5, meaning that it had met the requirements of convergent validity.

Discriminant validity relates to the principle that the manifest variables of different constructs should not be highly correlated. The way to test discriminant validity for reflective indicators is to look at the cross-loading value for each variable that must be greater than 0.7. Another way that can be used to test discriminant validity is to compare the square root of the AVE for each construct with the correlation value between constructs in the model. The good discriminant validity shown from the square root of the AVE for each construct is greater than the correlation between constructs in the model (Fornell & Larcker, 1981). The correlation value and square root of AVE for each reflective latent variable in this study are presented in the table 1.

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**Table 1: Organizational Innovation Discriminant Validity**

No.	Indicators	Loading	Cross Loading				AVE	Description
		OI	PI	PRI	RI	MP		
1	Implementation of new ideas	<b>0.76</b>	0.062	0.273	0.08	0.391	<b>0.548</b>	fulfilled
2	Implementing a new way of behavior	<b>0.78</b>	0.243	0.339	-0.052	-0.22		fulfilled
3	Use of new raw materials	<b>0.799</b>	0.069	0.246	-0.025	0.151		fulfilled
4	Implementation of the new academic process	<b>0.748</b>	0.127	0.061	-0.171	0.125		fulfilled
5	Use of technology	<b>0.693</b>	0.223	-0.11	0.233	0.109		fulfilled
6	Implementation of new administrative processes	<b>0.649</b>	0.065	0.236	-0.053	0.277		fulfilled

The table above shows that the measurement of reflective variables in this study has met the requirements of discriminant validity. Furthermore, the results of the loading factor showed that the indicator of the use of new raw materials of 0.799 becomes the dominant indicator compared to other indicators in this variable. That is, respondents believe that using new materials is a strategic choice in innovating.

**Table 2: Market Performance Discriminant Validity**

No.	Indicators	Loading	Cross Loading				AVE	Description
		MP	OI	PRI	RI	PI		
1	<i>Sales volume</i>	<b>0.824</b>	-0.103	-0.119	0.096	0.098	<b>0.591</b>	fulfilled
2	<i>Profitability</i>	<b>0.729</b>	-0.273	0.469	0.066	-0.127		fulfilled
3	<i>Market position</i>	<b>0.722</b>	0.315	-0.71	-0.195	0.29		fulfilled
4	<i>Reputation</i>	<b>0.795</b>	0.071	0.339	0.017	-0.248		fulfilled

Table 2 shows that the measurement of the reflective variable in this study has met the requirements of discriminant validity with a loading factor value above 0.6. Other analysis results show that the sales volume indicator has a loading factor of 0.824, being the most dominant indicator among other indicators in this variable. It shows that sales volume is considered the most important because it becomes a priority in shaping market performance variables. In addition to the validity test, model measurement is also carried out to test the reliability of a construct. The reliability test was conducted to prove the instrument's accuracy, consistency and accuracy in measuring the construct. In SEM-PLS, the measurement of the reliability of a construct can be done by looking at the Cronbach's Alpha and Composite Reliability (CR) values. The rule of thumb that is usually used to assess construct reliability is that the Cronbach Alpha and CR values must be greater than 0.7 for confirmatory research, and values 0.6 – 0.7 are still acceptable for exploratory research. In this study, the Cronbach's Alpha and Composite Reliability (CR) values obtained for each reflective latent variable are as follows:

**Table 3: Convergent Validity**

	Cronbach's Alpha	Composite Reliability (CR)
<b>Organization Innovation</b>	0,851	0,890
<b>Market Performance</b>	0,807	0,874

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Based on table 3, it is known that the measurement of reflective variables in this study has met the reliability requirements. In formative construct measurement, the evaluation of the measurement model is done by looking at its significant weight, so that the validity and reliability test of the construct is not needed. One must undergo a resampling procedure (jackknifing or bootstrapping) to obtain significant weight. In addition, the multicollinearity test for formative constructs is absolutely necessary for calculating the Variance Inflation Factor (VIF) value. If the value of significance weight T-statistics  $>1.96$  is obtained, it can be concluded that the construct indicator is valid. As for the recommended VIF value  $< 10$  or  $< 5$ .

Significance weight and VIF values for each indicator on the formative latent variables in this study are presented in the following table:

**Table 4: Evaluation of the Outer Model for Formative Variables**

Variables	Indicators	T Statistics ( O/STDEV )	P Values	VIF
Product Innovation (PI)	Number of new product commercialization	3.85	<0.001	1.479
	Number of commercially successful products	4.251	<0.001	1.732
	Product benefits for customers	4.621	<0.001	2.105
	Product benefits that are clearly visible to customers	4.095	<0.001	1.699
Proactive Innovation (PRI)	Strategy to fulfill customer's latent desire	2.806	0.002	1.479
	Discussion of innovation needs	3.645	<0.001	1.732
	Strategy development to get new customers	3.437	<0.001	2.105
	Increased sales through new products	3.669	<0.001	1.699
	Research/monitoring activities on product innovation	3.672	<0.001	1.74
Reactive Innovation (RI)	Market segment protection	7.544	<0.001	1.731
	Speed of responding to customer needs	7.544	<0.001	1.731

Assessing the structural model with PLS begins by looking at the value of R square (R2) for each endogenous latent variable, as the predictive power of the structural model. Changes in the value of R2 can be used to explain the effect of certain exogenous latent variables on endogenous latent variables, whether they have a substantive effect or not. An R2 value greater than 0.75 indicates a strong research model, while 0.5 indicates a moderate research model, and 0.25 indicates a weak research model. The value of R Square for each latent variable in this study is presented in the Table 5.

**Table 5: R-Square**

	R-Square	R-Square Adjusted
Market Performance	0,697	0,689
Organization Innovation	0,596	0,593

From the test results above, it is known that the R2 requirements on the three variable values have shown that the moderate model tends to be strong, so that this model is feasible to be used in research. In the last stage, hypothesis testing is done by looking at the value and significance of the influence between variables, both directly and indirectly. The bootstrap procedure is not used after all the original samples do not require resampling. The reference significance value used is seen from the beta coefficient value, which shows the degree of relationship between variables. The value of the beta coefficient that is close to 1 indicates the degree of relationship is very good/perfect, and if the P-Values is less than 0.05, then the relationship between these variables is significant. For WarpPLS 8 does not produce a t-statistical value on the intervening relationship between variables; the significance test can be seen in the p-value. The following are the direct and indirect effects, as well as the significance of the relationship between variables in this study:

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Table 6. Hypothesis Testing Result

Hypothesis	Relationship Between Variables	Original Sample (o) (Beta Value)	P-value	Description
<b>Direct Effect</b>				
H1	Proactive Innovation -> Market Performance	0.304	<0.01	Accepted
H2	Reactive Innovation -> Market Performance	0.291	<0.01	Accepted
H3	Product Innovation -> Market Performance	0.326	<0.01	Accepted
H4	Organizational Innovation -> Market Performance	0.035	0.335	Rejected
H5	Proactive Innovation -> Product Innovation	0.505	<0.01	Accepted
H6	Reactive Innovation -> Product Innovation	0.219	0.003	Accepted
H7	Proactive Innovation -> Organizational Innovation	0.745	<0.01	Accepted
<b>Sobel Test</b>				
<b>Indirect Effect</b>		<b>T-statistic</b>	<b>P-value</b>	<b>Description</b>
H8	Proactive Innovation -> Product Innovation -> Market Performance	3.94	<0.01	Accepted
H9	Reactive Innovation -> Product Innovation -> Market Performance	2.344	0.0102	Accepted
H10	Proactive Innovation -> Organizational Innovation -> Market Performance	0.2489	0.401	Rejected

The test results using primary data show that the proactive innovation hypothesis on market performance has a positive and significant effect. The overall combination of variable indicators states that the priority toward new, more profitable products is supported by a strategy to maintain and increase the number of customers. Strategies are obtained by managing information through research, consulting and monitoring activities. Internal discussions, as well as with customers, have improved the company's market performance. From in-depth interviews, respondents explained that the order process and feedback are always followed up by email, telephone and face-to-face. For example, ordering a seat that can be raised and lowered or a special seat for a shoe factory operator is a new project for the company that contributes to increasing market performance. In addition, the more intense the communication in exploring the needs of each customer, the more actors understand the movement of trends that customers want. These critical aspects have provided quality services to maintain customer loyalty for decades.

Strengthening RATOc's proposition on intangible assets, and producer-consumer relationships that result in an understanding to develop a more lasting partnership. Intangible assets such as: legal, human, organizational, informational, and relational resources must be managed effectively and efficiently to produce a comparative advantage. It is, in turn, will result in superior financial performance through the company's competitive advantage. RATOc states, that every customer has different needs. The understanding of market heterogeneity in the RATOc proposition states that each consumer has differences in taste and preferences.

Therefore, RATOc emphasizes the importance of determining market segments through comparative advantage to achieve a competitive advantage in the market. So that it can also be understood, that carrying out a proactive innovation strategy means fostering social relations between the company and the environment, including specifically with customers, which will relatively produce value market offerings that can move the market. In this context, the relationship between proactive innovation and market performance is easier for every business person to understand.

The test results using primary data show that the reactive innovation hypothesis on market performance also has a positive and significant effect. All indicator variables in this study, proved to be dominant and very effective in influencing market performance. From the results of interviews, respondents tried to provide quality services that can anticipate losing customers. For example, consulting services, making new product designs free of charge or providing a money-back guarantee if the product that has been purchased is found to be defective or damaged within the warranty period. In addition, business people do not hesitate to develop after-sales service through guaranteed repairs to replacements if the product's color changes or does not match. By prioritizing customer satisfaction, business people can still maintain market performance so as not to switch to competitors. It confirms that



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companies that develop their internal resource management capabilities through reactive innovation can maintain market performance according to the results of testing the relationship between these two variables.

This research is a follow-up to Fan (2013)'s study, which suggests a study on strategic flexibility that needs to be examined further to systematically investigate the effects of proactive strategic flexibility and reactive strategic flexibility related to innovation performance. The reactive innovation indicator shows that the company has developed its resources to become more flexible in adapting to environmental changes. Several studies have shown that the reactive flexibility strategy that exists in companies is the development of much stronger organizational adaptability in mature markets (Johnson et al. 2003). In addition, reactive innovation means the company strengthens the possibility of entering new markets by improving existing products and techniques to respond to environmental changes.

Companies that emphasize reactive strategic flexibility rely on defensive moves and caution in performing after careful testing (Evans 1991; Gold and Powell 2000). This character is similar to Porter's argument that choosing a defensive strategy means developing reactive innovation. Added by Urban and Hauser (1980), reactive innovation is needed, especially to respond to customer needs and competitor activities. Reactive innovation encourages companies to master the experience and knowledge of the needs of rich customer segments by providing offerings with clear benefits and immediate improvements in market performance. Strengthened later by Hunt (1996), reactive innovation is needed as an effort to protect its market segment through high flexibility to adapt actions to environmental changes and achieve satisfactory performance.

Primary data from statistical test results found that the effect of product innovation on market performance is positive and significant. All indicators on product innovation variables prove that their influence on market performance is positive and significant in the Indonesian furniture industry. It differs from previous findings as well as research gaps from: Tang et al. (2017), Alvarez et al. (2012), Edeh et al. (2020), Edeh et al. (2020), Puspita et al. (2020), Bisbe & Otley (2004), Yalcinkaya et al. (2007), El-Kassar & Singh (2019), Harwiki & Malet (2020) and Nandan et al. (2020). The findings of this study support previous studies conducted by Bustinza (2018) and Khan & Naeem (2018). It confirms several propositions Hunt & Morgan (1996) put forward in RAToC. Indonesian furniture business players always strive to produce supply outputs that can move the market, generate profitability and repeat orders. Respondents also confirmed other RAToC propositions about different segments having different product needs.

From in-depth interviews, respondents confirmed that a trend cycle must be followed according to customer demand. For example, products with Balinese or Hindu themes are replaced with more colorful Mediterranean themes. This empirical fact explains that Indonesian furniture business players consistently try to update their products to maintain their market position by maintaining customer retention. New offerings are needed to maintain market performance by producing different product innovations according to the needs of different customer segments. For example, the need for work desk products (desk & table) is updated by increasing its comfort, adding more leg room, sliding storage shelves or adding features to make it more practical, modern and efficient. The various examples of the above efforts have resulted in product innovation as the best value market offering output to customers. Offers that enhance the company's sustainability survive amidst the pressures of an increasingly competitive environment and diverse customer needs

The results of empirical data verification found that even though there was a positive relationship, this study found that the relationship between organizational innovation and market performance was not significant. In contrast to the results of several previous studies that have been revealed by Prajogo & Sohal (2006), Caroli & Van Reene (2001), Greenan (2003), Moralesa et al. (2007) and earlier from Osterman (1994). This research is similar to the results by Fang Wang (2020); namely, organizational innovation is considered important for the performance of Chinese manufacturers. The insignificant effect of organizational innovation on market performance found in this study confirms previous research conducted by Baron and Kenny (1996) and Solimun (2010). Other evidence comes from Puspita et al. (2020), who conducted a study on the Indonesian furniture industry and reported that innovation capability had no positive and significant effect on business performance. Innovation capability is measured through product, process, marketing, and managerial innovations

The test results using primary data show that the proactive innovation hypothesis on product innovation has a positive and significant effect. Furthermore, proactive innovation is proven to be able to have a positive influence on the strategic orientation that directs product innovation to satisfy customers. This finding supports RAToC, which explains that customer satisfaction orientation is the company's top priority in innovating, including the strategic planning process or new product process (Adler et al., 1992). He further emphasized that RAToC has suggested a focus on creating new market segments by creating new, more valuable products.

In-depth interviews with respondents stated that two strategies were developed to produce product innovation. First, to increase the product portfolio by producing accessories as variants of new products and, secondly, by reducing production costs.

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This method is done by looking for alternative substitute raw materials. Initially using solid wood, it was replaced with mixed raw materials (nonsolid wood). For example: particle board, MDF, blockboard and plywood which do not affect the aesthetics and strength of the product so that it continues to strengthen the company's brand image. Innovation is oriented to provide a valuable advantage that is fundamentally something new and superior in the market (Kim and Mauborgne, 1999). Proactive innovation gives influence so that product innovation can win the market. It explains that proactive innovation is the basis for company innovation (Vazquez et al., 2001). Chen et al. (2016) used it in studies on green innovation and divided it into: proactive green innovation and reactive green innovation. His findings suggest that being proactive is taking the initiative and trying to create an advantage. Chen-Ju Lin & ChingChou Chen (2013) relate proactive market orientation to finding future market opportunities or new markets that can meet potential customer needs (Naver, Slater and Maclachlan 2004). Per Kreiser et al. (2013), proactive companies can be positioned better in exploiting opportunities that exist before competitors. New opportunities can also be generated by establishing a more favorable external environment and lower costs by managing a higher level of proactiveness.

The test results using primary data show that the reactive innovation hypothesis on product innovation has a positive and significant effect. The results of statistical tests confirm that the speed factor in responding to customer needs is the most important thing to ensure the fulfillment of customer needs. This response speed is also supported by certain approach methods to maintain and protect customer segments. The character of the Indonesian furniture business, which involves more high creativity, encourages business people to develop a more personalized response system. Among others, optimizing the use of available raw materials to produce new quality products. Not infrequently various extra services are provided to customers, for example drawing various designs tailored to space requirements and informing the strength of raw materials. In addition, provide product quality assurance and accompany the ordering process so that customers really know exactly the overall product specifications. Thus, customers increasingly understand that the price is directly proportional to the quality of product innovation

This empirical fact aligns with one of the RAToC propositions, which states that market equilibrium is always provoked dynamically. The cyclical movement of customer needs trends to encourage businesses to offer new products, processes or business models. It means that Indonesian furniture businesses are faced with adapting quickly to changes & customer preferences. Reactive innovation becomes a defensive strategy in responding to the changing trend in preferences and aims to maintain customer segments. Amid such competition, business people have the choice to become a follower or creatively become a trendsetter in responding to environmental changes and competitors' challenges in the short term. This finding follows the study conducted by Chang (2015) and Chen et al. (2016). Furniture business players admit that customer demands, which are responded to quickly by providing excellent service, have a significant impact on suppressing competitors' activities. It strengthens Hunt's (1997) proposition that reactive innovation has a role in isolating the competition space. Also confirmed by Atuahena-Gima et al. (2005) that maybe only reactive innovation impacts the performance of new products.

The results of testing the research framework model for the effect of proactive innovation on organizational innovation show a positive and significant effect. This study proves that proactive innovation is interpreted to produce an orientation that guides strategies to influence organizational innovation in the process of finding opportunities, using technology, methods, approaches, and raw materials for new administrative processes. If Ahuja and Lampert (2001) mention that proactive innovation emphasizes the company's innovation strategy oriented to the latent desires of customers, McGrath (2001), Danneels (2002) and Jansen et al. (2006) stated it as an effort to meet customer needs through the introduction of new products, the creation of new markets or the implementation of new distribution channels. It was confirmed through in-depth interviews that respondents developed a monitoring system to explore aspects of novelty in the product. Both in terms of benefits that must be clearly visible and other factors that encourage customers to choose competing products, whether specific because of price or because of quality, for example. It encourages setting new targets, new distribution channels, creating new administrative processes, seeking new alternative materials or producing with new methods. Even combining the use of existing raw materials into something that looks new. Some examples of activities above confirm the awareness of Indonesian furniture business players to reveal customers' latent desires.

The results of primary data testing between proactive innovation mediated by product innovation on market performance showed a positive and significant effect. These results strengthen the evidence that the role of proactive innovation can influence product innovation to improve market performance. It means that the output offering in the form of product innovation which has also been proven to be successful in moving the market in this study, is also influenced by the role of proactive innovation. As in the relationship mediated by organizational innovation, the relationship between the two variables mediated by product innovation can have a significant effect, as evidenced by the contribution of all variables to the R2 value.

This result strengthens the proposition of RAToC, which states that knowledge & information is a source of innovation. Comparative advantage is triggered by managing information to produce product innovation to increase competitive advantage

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and, in turn, will relatively increase the financial advantage. The interview stated that there were various resource constraints, but business people were still able to increase profitability through hand-made products that rely on high creativity. These constraints include: the scarcity of raw materials, an increase in shipping costs of up to 400%, the high cost due to the regulation of SVLK (Wood Legal Verification Certificate), innovative accessories to produce product innovation and others. This empirical fact further strengthens that innovation is part of the main strategy to win the competition. Mastery of latent customer needs.

This strategy follows creative destruction characteristics that result in increased productivity and economic growth (Hodgson, 1997), strengthening the proposition of RAtOC, which calls the economy a process of evolutionary selection and competition. Also confirms the research of Shelby D. Hunt and Madhavaram (2006 and 2012), which states, that resource advantage can explain important organizational strategies. Empirically, furniture players are able to develop various strategies. These include resource based, competency-based, industry-based, market-oriented, brand equity, market segmentation, and relational marketing strategies. It is one of the characteristics of the Indonesian furniture industry's capabilities as a result of the findings of this study.

The evidence from primary research data confirms that the effect of reactive innovation on market performance mediated by product innovation is positive and significant. The hallmark of reactive innovation is the ability to isolate competitors' challenges, which are mediated through product innovation. It is in line with a study by Kusumawardhani & McCarthy (2013) when researching the furniture industry in Central Java which carried out incremental innovation through the differentiation of indoor and outdoor furniture. The resulting innovation can encourage and move the market amid market pressure and turbulence. Respondents stated that the Indonesian furniture industry grew positively despite various pressures. Namely: regulatory changes, lack of regulatory support, the presence of new competitors on a mass scale, limited supply of innovative materials, and high shipping costs of up to 400%. Not infrequently, the delivery time is often delayed making the cost of production rise drastically higher. From in-depth interviews, it is known that Indonesian furniture businesses always move quickly by serving the addition of newness aspects that provide aesthetic and functional values for products that represent customer image needs. Regarding reactive innovation indicators, business people have ensured the minimum quality of services that suppress complaints. For the furniture business, retaining customers means maintaining the company's sustainability. Other customers' slightest complaint is considered less profitable for the company in the long term. They will lose customers, and the company's image will fall because other potential customers will hear it. Therefore, business people avoid situations like this. The various methods to ensure customer satisfaction are driven by awareness to protect existing customer segments from competitors to remain loyal to the products produced by the company. The primary data results testing the effect of proactive innovation mediated by organizational innovation on market performance showed an insignificant relationship. Although the direct effect of proactive innovation on organizational innovation is significantly positive, this finding proves that organizational innovation has not been able to mediate proactive innovation on market performance. The results of the statistical test above prove that although the furniture business has developed the ability to explore the latent desires of customers, it has not been able to drive the required level of innovation adoption. It affects the non-optimal role of proactive innovation to improve market performance through organizational innovation. Difficulties in the export and domestic markets due to the low level of innovation adoption affect their ability to utilize proactive innovation in competitive strategies. The evidence follows several previous studies. Kang et al. (2015) found that being proactive does not necessarily mean having the desire to innovate. The research involving 107 managers and 35 CEOs seems to confirm that the ability to explore the latent desires of customers will not necessarily be realized. More assertive than the report of Narver et al. (2004), Atuahene-Gima et al. (2005), and Tsai et al. (2008) stated that proactive market orientation is only positively correlated with new product performance. The Bodlaj (2012) report suggests that organizations invest their resources in developing a proactive market orientation to explore latent needs and develop new products to satisfy customers. The study was conducted on 3,732 companies in Europe with a response rate of 16%. Yang et al. (2019), which examined 935 manufacturing companies in China, reported a positive and significant effect of a proactive market on innovation capability as measured by products, processes and systems.

## **V. CONCLUSIONS**

Quality interactions with customers strengthen the impact of proactive relational innovation on market performance. It can be seen that the competitive strategy of capturing and maintaining the market by developing various interaction channels has been proven to have a positive and significant effect on market performance. It can be stated that this study confirms the management of intangible assets can improve market performance. The success of protecting customer segments as a form of reactive innovation can maintain market performance. It can be seen that a strategy oriented towards protecting market segments results in the retention of existing customers to maintain market performance. The novelty aspect that is clearly visible in product innovation can improve market performance. It can be seen, that adding novelty aspects to produce new product variants with

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more efficient production costs and clearly visible to customers can improve market performance. The low level of innovation adoption causes organizational innovation to be unable to improve market performance. It can be seen that the limitations of innovative materials, high logistics costs and limited liquidity to use the latest technology affect organizational innovation in improving the market performance. These limitations lead to a low ability to acquire customers. The latent needs of customers that are extracted from proactive innovation are a source of comparative advantage over product innovation. It can be seen that extracting feedback and adopting innovations realized to meet customer expectations and needs by giving new product aspects can be a source of comparative advantage. Speed and excellent service quality cause reactive innovation to positively and significantly impact product innovation. It can be seen that the speed in providing excellent service can satisfy customer expectations for product innovation offerings. It can be seen, that the ability to recognize different customer needs can produce the impact of proactive innovation on organizational innovation. The trend of the furniture product cycle that business actors manage can direct the adoption of the required innovations. Different needs according to the customer's personal image provide opportunities for business actors to implement organizational innovation. It can be seen that being proactive in innovation through extracting information at the request of product innovation that has a comparative advantage has improved market performance. This research proves that the ability to explore customer needs to produce a comparative advantage in product innovation has improved market performance. Comparative advantage in the form of products that meet the customer's image can be used as a competitive strategy to maintain the market. It can be seen that the speed of responding to the needs of product innovation and excellent service within the framework of protecting the customer segment as a form of reactive innovation can improve market performance. From this research, it can be seen that Indonesian furniture business actors prioritize the quality of relational relationships that produce product innovation so that business relationships and company sustainability are maintained. It can be seen that the latent needs of customers that are not followed by the adoption of innovation suppress the influence of proactive innovation on organizational innovation and market performance. As for future research, research opportunities can be identified. Since this study proves that customer demand that is not followed up by innovation adoption, the role of proactive innovation on organizational innovation and market performance are in need to study further with different methodology and data variation that might enhance our understanding of the relationship between organizational innovation and market performance. Furthermore, studies combining organizational innovation and knowledge management shall be examined to the success of market performance in more holistic view. In this study, the insignificant impact of organizational innovation caused by its customer request just stopped as an input only.

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