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**THE ROLE OF CUSTOMER INNOVATION AND ORIENTATION ON THE
BUSINESS PERFORMANCE OF PT PEGADAIAN (PERSERO)
SUMATERA AREA OF SOUTH SECTION**

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Abstract: Facing increasingly stringent global markets, PT Pegadaian (Persero) continues to innovate various products and services, but its business performance has not yet satisfied various parties. The purpose of this study is to determine the role of innovation in the relationship between customer orientation and business performance. Another objective is to obtain empirical evidence of the influence of customer orientation both directly and indirectly on the business performance of PT Pegadaian (Persero). The design of this study uses a quantitative approach with a survey method. The research model is confirmatory, so the data analysis technique used is the structural equation model (SEM) with the application of the LISREL program. The study population was all customers of PT. Pegadaian (Persero) in the Southern Sumatra Region. The total sample of 120 respondents taken by accidental sampling. The results of this study indicate that the direct influence of customer orientation on business performance is smaller than the indirect effect. This shows that the innovation variable is a good mediator for the relationship between customer orientation and business performance. The better customer orientation is done, it will increase innovation, which in turn will affect the business performance of PT Pegadaian (Persero). The managerial implication of this research is the need for PT Pegadaian, especially in the marketing division to continue to carry out customer-oriented marketing strategies with various innovations that customers need.

Keywords: Customer Orientation, Innovation, Business Performance.

INTRODUCTION

The era of globalization has made the business world increasingly demanded to be able to show their expertise in running their businesses. The complexity and dynamics of the fast growing business environment has driven companies to strengthen their strategic base. The goals to be achieved by a company is one of the measures of company performance, so the company needs to set corporate goals as part of the strategic management process. The final results of a company's activities are stated as company performance (Wheelen & Hunger, 2015). After the strategy is implemented, the company needs to set the company's goals as a measurement tool (Wheelen & Hunger, 2015). Companies that can survive and run well because they have high competitive advantage (Porter, 1998). The determinants of a company's competitive advantage are quality, accessibility, availability of resources, knowledge, the amount and cost of capital resources, the structure of the financial industry, and the availability and quality of physical infrastructure (Porter, 1998).

Companies that build concepts by focusing on customers are expected to be able to access their markets and guarantee sustainable growth. Narver and Slater (1995) explain that companies that have made market orientation an organizational culture will focus on external market needs, market wants and demands as the basis for developing strategies for each business unit in the organization, and determining the company's success. Human resources become one aspect that must be managed properly, to obtain performance and be competitive. Market orientation is significantly related to company performance (Baker and Sinkula, 1999).

PT Pegadaian (Persero) is targeting net profit and total assets to grow double digit in 2019. Net profit is targeted to reach IDR3.3 trillion this year or increase 22.22% compared to 2018 achievement of IDR2.7 trillion. In the Pegadaian 2019-2023 blue print, the composition of the portfolio will change for the performance of the pawn and non-pawn business by 84% and 16%, gradually to 60% and 40%. Without leaving his main business, which is a pawn. Pegadaian will also continue to digitize its systems and products to make it faster and more efficient with experiences throughout 2018, in parallel product innovation, services and transformation of the company managed to carve a financial performance that on average grew above 9% (Bisnis.com, 2 January 2019 accessed 29 October 2019).

Pegadaian not only improved in terms of services, but also various product innovations throughout 2018, such as gold savings pawns, multi-use creations, and KCA Prima / Rahn Hasan. Pegadaian will also continue to develop innovative products and service systems online (digital) to meet customer needs. One of them, the Digital Pegadaian application so that transactions can be more easily done, simply by using a device. This condition illustrates that to produce company performance marketing strategies need to be done through customer orientation, innovation so that it has an impact on competitive advantage that has implications for marketing performance.

The existence of world free trade agreements, the trade alliances are required to be ready to fight in the competition. This is done to be able to create competitive advantage from its resources, not only relying on comparative advantage which has been a strategy of countries in the world to compete, but can also be realized by producing quality goods and services.

Customer orientation is the key to success in the future at the level of sales and the company. Companies must increasingly focus on what are the expectations and needs of

customers. Customer-oriented sales can improve the relationship between seller and buyer. The results of Wulandari's research, (2014) stated that customer orientation has a significant effect on adaptive sales.

Research gaps that can be explained as the basis of this research include the results of Jaworski and Kohli's (1993) research which states that market orientation does not always have a positive effect on marketing performance, while Greenley (1995) states that the relationship between market orientation and market performance is less significant. The research of Han et al (1998) presents contradictory research results, where market orientation has a positive but not significant effect on company performance, but in the research it is stated that market orientation has a significant effect on performance through innovation.

Based on the description of the phenomenon and research gap above, the researcher is interested in conducting a study of the impact of customer orientation and innovation on business performance at PT Pegadaian (Persero). This research is expected to be a managerial solution to improve bi performance

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LITERATURE REVIEW

Market-oriented companies are companies that develop a better understanding throughout the organization about Pelhan (1997) consumer needs. Through the application of market orientation, companies can create consumer value, develop better strengths and weaknesses of competitors so that the ability to understand customers, especially the needs and desires of customers will help understand who their potential customers are today and future customers. What they want in the future, what they feel now and what they will feel in the future to create satisfaction for customers (Slater and Nerver, 1990).

Customer orientation places the customer at the beginning, center and end of each transaction. This condition shifts the company's focus from the product to the customer. This approach also means the organization must have a deep understanding of customer needs and expectations. In addition, organizations must have the ability to deliver strategies through various stages of the customer's life cycle.

The concept of innovation has a long history and different understandings, mainly based on competition between companies and different strategies that can be used to compete. Innovation is introducing useful new ideas, goods, services or practices. Innovation is one of the corporate choices in the face of market competition and sustainable management. Innovation can also be interpreted as ideas, methods or new equipment. Actions in creating new goods or processes. Actions that include the discovery or work needed to bring an idea or concept into its final form.

According to Okpara (2007) innovation is defined as adding something new to an existing product or process. Innovation is the successful exploitation of new ideas. Okpara (2007) further explained that innovation is the process by which entrepreneurs convert market opportunities into ideas that are workable, profitable and marketable. Innovation is an application of something creative that has a significant impact on an organization, or society. Innovation is the process of bringing the best ideas into reality, which are innovative.

Innovation is the creation of new value, Innovation is a process that combines ideas and knowledge into new values.

Blumentritt and Danis (2006) see that corporate innovation behavior is determined by the company's ability to remove obstacles in innovation from both the process of ideas and resources, and the level of innovation is determined by the source of ideas in innovation, namely the desires of consumers, competitors, competition, or a new vision of company. Process innovation includes company involvement in implementing innovation with technology support, company involvement in every project, continuous innovation as one of the company's strategies, making written innovation plans, ownership of ISO certificates, ownership of other formal quality certificates, changes in organizational structure in last two years, a systematic measurement of customer / customer satisfaction and the company collaborated on innovation activities / activities.

In general business performance is multi-dimensional construction (Venkatraman and Ramanujam, 1987). Ruekert and Walker (1987) present a neat but comprehensive framework that assesses business performance in terms of effectiveness, efficiency and adaptability. Effectiveness refers to the success of the business strategies of competitors in serving selected markets (Mavondo, Chimhanzi, & Stewart, 2005). Measures such as sales growth and market share capture the essence of this dimension. Efficiency shows the results of business strategies with respect to the resources used in implementing them and is determined through the use of financial ratios such as return on investment. Operating efficiency is characterized by a narrow scope of activities and an emphasis on cost control through standardization of operating procedures (Hambrick, 1983). Adaptability refers to the degree to which organizations successfully respond from time to time to change the conditions of the external environment. New products and / or services that are successful in responding to changing customer needs and competitor offerings function as substitutes for adaptability. Subsequent and more recent work has validated the benefits of this "balanced" approach to measuring performance (Morgan et al., 2002).

RESEARCH METHODS

This research is a quantitative study with data collection through surveys. The study population was all employees of PT Pegadaian (Persero) in the Southern Sumatra region. The research sample was 120 respondents. The sampling technique was carried out by proportional random sampling in each office unit. The research instrument was carried out using a questionnaire constructed from operational variables as in Table 1. The research instrument used 5 (five) categories from Strongly Disagree to Strongly Agree.

Table 1.
Definition of Operational Variables

| Variable | Indicator | Scala |
|------------------------------|---|----------|
| Customer Orientation (CO) | <ol style="list-style-type: none"> 1. Understand customer desires 2. Informative to customers 3. Creating joint creations 4. Overcoming customer complaints | Interval |

| | | |
|--------------------------------------|--|-----------------|
| <p>Inovation (INNO)</p> | <ol style="list-style-type: none"> 1. Technological involvement 2. Continual innovation as one of the company's strategies 3. ISO certificates and others 4. Market research conducted by the company. | <p>Interval</p> |
| <p>Business performance (BP)</p> | <ol style="list-style-type: none"> 1. Efficiency 2. Effectiveness 3. Market growth 4. Adaptability 5. Growth of new products 6. Commitments | <p>Interval</p> |

Analysis of structural equation models (SEM) has been used to analyze the relationships between variables and measurement models. The analysis tool was carried out with the help of the LISREL program package version 8.7.

FINDINGS AND DISCUSSION

Descriptive Analysis

Respondents' responses to customer orientation variables are seen in Figure 1.

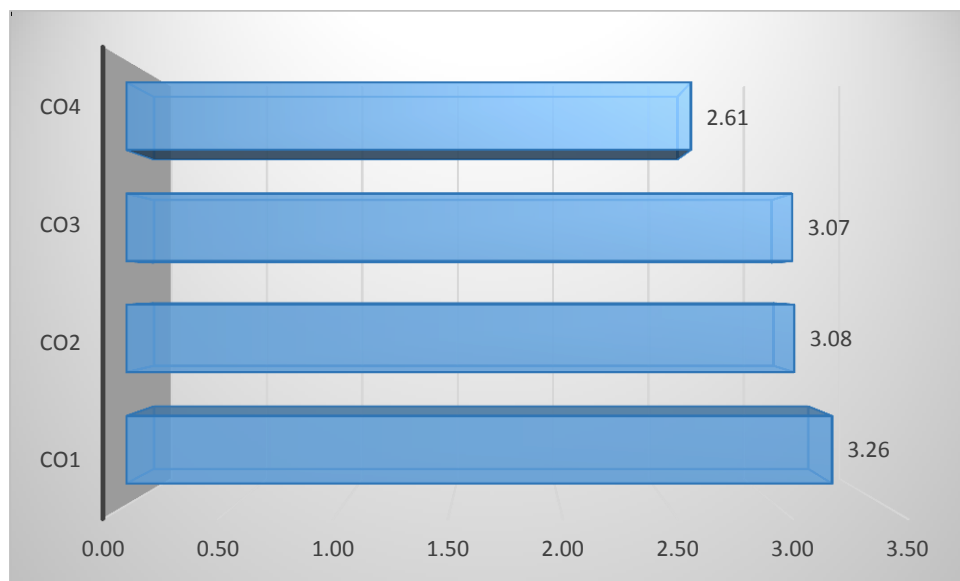


Figure 1. Respondents' Responses to Customer Orientation Variables

Figure 1. Shows that the indicator "understanding customer desires" has the highest perception value compared to other indicators, which is 3.26 from a scale of 5. The lowest perceived indicator is the 4th indicator (CO4), which is to overcome complaints slowly, because at PT Pegadaian (persero) there are not many complaints from customers. This means that companies should better understand what customers want.

Respondents' responses to the innovation variable are quite diverse. High responses occurred in indicator 2 (INO2) and indicator 4 (INO4), while indicator 1 (INO1) and indicator 3 (INO3) were perceived low. This shows that the innovations carried out at PT

Pegadaian (Persero) are still not optimal. Respondents' responses to the innovation variable look like in Figure 2.

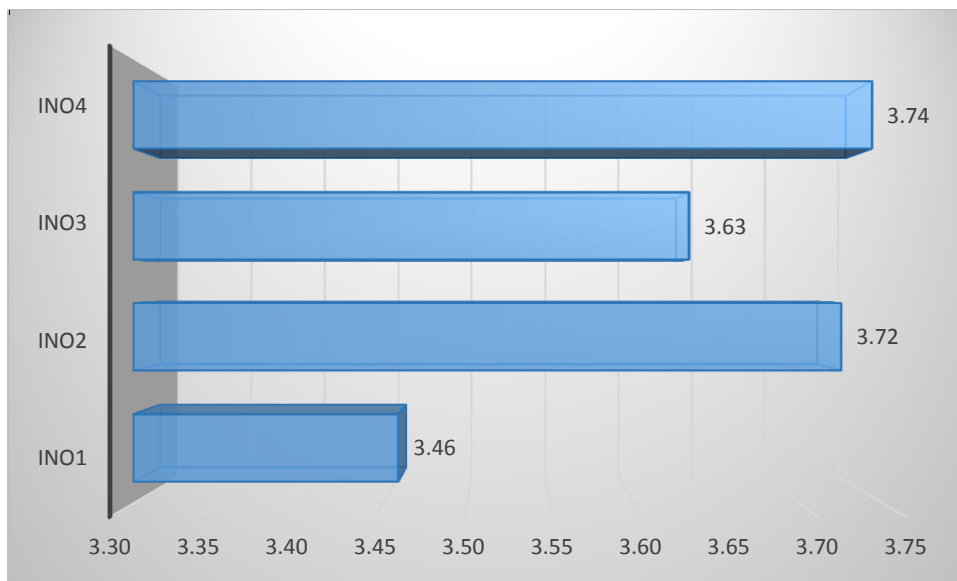


Figure 2. Respondents' Responses to Innovation Variables

Respondents' perceptions of business performance appear relatively homogeneous (see Figure 3).

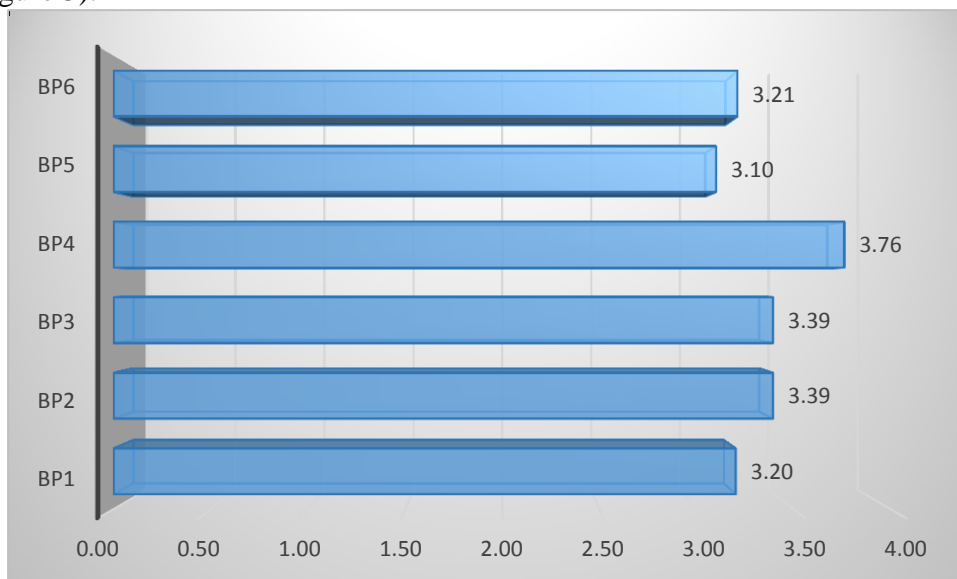


Figure 3. Respondents' Responses to Business Performance Variables

Structural Equation Model Analysis (SEM)

Before an analysis of the structural model is carried out, a confirmatory factor analysis (CFA) is first performed. CFA is done to see the validity and reliability of the measurement model. The CFA results show that all indicators are valid and reliable, then a full model is formed and the results obtained are shown in Figure 4.

The formation of a structural model is intended to test the hypothesis of whether or not the influence of customer orientation (CO) variables on innovation (INNO) and business

performance (BP), and how the role of innovation variables in mediating customer orientation variables with business performance.

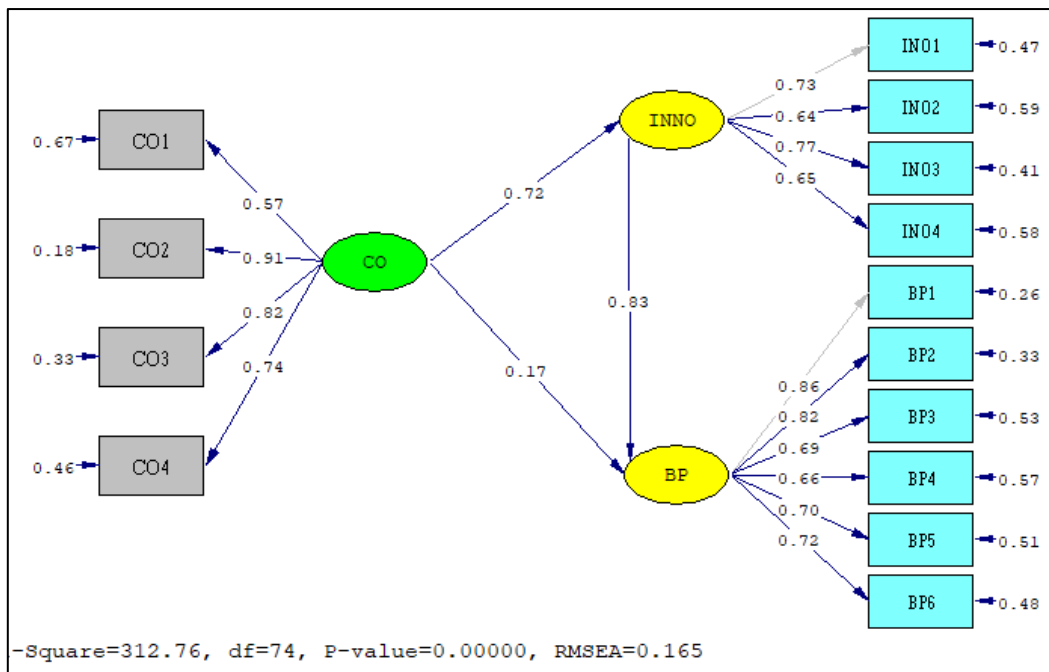


Figure 4. Overall Model parameter values

Figure 4. Shows that the relationship between variables is positive. The influence of customer orientation on innovation by 0.72, the effect of innovation on business performance by 0.83 and the influence of customer orientation on business performance by 0.17. The mathematical equation that is formed from the structural model is:

$$INNO = 0.72*CO, \quad R^2 = 0.52 \quad (1)$$

(0.11)

$$BP = 0.83*INNO + 0.17*CO, \quad R^2 = 0.93 \quad (2)$$

(0.14) (0.11)

6.02 1.63

Based on the above equation it can be seen that model (1) shows that customer orientation has a positive and significant effect on business performance. The higher customer orientation of a company, business performance will also increase. Model (2) shows that customer orientation has no direct effect on business performance, while innovation has a direct effect on business performance. This condition illustrates that innovation is a good mediating variable for the relationship between customer orientation and business performance.

The results of this study are in line with Asmuji, (2003) who said that innovation directly has a positive and significant effect on company performance, meaning that the higher the innovation, the higher the company's performance. The results of research conducted by Hans, et.al (1998) in Prakoso, (2005) said that innovation positively and significantly influences company performance. According to Kemp, et.al, (2003) researching

about Innovation and Firm Performance, the results of his research indicate that national innovation policies have a positive and significant influence on the performance of small companies.

CONCLUSION AND SUGESTION

Based on the results and discussion it can be concluded that:

- 1) Customer orientation has a positive and significant effect on the innovation of PT Pawnshop (Persero). The better customer orientation of PT Pegadaian (Persero), the higher the innovation. Through the creation of a customer orientation new innovations will emerge in line with the wants and needs of the customer.
- 2) Customer orientation has no direct effect on business performance, but has an effect on innovation, while innovation has a positive and significant effect on business performance. This shows that innovation is a good intervening variable for the relationship between customer orientation and business performance.

The business performance of PT Pegadaian (Persero) can be improved by creating an effective customer orientation, so new innovations will emerge that will ultimately improve business performance. Companies need to pay attention to customer desires, provide information made to customers and maintain customer engagement by providing after-sales service.

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