Proactive and Reactive Innovation Toward Market Performance of Indonesian Furniture

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Keywords: Market Performance, Product Innovation, Proactive Innovation and Reactive Innovation.

Abstract: For the furniture business, the current domestic market situation is not easy. Reviewing the tight competition map for the domestic market, among others, is represented by imported home appliance retail companies. Indonesian Furniture Association reported that the growth of imported products has been pushing down its domestic market performance by 10-15% compare to 3-5% annual growth. This study aims to explore market performance in terms of proactive and reactive innovation, both in terms of product innovation and the organization of furniture companies. This research is based on a literature study to obtain basic results. The results expected to describe how Proactive and Reactive Innovation can improve Market Performance, both in terms of products and organizations. Based on these findings, this research is expected to become a study material and basic literature for furniture companies to determine the direction of market performance development. The literature perspective provided on this study, deepen its strategy of Indonesian furniture companies in developing management to face various changes and competition through innovative strategies that have a positive impact on company performance.

1 INTRODUCTION

The performance of the national furniture industry needs a new game-changer. It can be seen at least from the ratio of productivity growth in the domestic and international markets, which has not been encouraging. Performance is reflected in the aggregate data on furniture exports-imports up to 2020, which is still below that of 2008. The Indonesian furniture industry, although continuing its positive growth in 2015, reached 1,902 million USD, only a slight increase of 1.3% from 2014's figure of 1,878 million USD, then until 2020, it reached 1,911 million USD, an increase of 8.1% compared to 2019, but still lower than the 2008 achievement, which had reached 1,954 million USD (BPS, 2019). Other data shows that the export value of Indonesian furniture in 2015 was still 1.81 million USD and was ranked 21st in world export products, lower than the previous year with exports of 1.9 billion USD (BPS, 2016).

In summary, from 2008 to 2020, export performance has not yet touched the figures achieved in 2008. In fact, the domestic market is under significant pressure from imported products that continue to increase, suppressing national products by +/-200% since 2015, worth 624 million USD in 2020. Compared to the export-import trade balance from 2015 to 2020, the performance of this sub-sector continues to grow. However, experienced a negative growth trend of 16.7%. Even though there was an 8.1% increase in exports in 2020 compared to 2019, the balance has never reached USD 1,546 million since 2015. In other words, the growth ratio of the furniture industry until 2020 has not been satisfactory. As reflected in the performance data above, the pressure on imported products is felt by these industry players. According to HIMKI, this industry is facing intense competition from imported products in the domestic market. HIMKI assumes that the growth of imported products is in the range of 10-15%, while the growth of national furniture products in the domestic market is only around 3-5% (Sobur, 2018). The growth of imports of furniture products in Indonesia has now controlled 45% of the domestic market, and if it continues, the domestic market is very likely to be dominated by imported products. The current domestic market situation is not easy for local furniture business players, so that there is a need for innovation in a product.

Research by Edeh et al. (2020) on SMEs in Nigeria, found that product innovation was not significantly related to export performance, although

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the results of his study found that process innovation and marketing innovation lead to an increase in export performance. From Puspita et al. (2020), who conducted a study on the Indonesian furniture industry, found that innovation capability as measured by: product innovations, process innovations, marketing innovations and managerial innovations did not have a positive and significant effect on business performance. Then the research by Bisbe & Otley (2004), which tested the model previously developed by Yang et al. (2009) regarding the level of Management Control System (MCS) by top management in both product and process innovation activities on business performance, resulted in the finding of a negative correlation between product innovation. On business performance on the use of MCS in high-innovating companies. Also, from Yalcinkaya et al. (2007) reported an insignificant effect of product innovation on firm performance, although much of the literature shows a higher level of product innovation will be able to improve market performance. El-Kassar & Singh (2019) stated that the results were also quite surprising. His research which focuses on the creation of Green Product Innovation (GPI), finds that it has no significant effect on Organizational Performance as well as on Competitive Advantage. Another study conducted by Harwiki & Malet (2020) through a comparison between the handicraft MSME industry in Indonesia and Spain has revealed that the innovation variable does not have a significant influence on the performance of MSMEs in Indonesia, the opposite result occurs in Spain where innovation has a significant influence on the performance of MSMEs. Spanish. The same thing was found by Nandan et al. (2020) study that Technological Innovation has no significant effect on financial performance.

Different results are obtained from the research findings conducted by Bustinza (2018), which reveals the complexity of the relationship between product-service innovation (PSI) or servitization on firm performance, which results in a mismatch between theoretical predictions empirical evidence. The results of his research show a positive and linear relationship between product-service innovation (PSI) variables on firm performance. According to this study, Resource-based Theory directs companies to focus on exploiting their unique resources, as driven by PSI being able to contribute to generating competitive advantages that are difficult to imitate in the long term. Also, research by Khan & Naeem (2018), which examines the relationship between quality practices, service innovation and organizational performance in telecommunications operator companies in Pakistan, shows that quality practices improve service innovation and organizational performance, while service innovation has a positive impact on organizational performance so that the results of his research recommend that telecommunications operator companies must give importance to quality practices and service innovation to ensure an increase in organizational performance.

As far as the researcher is concerned, strategic innovation studies are still rarely found in the furniture industry in Indonesia; therefore, this review will investigate how much influence product innovation has on market performance in the Indonesian furniture industry. Referring to previous studies, this research intends to offer a perspective on organizational capabilities in combining strategic orientation into a model as a novelty of this research by adopting the views of Hunt & Morgan (1997) on the RAToC (Resource Advantage Theory of Competition) theory about proactive innovation and reactive innovation. Therefore, the review intends to find out the climate of proactive innovation and organizational innovation and how its ecosystems are created within the Indonesian furniture industries.

2 LITERATURE REVIEW

Before Hunt (1997) put forward RAToC, Chamberlin (1933) stated that Perfect Competition Theory & Monopolistic Theory had expanded the important role of product differentiation in meeting various needs, wants, tastes, and requirements also different for each consumer. For him, high prices and low quality will be inevitable when the production scale is small. In the RAToC proposition built by Hunt (1997), the market character will always be provoked into an imbalance because every company will always try to move the market through product innovations to meet different consumer needs. This proposition underscores that innovation is an embedded factor of competition. The thickness of RAToC in discussing the theory of competitive strategy can be seen from the view of Hunt & Madhavaram (2020), which explains that qualitative changes in the demand phase are far more important than quantitative changes in the supply phase, becoming the basis for companies to carry out outside renewal competence in proactive innovation strategies in generating resources. RAToC connects proactive innovation and reactive innovation when explaining three requirements for a company to maintain its competitive advantage, namely by: (1) the company engaging in proactive innovation, (2) continuously investing in resources that generate competitive advantage, (3) acquiring and thwarts reactive competitor innovation. Proactive innovation is defined as a motive to achieve superior financial performance, not caused by special competitive pressures, but genuinely caused by entrepreneurial intuition. And reactive innovation is stated to protect its market segment (isolation mechanism) through the company's learning process. Both contribute to the dynamic nature of RAToC.

The view of Innovation Theory put forward by Sundbo (1995), states that innovation results from an organization's competitive advantage. Kim and Mauborgne (1999) define innovation as a concept that makes competition meaningless because it provides a valuable advantage that is fundamentally new and superior in the market and can drive exponential jumps by generating new markets. Although, as a study developed through separate academic thinking, the strategy includes the strategic planning process or innovation, including the new product process (Adler et al., 1992; Englund and Graham, 1999), very rarely applied to the corporate perspective (Varadarajan and Jayachandran, 1999). The substance of innovation is related to new ways of thinking in the realm of employee supervision, including monitoring and reward systems, new skills and habits (Deming, 1982).

The innovation stage needs to be built because an organization cannot immediately innovate (Dosi, 1982; Teece, 1988), starting with basic questions about why choosing the business to the business model itself (Geroski, 1998). Questions about: What business are you in? Who are the customers? And how do we generate value? (Hamel, 1998; and Markides, 1997). Such basic questions allow managers to dig deep into the rules to the implied assumptions that make up the business systems that run in the industry. In general, strategic innovators are reluctant to accept immediately and take care that mental models and implicit industrial rules are not formed; they often ignore their company's core business, instead of focusing on what can be used as opportunities (Kim and Mauborgne, 1999; Markides, 1997).

At the strategic level, in addition to more comprehensive innovation, time-based competitive advantages emerge as options (Stalk, 1988), mass customization (Pine, 1993) and mass fashion (Baden-Fuller and Stopford, 1994). Further to the supply chain, pushing for a new system of managing partners and cooperation networks will make it easier for companies to restructure new provisions while emphasizing the importance of new distribution channels, review of delivery points that are significantly more efficient and effective in providing better services than competitors (Lamming, 2003).

Most innovation studies in the literature are about product innovation and service innovation. Among the various innovative approaches, generating new products and new services in the area of highest interest (Craig and Moores, 2006) that enables firms to achieve competitive advantage (Berg and Einspruch, 2009). Cormican and O'Sullivan, 2004; Craig and Moores, 2006). In the context of its function, 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. Not infrequently, the formulation of product innovation strategies also plays an important role in an organization's priorities (Quinn, 2000). Alignment of strategy, tactics and operations leads to innovative products, which are generally characterized as something new, valuable and frequently (as an object) introduced to the market. New products or unique services result from a differentiation strategy to achieve a competitive advantage. The company's ability to produce a premium product above industry norms is developing and commercializing new products or improvements to existing products following market orientation (Porter, 1997; OECD, 2019). These studies state that innovation is an organizational mechanism to survive and increase the chances of its sustainability, although other researchers provide a different view, stating that the antecedent to organizational performance cannot be influenced by one type of innovation alone but consists of a combination of several innovations.

From the perspective of Lessig (2002), it is stated that innovation is a research, development, and engineering activity aimed at developing the practical application of new scientific values and contexts, or new ways to apply existing science and technology into products or production processes. More specifically, according to Knight (1967), product innovation means that a new product or service is introduced to meet the needs of external users or markets, and process innovation is a new element introduced into an organization's production or service operations between others: raw materials, task specifications, workflow mechanisms and information, and equipment used to produce products or create services.

Organizational theory has long considered how organizations evolve and adapt to their environments, including the effect of technological change on organizational evolution (Tushman and Nelson 1990). Most of the previous publications agree that organizational innovation affects performance positively. Irwin et al. (1998) used a resource-based view to demonstrate a positive relationship between technological innovation and organizational performance and suggested that innovation characteristics (rare, valuable, and immutable) moderate this relationship. In the face of a changing environment, new entrants to the industry can replace established organizations that cannot adapt quickly enough. At the same time, new organizations tend to develop through the entrepreneurial activities of new companies. According to Hurley, Tomas and Hult (1998), higher levels of innovation in corporate culture are associated with greater innovation capacity to develop a competitive advantage. Organizational innovation is a subject that influences various categories, including individuals, organizations and the environment. Of all the potential influences, organizational variables are the most studied, and several researchers have demonstrated the importance of organizational studies as a determinant of innovation (Damanpour, 1984; Kimberly & Evanisko, 1981).

From the RAToC theory, Hunt (1996) distinguishes between proactive and reactive innovation. Proactive innovation is defined as a motive to achieve superior financial performance, not because it is driven by specific competitive pressures but is genuinely driven by entrepreneurial intuition. Reactive innovation is defined as innovation that is driven directly by the learning process of companies competing to protect their market segments (Hunt, 1996). Furthermore, Hunt (1997) also states that proactive innovation includes: imitating resources (competitors), finding (creating) equivalent resources or finding (creating) superior resources. For Hunt (2020), RAToC responds to the need for market orientation strategy theorists to broaden their perspective beyond their exclusive focus not only on customers and competitors (Carpenter, 2017; Line, Runyan, & Gonzalez-Pardon, 2019). From Vazquez et al.'s (2001) research, market orientation promotes two strategic dimensions of corporate behavior that are strongly related to innovation behavior: aggressiveness and proactiveness.

In comparison, both market orientations should be the basis of the company's innovation efforts (Narver et al., 2004). To support this argument, Narver et al. (2004) found in an empirical study that market orientation is positively related to innovation orientation and more strongly associated with proactive market orientation. Furthermore, another empirical study by Tsai et al. (2008), showed that both market orientations are important drivers of new product performance. Furthermore, both proactive and responsive market orientations may require different organizational conditions to influence innovation performance positively.

As previously mentioned in the Problem Formulation regarding the concept of market performance, many researchers state that this concept does not yet have a standard consensus in defining it, but many researchers have found the results of studies relating innovation to both business performance and organizational performance. Turang (2015) mentions the term market performance as business performance resulting from business strategies in a marketing process. Both business performance, organizational performance, firm performance and market performance by most researchers are considered as multi-dimensional constructs. Organizational performance and market performance are also considered as subjective perceptions due to the measurement of the success of an organization through financial parameters, which are generally constrained by access to company financial data.

The study of performance itself has become an object that rarely stops because organizational performance may be the ultimate goal in every form of organization, whether in the private sector, public sector or society. The Indonesian government system, for example, defines performance as the output/result of activities/programs that have been or are to be achieved concerning the use of the budget with a measurable quantity and quality (Presidential Regulation No. 29/2014 concerning Performance Accountability System for Government Agencies). From the literature review, Lumpkin and Dess (1996) state that business performance is a multidimensional construct related to the organizational strategy that has different effects on organizational goals. While Ferraresi et al., (2012) mention firm performance as a broad concept even though its measurement is often discussed in the literature but there is no consensus on what should be specifically included in its measurement (Neely et al., 1995), except measures of effectiveness and efficiency (Porter, 1985).

3 METHODS

This study uses literature sourced from articles published online. The keywords used in searching the literature are Proactive Innovation, Reactive Innovation, Product Innovation and Market

Performance. Variables used in building hypotheses based on articles reviewed using keywords. This research is a study using a literature study or literature review method, which is a comprehensive overview of the research that has been done on a specific topic to show the reader what is already known about the topic and what is not known to seek rationale from the research that has been done or for further research ideas (Denney & Tewksbury, 2013). According to Mestika Zed (2014), literature study research has a main characteristic; namely, researchers deal directly with available sources. In this article, sources are taken in the form of articles originating from journals that have been well accredited.

4 RESULTS AND DISCUSSION

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 places the importance of accurately controlling 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.

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 direct the organization's strategic orientation in managing internal resources that proactively respond 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 beneficial for developing appropriate proactive innovation to meet local requirements. Strengthened by Bierly and Chakrabarti (1996), who refers to a flexibility 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 (Grewal 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.

As Hunt & Morgan (1997), the study of Tutar et al. (2015) revealed that proactive innovation plays an important role in predicting customer preferences in particular and can predict hidden and new consumer expectations for product innovation. The research results of Tutar et al. (2015) also found that proactive market orientation has a positive and significant impact on all innovation capabilities, both process, product and market innovation. Proactive innovation is used to accurately predict future markets, preferences, competitive conditions and the evolution of environmental forces and respond to unarticulated customer needs that have particular relevance to the innovation context (Thomas et al., 2015; Atuahene-Gima, 2005; Narver et al., 2004). Being proactive means reducing threats by taking preventive steps to implement product development strategies actively and become the basis of its innovation efforts because it results in new product performance (Narver et al., 2004; Tsai et al., 2008).

High environmental turbulence can occur anytime, both from within and from the external environment. Various studies seek and relate organizational capabilities to the most effective corporate response systems to various pressures and resource scarcity. Hunt (2019) calls it a controversy between static versus dynamic; even Hunt states that the substance of the market is a system that will always be provoked dynamically. Internal changes caused by mergers, share ownership, brand changes and others do not reduce external pressures that can take the form of new challenges with the presence of new entrants, new innovations from competitors, lower prices and better benefits. Challenges from followers require agility and speed in action. The key to its success lies in managing 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 product innovation. tion Various previous research evidence suggests that organizations must always carry out renewal competence and encourage each organization to produce sustainable innovations to maintain and seize its competitive advantage position and achieve superior financial performance. "To innovate or die" has become a widely recognized adage, implying that the challenge of achieving market performance requires a continuous response to innovation.

Most of the previous publications stated that organizational innovation would affect performance. Irwin et al. (1998) used a resource-based view to show a positive relationship between technological innovation and organizational performance, while Hurley, Thomas and Hult (1998) suggested higher levels of innovation in corporate culture to promote greater innovation capacity in developing competitive advantage. Research by Fang Wang (2020), suggests that organizational innovation is considered important for the performance of Chinese manufacturers. Even though 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 have been found about 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 to the industry can replace established organizations that cannot adapt quickly enough.

Meanwhile, new organizations will tend to develop new company entrepreneurship in achieving market performance. It makes organizational innovation produce dynamic capabilities in achieving market performance in the form of superior financial performance. For Schlegelmilch et al. (2003), strategic innovation is a "fundamental conceptualization of the business model and redefining 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". Just to meet customer expectations even though they are in the same industry.

It is stated that a new product or unique service resulting from a differentiation strategy through a premium product above the industry norm is the development and commercialization of a new product or improvement of an existing product following a market orientation (Porter, 1985; OECD, 2019) to achieve a competitive advantage. Previous studies have also stated that innovation becomes an organizational mechanism to survive and increase the chances of its sustainability by creating a comparative advantage in achieving organizational performance. As emphasized by Urban and Hauser (1984) and Ernst (2002), company performance can be achieved by creating new products with differentiation. 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 as a source of heterogeneity between competitors (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-immitable 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. Its influence on organizational performance, From Sriwong et al. (2004), Levitt has reminded the conception of what is called 'total product'.

5 CONCLUSIONS

Based on the literature study obtained, Proactive Innovation can improve Organizational Innovation. Furthermore, the better Proactive Innovation, the better Market Performance and Product Innovation will be. In the reactive innovation study, when a furniture company focuses on reactive innovation, the innovation can actually make a good contribution to the resulting product so that it leads to an increase in market performance that is obtained as optimally as possible. Likewise, organizational innovation that is always improved also contributes optimally to market performance. Therefore, the results of this study can be taken into consideration or predictors in improving market performance, especially in the furniture industry. Future research of this study would addressing the dominant factors on how Indonesian furniture companies should develop their strategies to face various changes and competition through comparative advantage to gain superior financial performance. The aim is to help managers understand the most effective way to increase market performance for years to come.

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