The Effect of Customer Orientation and Product Innovation on Fashion Business Performance With Competitive Advantage as a Mediator

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Abstract
This research aims to analyze the influence of customer orientation and product innovation on fashion business performance with competitive advantage as a mediator. The sample in this research was 50 respondents who were determined using a purposive sampling technique. The data collection method uses a questionnaire that is distributed directly. The analytical tools used in hypothesis testing are Outer Model analysis, Inner Model analysis and hypothesis testing with the t test. The results of this research prove that: (1) Customer Orientation has a positive and significant effect on Business Performance. (2) Product Innovation has a positive and significant effect on Business Performance. (3) Competitive Advantage has a positive and significant effect on Business Performance. (4) Customer Orientation has a positive and significant effect on Competitive Advantage. (5) Product Innovation has a positive and significant effect on Competitive Advantage. (6) The role of Competitive Advantage is able to mediate the influence of Customer Orientation on Business Performance. (7) The role of Competitive Advantage is able to mediate the impact of Product Innovation on Business Performance.
Keywords: Customer Orientation, Product Innovation, Competitive Advantage and Business Performance

INTRODUCTION

Competition in the business world, especially in the fashion sector, is currently getting tighter, marked by the large number of businesses with various scales, from micro to large scale. The development of Micro, Small, and Medium Enterprises (MSMEs) in the Special Region of Yogyakarta has experienced quite rapid growth in the last 3 years after the Covid-19 pandemic. Based on 2021 data from Sibakul Jogja, the number of MSME product sales reached 75%. Fashion is a dominant MSME subsector in contributing to the economy. Fashion is a locomotive in the development of the national creative industry. Fashion far outperforms the contribution of other types of small industries. Both in terms of added value, workforce, number of companies, and export value (Riset et al, 2017). In mid-2019 to 2023 in DIY there was a very rapid spike in MSME growth until the number reached 464,033 business units, including one of the fashion business sectors (BAPPEDA DIY 2023). With the increasingly tight competition, companies must understand the needs and demands of the market, and develop the right strategy to manage the various resources they have in order to remain competitive. Effectively and efficiently. The key to winning the competition lies in the company's ability to create business performance. Business performance is the result of work achieved by a person or group in an organization, in accordance with authority and responsibility, in an effort to achieve organizational goals, one of the successes of business performance is shown by the achievement of marketing performance. Business performance is the result of work achieved by a person or group (Ghifary, 2013).

Customer orientation is a perspective that places consumers as the focus of attention in company activities (Craven & Piercy, 2013). Customer orientation is one of the factors that can affect business performance (Suarniki, 2015). Companies that implement customer orientation

will strive to understand and meet customer needs, wants, and expectations (Azam et al, 2014; Tham et al, 2017). Customer orientation is the main focus in a company's relationship with its market (Lee et al, 2021). Customer orientation not only helps increase competitiveness but also directly affects business performance. The influence of customer orientation on business performance is supported by the results of previous studies which explain that customer orientation has a significant positive effect on business performance (Haryanto, 2017; Fatonah & Nugroho, 2017). In addition to market orientation, business performance can also be influenced by product innovation. Product innovation is the key to long-term growth in business. Product innovation is something new, namely by introducing and carrying out new practices or processes (Nurdin, 2016). Product innovation is something that is found with new ideas, followed by the development of discoveries and products (Turulja & Bajgoric, 2019). Product innovation is a combined process that influences each other, so that it can produce a new product (Kotler & Keller, 2016), The influence of product innovation on business performance is supported by the results of previous studies which explain that product innovation has a positive effect on business performance (Löfsten, 2014; Psomas, 2015).

Business performance can also be determined by the strength of a company's competitive advantage. Competitive advantage is a company's ability to gain a superior position in the market compared to its competitors (Teece, 2018). Competitive advantage is a key factor that influences overall business performance. Competitive advantage within a company to integrate, build, and reconfigure internal and external competencies is essential to maintaining competitive advantage in a rapidly changing business environment (Teece, 2018). The influence of competitive advantage on business performance is supported by the results of previous studies which explain that competitive advantage has a positive effect on business performance (Maziriri, 2020). Competitive advantage plays an important role in strengthening the influence of customer orientation and product innovation on business performance. By having superior resources, capabilities, and processes, companies can be more effective in meeting customer needs and introducing relevant product innovations. Customer orientation has a positive and significant effect on competitive advantage. Competitive advantage also has a positive and significant effect on MSME business performance (Wiratama & Wulandari, 2023). Product innovation has a positive effect on competitive advantage. The higher the level of product innovation, the stronger the competitive advantage possessed by MSMEs (Narastika & Ni Nyoman, 2021).

LIBRARY OBJECTIVES

Business performance is the result of the accumulation of activities carried out by the company (Prasetyo & Harjanti, 2013). Business performance is related to the company's success in meeting its strategic goals through effective marketing management (Kotler & Keller, 2016). Business performance includes market share, sales growth, marketing ROI, customer retention, customer satisfaction, customer lifetime value, net profit, profit margin, operational cash flow. Customer orientation is the company's commitment to satisfying customers, collecting information on customer needs, finding ways to satisfy customers, and paying attention to customer complaints (Prifti & Alimehmeti, 2017). Customer orientation includes customer service, competitors. Product innovation is creating something new that provides added value to improve product quality according to consumer expectations (Kotler & Keller, 2014). Product innovation is an interesting new inspiration that can be developed (Prasetyo, 2020). Product innovation includes product features, product design, product quality. Competitive advantage is an advantage over competitors that is obtained by offering consumers more value (Kolter & Amstrong, 2014). Competitive advantage strategy is the search for a

profitable competitive position in an industry (Arianty et al, 2016). Competitive advantage includes strategic leadership, access to resources. The results of this study indicate that the better the business performance of MSMEs, the greater the opportunity for competitive advantage to be effective. Factors such as customer orientation, product innovation, competitive advantage are important aspects in determining the success of MSMEs in facing tight competition. Therefore, focusing on improving business performance in MSMEs will increase the opportunity for competitive advantage to be effective.
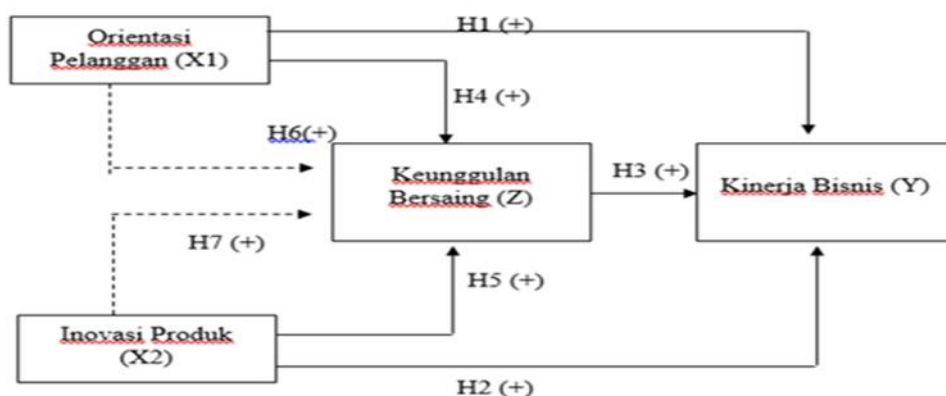
Figure 1. Research Framework

H1: Customer orientation has a positive and significant effect on the performance of Fashion MSME businesses in the Special Region of Yogyakarta.
H2: Product innovation has a positive and significant effect on the performance of Fashion MSME businesses in the Special Region of Yogyakarta.
H3: Competitive advantage has a positive and significant effect on the performance of Fashion MSME businesses in the Special Region of Yogyakarta.
H4: Customer orientation has a positive and significant effect on the competitive advantage of Fashion MSMEs in the Special Region of Yogyakarta.
H5: Product innovation has a positive and significant effect on the competitive advantage of Fashion MSMEs in the Special Region of Yogyakarta.
H6: The role of competitive advantage in mediating the influence of customer orientation on the performance of Fashion MSME businesses in the Special Region of Yogyakarta.
H7: The role of competitive advantage in mediating the influence of product innovation on the performance of Fashion MSME businesses in the Special Region of Yogyakarta.

RESEARCH METHODS

This research method uses a qualitative research method. Sampling in this study used a purposive sampling technique with the following sample criteria: Fashion MSMEs located in the Special Region of Yogyakarta and have been actively operating for at least the last 3 years. This study used a sample of 50 respondents, This study used descriptive & inferential analysis. The data collection instrument used a questionnaire and the researcher's variable measurement scale used a 5-level Likert scale. Business performance indicators adopted from Tirtayasa & Fitri's research (2023); Yaskun et al (2024) include: sales level, profitability level, customer growth, market share control, marketing performance, financial performance, production performance. Customer orientation indicators adopted from Syahira & Thamrin's research (2023); Yaskun et al (2024) include: focus on customer satisfaction, understanding customer needs, increasing customer value, searching for market information, competitors. Product innovation indicators adopted from Herman, Hady & Arafah's research (2018);

Tirtayasa & Fitri (2023) include: product design development, product quality development, technology development, product line expansion, new product development. Competitive advantage indicators adopted from research by Udriah, Pambreni & Antono (2023); Annisa, Purwana & Fidhyallah (2023) include: product differentiation / quality, innovation, low production costs, product quality, competitive prices, market segmentation advantages, market entry advantages.

RESEARCH RESULTS AND DISCUSSION

The results of the validity test on various research variables show that all statement items measured have good validity. In the customer orientation variable, five questions were tested (X1.1 to X1.5). Product innovation, five questions were tested (X2.1 to X2.5). Competitive advantage, seven statements were tested (Z.1 to Z.7). Business performance, seven questions were tested (Y.1 to Y.5). The results of the convergent validity test show that all constructs of each variable have a loading factor > 0.70. Thus, it is concluded that the constructs in this study are valid.

Table 1. Convergence Test Results

Variables	Indicator	Loading Factor	Conclusion
Customer Orientation	X1.1	0.746	Valid
	X1.2	0.773	Valid
	X1.3	0.726	Valid
	X1.4	0.781	Valid
	X1.5	0.814	Valid
Product Innovation	X2.1	0.758	Valid
	X2.2	0.788	Valid
	X2.3	0.855	Valid
	X2.4	0.800	Valid
	X2.5	0.820	Valid
Competitive Advantage	Z.1	0.783	Valid
	Z.2	0.825	Valid
	Z.3	0.756	Valid
	Z.4	0.796	Valid
	Z.5	0.758	Valid
	Z.6	0.756	Valid
Business Performance	Y.1	0.814	Valid
	Y.2	0.769	Valid
	Y.3	0.757	Valid
	Y.4	0.765	Valid
	Y.5	0.748	Valid
	Y.6	0.705	Valid
	Y.7	0.767	Valid

The results of the discriminant validity test are used to measure cross loading with the construct. The discriminant validity test can be met if the square root of AVE is higher than the inter-construct correlation.

Table 2. Cross Loading Test Table

Indicator	Customer Orientation	Product Innovation	Competitive Advantage	Business Performance
X1.1	**0.746**	0.190	0.478	0.668
X1.2	**0.773**	0.121	0.436	0.584
X1.3	**0.726**	0.433	0.640	0.622
X1.4	**0.781**	0.138	0.472	0.621

X1.5	**0.814**	0.135	0.480	0.585
X2.1	0.233	**0.758**	0.346	0.306
X2.2	0.184	**0.788**	0.424	0.355
X2.3	0.232	**0.855**	0.483	0.515
X2.4	0.145	**0.800**	0.320	0.336
X2.5	0.294	**0.820**	0.506	0.557
Z.1	0.539	0.413	**0.783**	0.694
Z.2	0.443	0.545	**0.825**	0.602
Z.3	0.497	0.339	**0.756**	0.523
Z.4	0.570	0.419	**0.796**	0.664
Z.5	0.638	0.478	**0.758**	0.560
Z.6	0.939	0.347	**0.756**	0.470
Z.7	0.468	0.307	**0.776**	0.542
Y.1	0.664	0.560	0.715	**0.814**
Y.2	0.677	0.486	0.600	**0.769**
Y.3	0.557	0.302	0.580	**0.757**
Y.4	0.595	0.312	0.519	**0.765**
Y.5	0.543	0.377	0.428	**0.748**
Y.6	0.579	0.299	0.450	**0.705**
Y.7	0.649	0.458	0.655	**0.767**

The results of the discriminant validity test with cross loading show that each indicator item against its construct is greater than the cross loading value. Thus it can be concluded that all constructs or latent variables already have good discriminant validity, where the indicator block of the construct is better than the indicators of other blocks. The results of the reliability test using the Cronbach's Alpha and Composite Reliability tests show that the value of all variables is > 0.60. Thus it is concluded that the variables have met the minimum reliability requirements.

Table 3. Reliability Test Results

	Cronbach'Alpha	Composite Reability
Customer Orientation	0.902	0.600
Product Innovation	0.915	0.600
Competitive Advantage	0.906	0.600
Business Performance	0.878	0.600

R Square is used to determine the effect of the relationship between exogenous variables on endogenous variables. The R Square criterion of 0.67 means strong, 0.33 means moderate, and 0.19 means weak.

Table 4. R Square Results

	R Square	Adjusted R Square
Competitive Advantage	0.561	0.542
Business Performance	0.781	0.767

Based on the R Square results for the competitive advantage variable of 0.542. The magnitude of the variation of the competitive advantage variable is influenced by customer orientation and product innovation by 54.2% and is included in the medium category. R Square on the business performance variable is 0.767. The magnitude of the variation of the business performance variable is influenced by customer orientation, product innovation, and competitive advantage by 76.7% including the high category. Estimate for Path Coefficients is used to determine the magnitude or significance of the relationship between constructs. The results of the Path Coefficients are as follows:

Table 5. Path Coefficients

	Competitive Advantage	**Business Performance**
Customer Orientation	0.551	0.575
Product Innovation	0.376	0.247
Competitive Advantage		0.246
Business Performance		

Based on Table 5, the results of the path coefficients test are explained as follows:

a. The influence of customer orientation on business performance produces a path efficiency value of 0.711 with a positive influence direction.
b. The influence of product innovation on business performance produces a path efficiency value of 0.340 with a positive influence direction.
c. The influence of competitive advantage on business performance produces a path leadership value of 0.246 with a positive influence direction.
d. The influence of customer orientation on competitive advantage produces a path leadership value of 0.555 with a positive influence direction.
e. The influence of product innovation on competitive advantage produces a path leadership value of 0.376 with a positive influence direction.

The t-test is conducted to determine the direct influence between variables. The results of hypothesis testing can be seen through the path coefficients value. The results of hypothesis testing are as follows:

Table 6. Hypothesis Path Coefficients Values

	Original Sample (O)	**Sample Mean (M)**	**Standar Deviasi (STDEV)**	**T Statistik (|O/STDEV|)**	**P Values**
Customer Orientation -> Business Performance	0.546	0.528	0.152	3.495	0.000
Customer Orientation -> Competitive Advantage	0.552	0.531	0.133	4.160	0.000
Product Innovation -> Business Performance	0.239	0.250	0.085	2.808	0.005
Product Innovation -> Competitive Advantage	0.375	0.389	0.105	3.562	0.000
Competitive Advantage -> Business Performance	0.288	0.302	0.136	2.110	0.035

Based on table 6, the results of hypothesis testing can be explained as follows:

a. Testing H1: The influence of customer orientation on business performance, the results of the hypothesis test obtained a value of (3.595) > t-table (1.677) and a significance value (P) <0.05, meaning that customer orientation has a positive and significant influence on the performance of fashion MSME businesses in the Special Region of Yogyakarta.
b. Testing H2: The influence of customer orientation on competitive advantage, the results of the hypothesis test obtained a value of (2.808) > t-table (1.677) and a significance value (P)

<0.05, meaning that product innovation has a positive and significant influence on the performance of fashion MSME businesses in the Special Region of Yogyakarta.

c. Testing H3: The influence of product innovation on business performance, the results of the hypothesis test obtained a value of (2.110) > t-table (1.677) and a significance value (P) <0.05, meaning that competitive advantage has a positive and significant influence on the performance of fashion MSME businesses in the Special Region of Yogyakarta.

d. H4: Testing H4: The influence of product innovation on competitive advantage, the results of the hypothesis test obtained a value of (4.161) > t-table (1.677) and a significance value (P) <0.05, meaning that customer orientation has a positive and significant influence on the competitive advantage of fashion MSMEs in the Special Region of Yogyakarta.

e. Testing H5: The influence of product superiority on business performance, the results of the hypothesis test obtained a value of (3.562) > t-table (1.677) and a significance value (P) <0.05, meaning that product innovation has a positive and significant influence on the competitive advantage of fashion MSMEs in the Special Region of Yogyakarta.

Sobel test is conducted to determine the indirect effect between variables. The results of hypothesis testing can be seen in the specific indirect effects table.

Table 7. Specific Indirect Effects Table

	Original Sample (O)	Sample Mean (M)	Standar Deviasi (STDEV)	T Statistik (|O/STDEV|)	P Values
Competitive Advantage -> Customer Orientation -> Business Performance	0.159	0.165	0.096	1.647	0.100
Competitive Advantage -> Product Innovation -> Business Performance	0.108	0.113	0.053	2.042	0.042

Based on table 7, the results of the hypothesis testing can be explained as follows:

a. H6: The role of competitive advantage in mediating the influence of customer orientation on business performance, the results of the hypothesis test obtained a p-value of 0.0599 <0.100, meaning that competitive advantage significantly mediates the influence of customer orientation on the performance of fashion MSME businesses in the Special Region of Yogyakarta.

b. H7: The role of competitive advantage in mediating the influence of customer orientation on business performance, the results of the hypothesis test obtained a p-value of 0.0694 <0.100, meaning that competitive advantage significantly mediates the influence of product innovation on the performance of fashion MSME businesses in the Special Region of Yogyakarta.

CONCLUSION

Based on these results, it can be concluded as follows: customer orientation has a positive and significant effect on the performance of Fashion MSME businesses in the Special Region of Yogyakarta. This explains that customer orientation is a factor that influences the performance of Fashion MSME businesses in the Special Region of Yogyakarta. Product innovation has a

positive and significant effect on the performance of Fashion MSME businesses in the Special Region of Yogyakarta. This explains that product innovation is a factor that influences the performance of Fashion MSME businesses in the Special Region of Yogyakarta. Competitive advantage has a positive and significant effect on the performance of Fashion MSME businesses in the Special Region of Yogyakarta. This explains that competitive advantage is a factor that influences the performance of Fashion MSME businesses in the Special Region of Yogyakarta. Customer orientation has a positive and significant effect on the competitive advantage of Fashion MSMEs in the Special Region of Yogyakarta. This explains that customer orientation is a factor that influences the competitive advantage of Fashion MSMEs in the Special Region of Yogyakarta. Product innovation has a positive and significant effect on the competitive advantage of Fashion MSMEs in the Special Region of Yogyakarta. This explains that product innovation is a factor that influences the competitive advantage of Fashion MSMEs in the Special Region of Yogyakarta. The role of competitive advantage is able to mediate the influence of customer orientation and business performance of Fashion MSMEs in the Special Region of Yogyakarta. The role of competitive advantage is able to mediate the influence of product innovation and business performance of Fashion MSMEs in the Special Region of Yogyakarta.

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