

When A New Product Innovation Negatively Impacts Marketing Performance

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Abstract

This study analysed the influence of market orientation and product innovation capability on product competitiveness to improve marketing performance on clay handicraft products in Bali-Indonesia during the Covid-19 pandemic. New insights were offered to the research subjects of clay craftsmen, and in previous studies this type of sample was rarely considered. We studied the relationships of all the variables involved. Empirical evidence was conveyed through a survey involving 60 SMEs as a saturated sample, using a PLS-based SEM as analysis tool. The results show that all direct relationships of variables are proven to be significantly positive, except that product innovation capability has a significant negative impact on marketing performance. The character of the clay craft industry has a uniqueness that was not previously thought of. The greater the ability to produce new innovation seems to have an unfavourable impact on sales of previous innovations. The unique characteristics of the industry disturbed by the Covid-19 situation adds to the narrowness of the market. A market expansion strategy is needed by developing the character of the product from pure artistic nature to decorative decoration into a combination with functionality. To achieve this goal, it is apparently constrained by the limited demographic characteristics and competence of SMEs to innovate. Originality/value; analysing innovation based on three characteristics, namely artistic, symbolic and functional, as an important variable in the clay industry in relation to consumer behaviour. The three proposed analysis based on the characteristics of product innovation had never been studied in previous studies. This research is more based on a sample of SMEs, future research is very important using a consumer sample.

Keywords

Innovation capability; competitive; marketing performance; Bali; SMEs

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Introduction

Of the many small industries in Bali, the clay industry has not received maximum attention from the study. Even though this industry has been established for decades as

one of the important sectors to build the region economy.

Generally, the clay handicraft industry in Bali is driven by SMEs with potentially exported products in the form of handicrafts such as terracotta, barrels, ceramics, and products that are needed for the domestic market for instance building materials such as roof, pottery, bricks, and tiles. Marketing prospects were highly potential before the Covid pandemic but after the pandemic it experienced a drastic decline. The COVID-19 pandemic is much more than just a health crisis, but involves a social and economic crisis (UNDP, United Nation, 2020), which has a strong impact on SMEs. Changes in the market environment have a strong impact on sales. It takes sensitivity to adapt to market changes (market orientation) to be translated into learning and entrepreneurship (Grinstein, 2008). The UNDP report states, the problems faced by MSMEs in Indonesia due to the COVID-19 pandemic require special attention because 98.68% of the approximately 64 million SMEs in Indonesia are independent micro-enterprises that are vulnerable to internal and external economic shocks (UNDP and LPEM FEB University of Indonesia, 2020).

Observation results showed that the number of SMEs in Bali engaged in the clay industry is still relatively limited, with an average of 60 SMEs, so that the nature of price competition, innovation, and product design is very sensitive, easy to copy each other among craftsmen. Their intelligence capabilities and response to competition are like "the sharp eye of an eagle", once they observe the unique innovations of competitors' products that have the potential to meet customer interests then they can create products with similar design. Their weaknesses are; do not patent their work and only a small number of those who are creative are able to explore customer preference to design potential new products, most SMEs imitate them quickly. Their customer orientation is still fairly low, as evidenced by the number of product returns averaging at 10% of the number of sales so that it affects marketing performance.

The description of the market phenomenon is shown, there are limited innovations based on orders from customers, almost entirely the creativity of craftsmen. The results of observation, there are three forms of product characteristics in the context of clay; functional, artistic and symbolic. Generally, modern designs are functional, and purely artistic and moreover symbolic designs are dominated by traditional works. Creative innovation in this industry leads more to art for decoration needs, such as for hotels, villas, restaurants, offices and public facilities. Covid has caused a sluggish tourism, impacting the accommodation and restaurant business, finally a declining demand for decorative items including clay products.

Briefly, several main problems can be identified that affect the marketing performance of clay products, namely; lack of ability to innovate as indicated by the limited number of craftsmen who are able to innovate (product innovation capability); low market orientation. These two main problems threaten product competitiveness which has an impact on marketing performance, exacerbated by the Covid condition causing sluggish demand so that craftsmen reduce their capacity to innovate.

This research has a high urgency and the results are very important in the context of developing the clay industry, which is mostly managed by SMEs, especially during the economic recession due to the impact of Covid-19.

The background of the research problem has identified several important variables, namely marketing performance; product innovation capability; market orientation, and product competitiveness. This research has a different insight from previous research since it studies the influence of market orientation and product innovation capabilities on marketing performance with competitiveness as a mediation in the clay industry in Indonesia and Bali, especially from the perspective of SMEs.

Although ideally a market-oriented culture must be fostered as it affects marketing performance (Kohli, 1990; Nerver and Slater, 1990; Baker, 1999; Sarjita, 2017; Guspul, 2016) but, the results of various studies found that market orientation and product innovation ability do not significantly affect marketing performance. The research results found a significant influence of market orientation on marketing performance (Rokhman, 2019; Zulfikar, 2018; Agarwal et al., 2003; Chatarina et al., 2020), but other studies found insignificant relationship (Greenley, 1995; Han et al., 1998; Lengler et al., 2014). Likewise, research findings on product innovation capabilities were found to have significant influence on marketing performance (Klakhaeng et al., 2021; Arifin and Roosdani, 2021; Lauw et al., 2020; Pono et al., 2019; Afriyie et al., 2019; Tubagus et al., 2018; Sutarlan, 2017; Cemal et al., 2015), on the other hand different studies found insignificant relationship (BİL and ZDEMİR, 2021; Giménez et al., 2019). This study proposes that product

competitiveness mediation could overcome the gaps in the previous empirical studies results, although their strategic planning policies to compete are different due to different stakeholder approaches (Gordon et al., 2004).

Literature Review and Hypotheses

Marketing Performance

Marketing performance is a concept to measure the marketing achievement of a product by looking at its achievements on; sales growth, customer growth, sales volume, improvement for services (Gronholdt and Martensen, 2006). Marketing performance indicators have been widely outlined by marketing experts, but the one that best fits the criteria for problems faced by MSMEs in the risk-sensitive clay industry in shipping is outlined by Ferdinand (2002), namely: (1) sales turnover, (2) sales increase, (3) sales return, (4) marketing area coverage. Table 1 describes various views related to marketing performance indicators.

Table 1. Marketing Performance Measurement Indicator

References	Indicator	Description
Sullivan, & Abela (2007).	Main factor; (1) Sales growth, (2) Market share, (3) Profitability,	General
Pono et al. (2019)	(1) Sales Volume, (2) Sales Value, (3) Sales Growth in new Market	Very common
Kaniawati (2021)	(1) Sales volume, (2) Profitability, (3) Number of Customers	Very common
More and Phiri (2020)	(1) Sales growth, (2) market share, (3) portability	Very common
Mansur <i>et al.</i> (2019)	(1) Product launch on time, (2) New product speed to market, (3) Sales of new product, (4) Market share, (5) Marketing benefit	Very good for new products
Voss and Voss, 2000	(1) Sales, (2) Customer growth, (3) Sales growth, (4) customer quantity	General industry
Ferdinand (2000)	(1) sales volume, (2) market share (3) sales growth rate, and (4) financial performance.	General industry
Ferdinand (2002)	(1) Sales, (2) Sales increase, (3) sales return, (4) marketing area coverage	It is very suitable for the ceramic and clay industry which has sensitivity to shipping which affects the product return.

Source: Processed Data

Various concepts are further proven by empirical studies that marketing performance is shaped by product

innovation capabilities built by market orientation programs and product innovation capabilities.

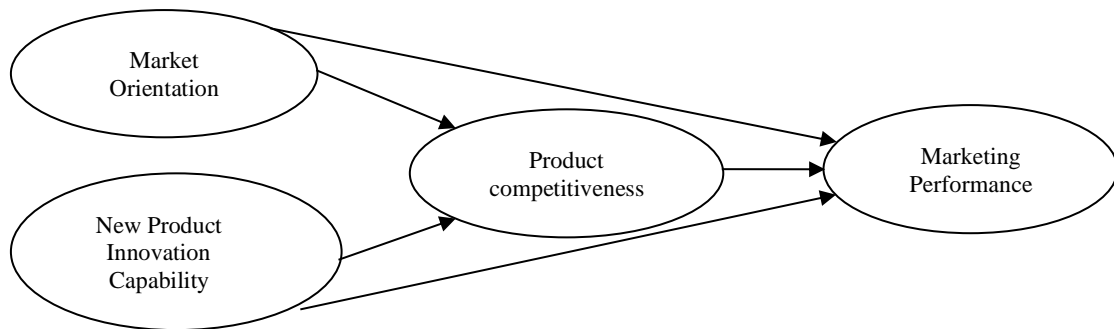


Figure 1. Research Model

Market Orientation and Product Competitiveness

The essence of marketing is how the parties create an exchange process that provides better value compared to exchanges made by competitors. This concept directs the company to focus on market orientation. Market-oriented companies are more involved in extracting information through a reactive attitude of market intelligence, especially towards customers and competitors (Kirca et al., 2005).

Competitive ability is largely determined by marketing capability (Li et al., 2009; Yan and Chew, 2011; Lu, Shen, and Yam, 2008; Butkovi'c, Boškovi'c, and Katavi'c, 2014), driven by a strong commitment to conduct a market orientation program, sensitivity in translating market changes through product design, has a very large influence on product competitiveness (Harjadi et al., 2020; Akimova, 2000).

Hypothesis 1 (H1): Market orientation has a positive influence on product competitiveness

Market Orientation and Marketing Performance

Market orientation is an important driving factor to support assessment measures for performance such as; service quality,

customer and employee satisfaction, objective measures of performance, gross profit, and market share (Agarwal et al., 2003). The research results of Ayimey et al. (2020) have provided several explanations about how market orientation has an impact on marketing performance such as sales growth, customer complaints, customer satisfaction, and customer retention. Customer orientation which is an important part of market orientation can build marketing performance (Salojärvi et al., 2015). The close relationship between market orientation and marketing performance has been proven (Tsiotsou and Vlachopoulou, 2011; Kayabasi and Mtetwa, 2016; Kolbe et al., 2022). Companies that are able to produce better market information will show better marketing performance because they get more consumer references (Li and Calantone, 1998). Market orientation has been shown to have a weak impact on superior firm performance (Agarwal et al., 2003) but a very strong impact on marketing performance (Pelham, 1997; Harjadi et al., 2020). This study emphasizes the close relationship of market orientation and marketing performance.

The decline in sales due to the direct impact of market changes. Companies need sensitivity to detect changes and then adapt (Filiari, 2013). Research has proven that

market orientation has a positive influence on marketing performance (Nurcholis, 2020), such as profit (Narver and Slater, 1990) and sales (Agarwal et al., 2003). Based on the results of previous research, the following hypotheses can be formulated:

Hypothesis 2 (H2): Market orientation has a positive influence on marketing performance

New Product Innovation Capability and Product Competitiveness

Innovation capability is defined as the ability to continuously transform knowledge and ideas into new products, processes and systems for the benefit of the company and its stakeholders (Lawson and Samson, 2001). Another definition states, the skills and knowledge needed to effectively absorb, master and improve existing technologies, and to create new ones (Romijn and Albaladejo, 2002). The ability of a company to create and develop new products to produce unique goods at competitive prices (Liao et al., 2010)

The three definitions of innovation ability provide an expression of the notion of product innovation capability, which is the ability to continuously transform knowledge, information and ideas into products that have opportunities in the market for the benefit of companies and stakeholders. To make it happen requires; Capability of developing unique features, Capability of developing new products and features, Capability of developing a number of new features, Capability of developing a number of new products (Sun and Lau, 2020). All of this must be supported by internal resources, and external input obtained through the network (Forsman, 2011).

Innovation is an important driver of company growth and important in securing and maintaining competitive advantage (Quaye, and Mensah, 2019; Zastempowski, 2022), in short it can be stated that innovation increases competitiveness

(Baran and yigün, 2021; Olazo, 2022; Padilla-Lozano and Collazzo, 2022). Research has shown that competitiveness is driven by innovative capability (Seaden et al. 2003; Sexton and Barrett, 2003; Pellicer et al., 2012; Valdez-de la Rosa et al., 2021; Gambatese and Hallowell, 2021; Ferreira, and Coelho, 2020), and this condition also occurs in the context of SMEs (Liu and Jiang, 2016; Hutahayan and Yufra, 2019; Ferreira and Coelho, 2020). One form of innovation capability is product innovation capability and has been proven to be a strong factor to build company competitiveness (Yu et al., 2017), and more specifically to product competitiveness (Nuryakin and Maryati, 2020; Harjadi et al., 2020). Companies that have product competitiveness will have more opportunities to contribute to achieving their revenue targets (Luo, 2010). Based on the results of the conceptual and empirical studies, the following hypotheses can be formulated:

Hypothesis 3 (H3): New product innovation capability has an effect on product competitiveness.

New product innovation capability and Marketing Performance

Products are the main reference to meet the ever-changing demands of customers. Continuous innovation is needed to meet customer desires, collectively becoming a dynamic market demand. The role of innovation capability to produce new products is a crucial and important factor for sustainable marketing performance (Mahmud, et al., 2017). Innovation does have a positive impact on company performance (Al-Dmour et al., 2022; Matekenya et al., 2022). Innovation has a positive impact on marketing performance (Ahmed et al., 2017). The results of many studies have proven that marketing performance has been largely driven by product innovation capabilities (Ashrafi and Zare Ravasan, 2018; Harjadi et al., 2020; Nuryakin and Maryati, 2020; Kolbe et al., 2022). Based on previous empirical

studies, the following hypothesis can be formulated:

Hypothesis 4 (H4): New product innovation capability the ability has a positive influence on marketing performance

Product Competitiveness and Marketing Performance

Company competitiveness has received much attention from the study of O'Shannassy, (2008); Sigalas and Papadakis, (2018); Jui-Che et al., 2020; Putri et al. (2019); Jardon, and Xavier (2020), the key is being able to offer greater value than competitors through products. Research results have proven that product competitiveness affects marketing performance for the better (Harjadi et al., 2020).

Product competitiveness indicators can be derived from new product competitiveness indicators, namely; increased sales of new products, market share of new products, profits from new products (Liu and Jiang, 2016), namely; an increase in three important things, namely: sales, market share, and profit. All of these indicators confirm that product competitiveness determines marketing performance. Companies that have product competitiveness will have more opportunities to contribute to achieving their revenue targets (Luo, 2010). Based on the concept of product competitiveness indicators, the following hypotheses can be formulated:

Hypothesis 5 (H5): product competitiveness has a positive and significant influence on marketing performance.

Research Methods

Variables and Measures

There are five latent variables included in this study model, namely; Market orientation (X1) was adapted from Demirbag et al. (2006), Product innovation capability (X2) adapted from Sun and Lau (2020), Product competitiveness (Y1) adapted from Liu and Jiang (2016), and Marketing Performance (Y2) adapted from Ferdinand (2002), each latent variables' indicators have been tested empirically and have been used in previous empirical studies as shown in Table 2. All items as research instruments use a five (5) point Likert scale ranging from "strongly disagree (1)" to "strongly agree (5)."

Construct validity and reliability

Validity and reliability tests were conducted by involving 30 respondents, in accordance with the criteria by looking for significant correlations and Cronbach Alpha > 0.70 for each dimension and construct (Malhotra, 2007). The indicator is considered as valid if its score has a positive and significant bivariate correlation with the total indicator score. Table 2 explains the Cronbach Alpha value for each construct and dimension showing a value above 0.7, and the significant correlation per indicator shows a positive value.

Table 2. Variable Indicators and Recapitulation of Research Instruments Test Results

Variable	Reference	Dimension	Indicator	Correlation significance	Alpha Cronbach
Market orientation (X1)	Demirbag et al. (2006)	Intelligence generation (X1.1)	Regular meeting with customers (X1.1.1)	0.929**	0.939
			Interact directly with customers to explore ways to serve (X1.1.2)	0.890**	
			Market research (X1.1.3)	0.943**	
			Gather industry information in an informal way (X1.1.4)	0.929**	
		Intelligence dissemination (X1.2)	Organizational involvement to solve customer needs problems (X1.2.1)	0.824**	
			Organizational involvement in periodically circulating documents internally (X1.2.2)	0.914**	
			Involvement of the entire organization on information regarding key customers (X1.2.3)	0.935**	
			Dissemination of customer satisfaction data at all levels of the organization (X1.2.4)	0.893**	
			Periodically review product development efforts to ensure that they are in line with customers wants (X1.2.5)	0.843**	
			Several departments work together to plan a response to change (X1.2.6)	0.797**	
		Responsive-ness to customers and competitors (X1.3)	Response to competition (X1.3.1)	0.841**	
			Organization listens to customer complaints (X1.3.2)	0.971**	
			Speed to respond to price changes with respect to competitors (X1.3.3)	0.919**	
			Speed of taking corrective action on customer dissatisfaction (X1.3.4)	0.968**	
Product innovation capability (X2)	Sun dan Lau (2020)	-	Ability to develop unique features (X2.1)	0.903**	0.846
			Ability to develop new products and features (X2.2)	0.946**	
			Ability to develop a number of new features (X2.3)	0.895**	
			Ability to develop a number of new products (X2.4)	0.945**	
Product competitiveness (Y1)	Liu dan Jiang (2016)	-	New product sales (Y1.1)	0.858**	0.844
			New product market share (Y1.2)	0.876**	
			Superiority of the new product (Y1.3)	0.796**	
Marketing performance (Y2)	Ferdinand (2002)	-	Sales (Y2.1)	0.948**	0.851
			Sales Increase (Y2.2)	0.914**	
			Sales returns (Y2.3)	0.989**	
			Marketing area coverage (Y2.4)	0.953**	

Source: Data processed by SPSS Statistics 25 (Appendix 2)

Annotation : **. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed)

Sampling

The number of MSMEs engaged in the clay industry in Bali-Indonesia is 60 as the population and at the same time being the

research sample. Table 3 shows the characteristics of MSMEs as respondents or the sample in this study.

Table 3. Respondents Characteristics

Category	Amount	
	Amount	Percentage
Gender		
● Female	35	58.3%
● Male	25	41.7%
Age		
● 21 – 30 years	4	6.7%
● 31 – 40 years	16	26.7%
● 41 – 50 years	16	26.7%
● > 51 years	24	40.0%
Education		
● No formal education	6	10%
● Elementary School	6	10%
● Junior high school	18	30%
● Senior High School	12	20%
● Bachelor	18	30%
Experience		
● 1 – 3 years	3	5.0%
● 4 – 6 years	13	21.7%
● 7 – 9 years	24	40.0%
● > 10 years	20	33.3%
TOTAL	60	100%

Data Analysis

The loading factor evaluation shows an average value above 0.70. This study uses a minimum loading factor value of 0.70 criteria according to Hair et al. (2006). All loading factor values were declared significant with a p value less than 0.05. Meaning that all indicators meet the criteria of convergent.

validity. Table 4 shows the requirements for the composite reliability value of the variable above 0.70, therefore it meets Nunnally's (1978) criteria. the value of Average Variance Extracted (AVE) > 0.50 meets the criteria of discriminant validity (Fornell & Larcker, 1981).

Table 4. Discriminant Validity Test

Variable	Cronbach's Alpha	Composite Reliability	AVE	\sqrt{AVE}	Correlation			
					X1	X2	Y1	Y2
X1. Market Orientation	0.967	0.970	0.701	0.837	1.000			
X2. Product Innovation Ability	0.920	0.941	0.799	0.894	-0.184	1.000		
Y1. Product Competitiveness	0.906	0.940	0.840	0.917	0.809	-0.023	1.000	
Y2. Marketing Performance	0.921	0.943	0.807	0.898	0.855	-0.255	0.830	1.000

Table 5 shows that the coefficient of determination (R^2) portray the strong criteria. The value of R-Square (R^2) is greater than 0.50 in the strong model category (Chin, 1998; Hair et al., 2011; Henseler et al., 2009). Market orientation and product innovation ability are accurately explained by product competitiveness and marketing performance.

The results of the Q-Square predictive relevance (Q^2) (Table 5) show that the model formulation gives a very good meaning, namely; 70% can be explained by the model and only 30% is explained by other factors not included in this study including standard error.

Table 5. Goodness of Fit Evaluation

Structural Model	Dependent Variable	R-Square
1	Y1. <i>Product Competitiveness</i>	0.670
2	Y2. <i>Marketing Performance</i>	0.810

Q² Calculation:
 $Q^2 = 1 - [(1 - R_1^2) (1 - R_2^2)]$
 $Q^2 = 1 - [(1 - 0.670) (1 - 0.810)]$
 $Q^2 = 1 - [(0.330) (0.190)]$
 $Q^2 = 1 - 0.300$
 $Q^2 = 0.700$ or 70%

Result

Hypotheses Testing

Table 6 shows that all positive hypotheses are significant, namely; H₁ Market Orientation has a significant influence on Product Competitiveness (beta = 0.833; p value = 0.000) which means that H₁ is accepted. Market orientation is proven to significantly influence marketing performance (Beta 0.455; p value = 0.000), indicating that hypothesis 2 is accepted. Furthermore, product innovation

ability was proven to have a significant positive impact on product competitiveness (Beta = 0.830; p value = 0.000) this means that H₃ is accepted. Product innovation ability is also proven to have a significant negative impact on marketing performance (Beta = -0.161; p value = 0.015) Therefore H₄ is accepted. Finally, product competitiveness has been shown to have a significant positive influence on marketing performance (Beta = 0.459; p value = 0.000), indicating that H₅ is accepted.

Table 6. Hypotheses Test Results

Relationship between Variables	Path Coefficient (Bootstrapping)	P Values	Hypothesis	Annotation
Market Orientation -> Product Competitiveness	0.833	0.000	H ₁	Significant
Market Orientation -> Marketing Performance	0.455	0.000	H ₂	Significant
Product Innovation Capability -> Product Competitiveness	0.830	0.000	H ₃	Significant
Product Innovation Capability -> Marketing Performance	-0.161	0.015	H ₄	Significant
Product Competitiveness -> Marketing Performance	0.459	0.000	H ₅	Significant

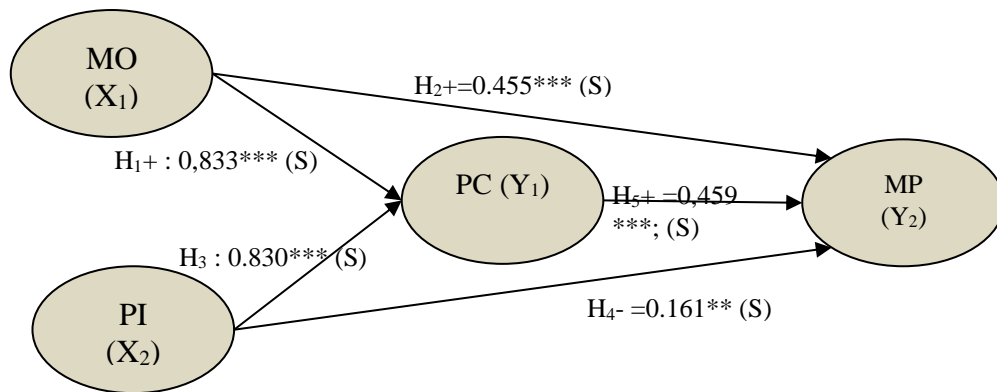


Figure 2. Measurement model with mediation and interaction effects

Annotation: MO = Marketing Orientation; PI=Product Innovation Ability; PC=Product Competitive; MP= Marketing Performance; NS=Not Supported; S= Supported; ***=Significan Level P Value <0,000; **=Significant Level p value <0,05

Mediation Role

Hair et al. (2010), provides a formulation of the role of mediating variables as follows; (a) the direct effect of the independent variable on the dependent variable in the model by involving the mediating variable, (b) the direct effect of the independent variable on the dependent variable in the model without involving the mediating

variable, (c) the influence of the independent variable on the mediating variable, (d) the effect of the mediating variable on the dependent variable. Table 7 shows that product competitiveness is proven to significantly mediate the effect of market orientation and product innovation capabilities on marketing performance.

Table 7. Recapitulation of Mediation Test Results

Product Competitiveness Mediation	(a)	(b)	(c)	(d)	Annotation
Market Orientation -> Product Competitiveness -> Marketing Performance	0.455 (Sig)	0.851 (Sig)	0.833 (Sig)	0.459 (Sig)	Partial mediation
Product Innovation Capability -> Product Competitiveness -> Marketing Performance	-0,161 (Sig)	-0,286 (Sig)	0.830 (Sig)	0.459 (Sig)	Partial mediation

Note: Significant (Sig) = T-statistic > 1.96 at α : 5%

Discussion

Interesting to be the focus of discussion is the finding that new products innovation capability actually has a significant negative impact on marketing performance. This result supports the results of empirical studies (Bil and zdemir, 2021). Meanwhile, the relationships of other variables are proved to have a significant positive influence, causing product competitiveness

to be able to partially mediate the relationships.

The negative impact of excessive innovation on the clay handicraft product industry actually causes marketing performance to decline. Innovation will improve marketing performance if it shows differentiation so that it has competitiveness, as evidenced by the significant positive results of the mediating role of product competitiveness on the

influence of new product innovation on marketing performance.

The results of field observation on several SME show that the increase in product innovation by several SMEs is then followed by imitating behaviour of other SMEs which causes previous innovations to become obsolete and not attractive in customers' perspective. The emergence of new innovations causes customers to delay and cancel choosing the previous innovation.

The rise of imitating behaviour causes the nature of innovation to become generic and easily obsolete. It is very easy to lose differentiation and thus obscure the competitiveness of a product if it is directed at customers who seek uniqueness. Most of these products are intended for decorative displays, both for exterior and interior of homes, hotels and villas in the domestic market, so their uniqueness is very important. These market characteristics are not translated by SMEs as their market orientation program because they are constrained by human resource demographics such as age, gender and education level. In fact, innovation can be done through the use of resources (Ruangsiroj and Suvittawat, 2021).

Age greatly determines innovation adoption (Mikhaylova et al., 2021). Age level affects innovation strategy. The younger age group displays more strategic innovation than the older age group (ElKhouly and Marwan, 2015). The average age of MSMEs manager is above 41, more of them are over 50 (see Table 3), although their experience is above 9 years on average, but with older age group, it does not guarantee innovation.

Gender is a major determinant of innovation decision (Cromptley and Cromptley, 2017; Fernández, 2015), as evidenced by gender differences being able to moderate the influence of attitude on intention to innovate (Wajdi et al., 2020). Innovation requires creativity. Perception of creative individuals of managers, entrepreneurs and

leaders, is influenced by gender differences (Szostak, 2021). Female SME entrepreneurs are less likely to adopt new innovations such as technology than their male counterparts (Bendell et al., 2020). The results of this research show that 58.3% of clay SMEs managers in Bali are women (see Table 3). Most of the production process systems are still carried out in a traditional manner without involving modern technology.

The challenge of creativity to create innovation is very much needed considering that the types of clay handicraft products are very limited and are produced based on customer orders. Customers who already have the same product variant will not make repeat purchases on products that have the same innovation. Limited market share. SMEs must have high imagination and commitment related to market orientation programs and product innovations to create uniqueness. Apparently, this limited condition can be realized. They are not creative to develop new product innovations from purely artistic and symbolic characteristics to become fully functional.

Innovation capability is critical to the survival of SMEs during the Covid 19 crisis (El Chaarani et al., 2022). The economic recession situation (such as the impact of Covid 19), has caused the market to postpone the need for art goods and give more opportunities for functional goods. In summary, this situation can be explained by the findings of Yang and Li (2011), the performance of new products is negatively driven by environmental dynamism but positively moderated by environmental competitiveness. The industry does not show the provision of human resource competencies that show environmental competitiveness, therefore the encouragement of environmental competitiveness is not very good.

A person's level of education has a strong impact on acceptance to innovate (Ferrerias-Garcia et al., 2021). SME managers that

have better education tend to be motivated to innovate compared to those with lower levels of education. SME managers with better education have relationships with customers with better economic levels and different lifestyles, so that they have more specific information on the characteristics of product innovation. Table 3 shows that most of the SME managers are not college-educated. With such an educational profile, science involvement is very limited to support the commitment to conduct market-oriented programs and build innovation.

Conclusions

This research model has functioned well, and is able to detect important information for the market development of clay handicraft products. Demographic characteristics describe the limited competence of SME human resources to produce market orientation and product innovation, contribute more to imitating behaviour, and the limited number of business actors in the industry causes the nature of differentiation to become generic and obsolescence of old innovations ultimately disrupts marketing performance as indicated by the slow growth of sales volume. All the limited competencies of SMEs are unable to accommodate market interests, through market orientation programs and product innovation development. Clay products are of limited industrial appeal, unless they are able to make breakthrough innovations from a purely artistic product orientation, combined towards a functional one. Art items touch more desire while functional items are more expressive to meet needs. The economic recession situation (such as Covid) provides inspiration to develop innovation from art to functional.

This conclusion finally provides a reference for further research to adopt the characteristics of artistic, symbolic and functional products into important variables based on a sample of customers in the clay

industry in relation to consumer behaviour. These three product characteristics had not been studied in previous studies. This study has limitations as it emphasizes more on the sample of business actors (producers) or SMEs. Future research is recommended to investigate the phenomenon from a consumer perspective.

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Appendix

