Intellectual Capital and Innovation through Market Orientation in the Indonesian Film Industry

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Abstract

This article aims to analyze the relationship between intellectual capital and innovation through market orientation in the Indonesian film Industry as a creative economy in the new economic age based on information intensification and creativity with superior ideas, knowledge and competencies of human resources. To collect data, a questionnaire was used. Out of 65 populations of film companies, by random sampling, 56 were selected as representative samples. The Partial Least Square Structural Path-Modeling (PLS-PM) was used to test the hypotheses. The research outcomes revealed that intellectual capital, market orientation, and innovation are fairly high. Intellectual capital has a positive effect on market orientation and innovation. Market orientation mediates the effect of intellectual capital on innovation. Intellectual capital may directly affect the innovation of the Indonesian film industry and through market orientation. Human capital, structural capital, and customer capital must be strengthened to support customer orientation, competitor orientation, and internal integration of the company, so that innovations in products, processes, and strategies can be increased. This study implies that the innovation will develop more with the pertinent intellectual capital and suitable market orientation.

Keywords: film industry; innovation; intellectual capital; market orientation.

The creative economy is a concept in the new economic era, based on the intensification of information and creativity with a lot of ideas and knowledge and competence of human resources as the main production factors (Mikhaylova, 2021; Skavronska, 2017; Von Stamm, 2008). The birth of this creative economy is the role of rapid technological advances (Hotho & Champion, 2011). The impact of these advances changes people's lifestyle patterns in meeting their needs (Mont et al., 2014). This dynamic change is certainly a challenge for entrepreneurs to continue to find new ideas in running their business (Teece, 2016). The growth of the creative economy in Indonesia has contributed significantly to gross domestic product (Hidayat & Asmara, 2017). Thus, all stakeholders need to synergize in facing various challenges that can impede the growth of the creative economy. An environment that supports the seed of excellence

in the creative work of millennial youth can increase the spread of entrepreneurship and development among the younger generation (Kozorog, 2018) through various discussion forums and sharing sessions at the grassroots level so that artistic talent at the international level can develop.

Indonesia has established a Creative Economy Agency to manage the creative economy. Indonesia can empower the huge potential of a creative economy that is developing into a new economic power. The richness and diversity of Indonesian culture, the uniqueness of the geographical area, and the human resources of creative and innovative young people can support the development of the creative economy (Hartley et al., 2015). In general, the contribution of creative economy players in Indonesia continued to increase from 2016 to 2018 (BPS, 2019), but slightly decreased in 2019 and 2020 due to the COVID-19 pandemic. Four subsectors are quite dominant in contributing, namely (1) Culinary, (2) Fashion, (3) Television and Radio, and (4) Publishing.

Characteristics of good business performance in each creative economy subsector are wider market share and increased business income and profit (Joshi et al., 2013). Factors that support business performance are the availability of intellectual capital, organizational capabilities to improve competitiveness, a market orientation that leads to market preference, and corporate innovation to make strategic adjustments with rapidly changing market dynamics (Ginting, 2020; Utami & Lantu, 2014).

Nevertheless, the average contribution of the Film, Animation and Video subsector during the three years was only 0.04% or no growth (BPS, 2019). The contribution growth was less comparable when referring to the standard classification of business fields in Indonesia. The film, animation, and video subsector may have been attributed to the proliferation of the latest video streaming applications and various services to satisfy the public. In short, the film, animation, and video subsectors tend to grow smaller and experience stagnant growth. The genre of drama, comedy, and horror still dominates. Other genres still have an extensive market opportunity if business actors can optimize the use of technological advances such as video streaming.

The stagnation of growth in this sub-sector indicates the poor performance of the company influenced by poor intellectual capital, including human capital, structural capital, innovation capital, and customer capital (Bontis et al., 2000; J. Chen et al., 2004; Kalkan et al., 2014; Kim et al., 2012; Sharabati et al., 2010). Intellectual capital can influence business performance through innovation to create a competitive advantage (El-Telbani, 2013; Han & Li, 2015; Karchegani et al., 2013; Kianto et al., 2017; Le & Lei, 2019; Rodrigues et al., 2013; Wu et al., 2008). Intellectual capital, in addition to having a direct effect on innovation, has a significant effect on innovation through market orientation (Chien, 2010; Wu et al.,2008). Nevertheless, Obeidat et al., (2017) revealed that there is no direct positive relationship between intellectual capital and innovation.

The phenomenon of the lack of maximum innovation in the creative economy industry of film, animation, and video subsectors is seen from the minimal use of digital video streaming technology, visual technology, and other animation technologies. Not a few film products, animation editing, and production are processed abroad. Entrepreneurs in this industry could not optimally use production resources effectively. Market share development efforts are also not significant. In this study, the film, animation, and video subsectors have not yet achieved optimal business performance, because they still face obstacles related to the availability of reliable intellectual capital, the availability of digital technology, and maximizing information from the market.

Various theories of innovation are related to fundamental re-conceptions of business models and reshaping of existing markets to improve the

exciting value to customers and high growth for the company. Innovation includes product novelty to customers, product uniqueness, and product diversity (Avlonitis & Salavou, 2007). Innovations include innovations in processes, innovations in products or services, innovations in management and employment organizations, human resource exploitation, and human-centered innovations, cultures, structures, processes, and technologies (Okpara, 2007). Simply put, innovation is related to the introduction of new things, ideas, or ways to do things (Brooke, 2008; McCraw, 2009). Innovation is useful in improving the function of utilization of a product or resource so that people get more benefits (Zhang et al., 2009). The purpose of innovation is to provide a person with new power in acting through a new capacity to see a new vision (Hekkert et al., 2007). Technology, innovation, and invention change the structure of markets and industries by changing costs, quality requirements, and volume capabilities (Dollinger, 2008). Such changes have the potential to make existing companies obsolete if they are unfamiliar and inflexible. Similarly, changes in social values and consumer tastes, as well as demographics, shift the industrial economy to a new balance. Because the environment is characterized by changes, uncertainties, and complexities, employers must constantly monitor changes and then make adjustments to the organization and business strategy.

Innovation is a creative human spirit, a desire to make changes to the environment (Bessant & Tidd, 2007). The change starts from the idea to be implemented. The process of innovation is not creativity. The innovation process is not R&D. The innovation process is the creation, evolution, and commercialization of new ideas into products and services to benefit the constituency (Amidon, 2003). Two important components in creative problem-solving are processes and people. The orientation of the process is the goal (designed to do problem-solving), and people are the resources that determine the solution.

Several established definitions of innovation are as follows. Innovation is a human effort to create order, in his mind and the universe around him, by taking risks and creating risks (Drucker, 2014), ability to apply creative solutions to those problems and opportunities to improve or improve people's lives (Scarborough, 2011), value system (Amidon, 2003), the process of translating ideas into new products, processes, or services (Bessant & Tidd, 2007), and the ability to implement creative problem solving including opportunities to improve one's level of life (Zimmerer & Scarborough, 1996). In sum, innovation is creative ways that are applied to make changes for the better.

Innovation has four dimensions: product, process, position, and paradigm (Bessant & Tidd, 2007). Product innovation is a change in a product or service provided by an entrepreneur, including radical and incremental changes. Process innovation is a change in the product/service change process. Position innovation is a change the context of the product/service introduced. Paradigm innovation is a change in the underlying mental models that frame what organizations do. Several approaches in innovation are by objects (product and process), by sectors (organizational innovation), and by intensity (incremental and radical) (Carayannis et al., 2015). The performance of innovation cannot be separated from company strategy as an important factor for improving business performance (Z. Chen et al., 2018; Titisari et al., 2018).

The main purposes of a business entity are marketing and innovation (Drucker & Maciariello, 1999). The goal of marketing is value creation for consumers, competitive advantage, and a marketing focus. The cause of the failure of entrepreneurs is a big mistake in clearly defining the target market to serve (Zimmerer & Scarborough, 1996). The entrepreneur must analyze the acceptable market penetration. The expected output from market research is the existence of a good marketing strategy based on the market competition

environment and market orientation. Market orientation has its origin in the marketing concept and has important consequences for the overall business strategy (Naidoo, 2010).

Companies that adopt and implement marketing concepts are said to have a market orientation. Achieving market orientation involves obtaining information relating to consumers, competitors, and the market; info check from the point of view of the business as a whole; determining how to deliver superior customer value; and implementing follow-up to determine the value for customers (Lamb et al., 2011). To create superior customer value, a company needs a market-oriented strategy in marketing. Ini this study, the concept of market orientation refers to a business perspective that has a systematic culture and fully creates sustainable superior customer value by involving all superior activities of the company in understanding and satisfying customers.

Having correct market orientation and applicable innovation needs compatible intellectual capital. Intellectual capital is intellectual material that has been formalized, acquired, and utilized for wealth creation by producing higher- value assets (Stewart, 2010). Intellectual capital includes human capital, structural capital and relational capital (Cabrita & Bontis, 2008; J. Chen et al., 2004; Kim et al., 2012). Human capital is a combination of genetic inheritance, education, skills, and action in life and business. Structural capital refers to all non-human sources of knowledge in the organization with the scope of databases, organizational charts, process guides, strategies, routines, and anything whose company value is higher than its material value. Relational capital reflects all knowledge that exists with external parties such as consumers, vendors, partners, and other external stakeholders. Intellectual capital is considered the entire intellectual capacity, knowledge, and competence of a company that can be utilized to achieve a competitive and sustainable advantage (Inkinen, 2015), and it is about all the knowledge that a firm can leverage to gain competitive advantage, including human, structural, internal relational, external relational, trust, renewal and entrepreneurial capital. Various previous studies have discussed the significant relationship between market orientation towards innovation (Distanont & Khongmalai, 2020; Jiménez-Jimenez et al., 2008). Several previous studies have shown the significant influence of intellectual capital on innovation (El-Telbani, 2013; Han & Li, 2015; Kianto et al., 2017; Rodrigues et al., 2013; Wu et al., 2008). There are few studies examining market orientation as an intervening variable of intellectual capital on innovation (Chahal & Bakshi, 2015; Lin et al., 2008).

Research Methods

This research uses a quantitative approach through the descriptive survey method. Based on the characteristics of the variables studied, we surveyed the managers as respondents of the film company by Google Form. The population of this study was the managers of 65 film companies. With sample withdrawal based on proportional random sampling, we arranged 56 managers as respondents. The descriptions of the construct of each variable are as follows:

- Intellectual Capital (IC) is an exogenous latent variable with three manifests: Human Capital (IC-1), Structural Capital (IC-2), and Customer Capital (IC-3).
- Market Orientation (MO) is an endogenous latent variable and also as mediating variable with three manifests: Customer Orientation (MO-1), Competitor Orientation (MO-2), and Internal Integration (MO-3).
- Innovation (INO) is an endogenous latent variable and also as mediating variable with three manifests: Product (INO-1), Process (INO-2), and Strategy (INO-3).

The analysis in this study includes descriptive analysis and Partial Least Square Path Modeling (PLS-PM) analysis. Descriptive analysis is to analyze data by describing the collected data as it is without making

conclusions or generalizations. Descriptive statistics include the average (mean) value of each indicator, dimension, and variable, the values of which can be grouped into four certain categories (Low, Fairly Low, Fairly High, and High).

To test the hypothesis, we used a PLS analysis which includes both a measurement model and a structural model. The measurement model analyzes the relationship between a construct and the indicator/dimension (also known as the manifest variable). The calculations of this measurement model include:

1. Construct reliability uses Dijkstra-Henseler's rho (□A), composite reliability (□C), and Cronbach's alpha (□).
2. Convergent reliability uses Average Variance Extracted (AVE).
3. Discriminant validity uses the Fornell-Larcker criterion and Heterotrait-monotrait ratio of correlations (HTMT).
4. Indicator measurement uses factor loadings and cross-loadings.

The structural model is basically concerned with estimating the relationship between one construct and one or several other constructs. The determination of the structural model usually includes the following calculations.

1. Inter-construct correlations
2. coefficient of determination (R2)
3. Path coefficients, indirect effect, and total effects
4. Effect size (Cohen's f2)

The interpretation of the f2 refers to Cohen criteria (see Table 1).

Table 1. Interpretation of Effect Size (f2)

Effect size	Interpretation
$f^2 \geq 0.35$	strong effect
$0.15 \leq f^2 < 0.35$	moderate effect
$0.02 \leq f^2 < 0.15$	weak effect
$f^2 < 0.02$	unsubstantial effect

Source: Dijkstra & Henseler (2015)

Results and Discussion

Descriptive analysis shows the mean, standard deviation, and category of each dimension and construct. The results of the descriptive analysis for each dimension and construct can be presented in Table 2.

Table 2. Descriptive Analysis

Dimensions	Mean	SD	Category
Human Capital	3.256	1.061	Fairly High
Structural Capital	3.335	1.108	Fairly High
Customer Capital	3.435	1.007	Fairly High
Intellectual Capital	**3.341**	**1.065**	**Fairly High**

Dimensions	Mean	SD	Category
Customer Orientation	3.274	0.971	Fairly High
Competitor Orientation	3.333	1.059	Fairly High
Internal Integration	3.137	1.066	Fairly High
Market Orientation	**3.248**	**1.034**	**Fairly High**

Dimensions	Mean	SD	Category
Product Innovation	3.220	1.102	Fairly High
Process Innovation	3.387	1.044	Fairly High
Strategy Innovation	3.399	1.033	Fairly High
Innovation	**3.335**	**1.061**	**Fairly High**

Based on Table 2, the intellectual capital of the film companies is in a fairly high category, with an average score of 3.341 from the ideal score of 5.0. This finding confirms that the film companies already have sufficient intellectual capital. The human capital already has general knowledge and technical skills regarding the

film, animation, and video subsector business. The human capital also has a considerably good leadership spirit. In the structural capital, the competency of the film crews in information technology, research and development, and innovation in the film, animation, and video subsector business are also relatively sufficient. In the customer capital, the business persons seek to fulfill brands and patents in the film, animation, and video subsectors. They are also quite intensive in getting information from the market related to the business. They try to make intense connections with customers.

The market orientation of this sector is also in a fairly high category, with an average score of 3.248. It means that the companies have a reasonably accurate market orientation. From the customer orientation, it can be seen that the commitment of their customers in this business is relatively high. The companies are rather intensive in creating the customer value in this business. They enthusiastically try to get to know the customer's needs. Within competitor orientation, the companies strive to obtain information related to competitors. They are rather intensive to response to competitors' actions in this business. The level of readiness of companies in competing with competitors in this business is also quite fierce. In the internal integration of the company, they are quite active in sharing information across functions. They have also implemented a functional integration strategy. The management functions in the company have contributed considerably to customer value.

The innovation in these companies is considered satisfactory (average score = 3.335). In product innovation, the companies appear to have adequate ability to create new products (films, animation, and video), although the conditions of production equipment and resources in creating these new products are insufficient. In this case, the schedule for creating new products is sufficient, but sometimes the companies have to anticipate the strict deadlines. Within process innovation, the creation of new products has been very creative. The creation of new products is very creative. However, this level of creativity has not contributed optimally to increase added value. In this case, the companies have to increase competitiveness in competing to create new products. This is inseparable from the way the company provides support to employees to continue to be creative in creating new products in this business. The companies can support this by forming a new broad network. They also need to pay attention to the availability of resources to create new products in this business.

To test the hypothesis, PLS analysis is used, namely through measurement models and structural models. PLS calculations in this study use the ADANCO version 2.1.1 program. The full model in this study can be seen in Figure 1.

Measures of construct reliability, convergent reliability, discriminant validity, and factor loadings are described as follows. Calculation of construct reliability using Dijkstra-Henseler's rho (□A), composite reliability (□C), and Cronbach's alpha (□) can be presented in Table 3. Measurement of construct reliability is an estimate of reliability related to the reflective measurement model. The calculation result is considered reliable if the value is > 0.7. The table shows that all constructs have a value of > 0.7 so the constructs of intellectual capital, market orientation, and innovation are interpreted to be reliable and support a good model.

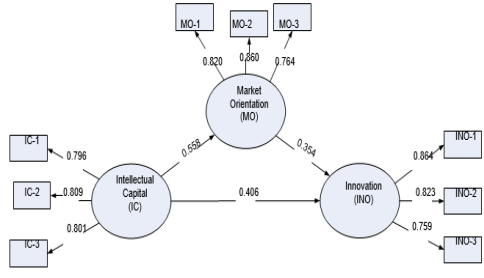

Fig 1. Full Model

Table 3. Construct Reliability

Construct	Dijkstra-Henseler's rho (ρA)	Jöreskog's rho (ρC)	Cronbach's alpha(α)
IC	0.732	0.844	0.727
MO	0.778	0.856	0.754
INO	0.748	0.857	0.748

The calculation of convergent reliability uses the Average Variance Extracted (AVE) measurement which is usually interpreted as a measure of unidimensionality. The reflective construct shows good unidimensionality if the AVE value is more than 0.5 (Fornell & Larcker, 1981). The results of the calculation of convergent reliability using AVE can be presented as follows.

Table 4. Convergent Reliability

Construct	Average variance extracted (AVE)
IC	0.644
MO	0.665
INO	0.667

The result of the calculation shows that the AVE value for each construct is more than 0.5 so it can be stated that all constructs have good uni-dimensionality.

The Fornell-Larcker criterion states that the AVE of a construct should be higher than the squared correlations with other constructs in the model. The heterotrait-monotrait ratio of correlations (HTMT) measures the discriminant validity of all factors. The HTMT value should be lower than 0.9 or 0.85. The results of calculating discriminant validity using the Fornell-Larcker criterion and HTMT can be presented as follows.

Table 5. Discriminant Validity

Discriminant Validity:

Heterotrait-Monotrait Ratio of Correlations (HTMT)

Construct	IC	MO	INO
IC			
MO	0.736		
INO	0.797	0.737	

Construct	IC	MO	INO
IC	0.644		
MO	0.311	0.665	
INO	0.364	0.337	0.667

Squared correlations; AVE in the diagonal

The calculation results show that the HTMT value is below 0.9 and in the Fornell-Larcker Criterion, it can be seen that the AVE value (which is marked as bold) is higher than the value of each of the squared correlation. This discriminant validity shows that each construct understudy does have different characteristics in its concept. In other words, a construct has a different concept from other constructs.

Factor loadings are the slope of a simple regression of an indicator with its constructs. The factor loading matrix can be presented in Table 6.

Table 6. Factor Loadings

Indicator	IC	MO	INO
IC-1	0.796		
IC-2	0.809		
IC-3	0.801		

MO-1	0.820	
MO-2	0.860	
MO-3	0.764	
INO-1		0.864
INO-2		0.823
INO-3		0.759

The result of factor loadings calculation shows that each indicator (dimension or manifest variable) is valid and reliable to reflect each of its constructs, and can show conceptual (and statistical) differences between each indicator in one construct with other indicators in other constructs. Basically, all indicators and all constructs lead to a good model as a basis for hypothesis testing, as analyzed in the structural model.

The structural model is basically concerned with estimating the relationship between one construct and one or several other constructs. Inter-construct correlation is a correlation matrix that shows the closeness of the relationship between one construct and another. Basically, this matrix shows a close relationship (between 0.6 to 0.8) between these constructs.

Table 7. Inter-construct Correlation

Construct	IC	MO	INO
IC	1.000		
MO	0.558	1.000	
INO	0.603	0.580	1.000

The coefficient of determination (R2) basically measures the proportion of the variance of an endogenous variable that can be explained by the independent variables. Based on these results, it can be stated that the variance of the market orientation (MO) construct can be explained by intellectual capital by 31,1%, and that the variance of innovation (INO) can be explained by intellectual capital and market orientation by 45,1%.

Table 8. Coefficient of Determination (R2)

Construct	Coefficient of determination (R^2)	Adjusted R^2
MO	0.311	0.298
INO	0.451	0.430

Path coefficients are standardized regression coefficients (beta values). This path coefficient measures the direct effect of one independent variable on one dependent variable. This path coefficient can be interpreted as an increase in the dependent variable if the independent variable increases by one standard deviation and all other independent variables in the equation remain constant.

Tabel 9. Effect Overview

Effect	Beta	Indirect effects	Total effect	Cohen's f^2	Interpretation
IC -> MO	0.558		0.558	0.451	Strong
IC -> INO	0.406	0.197	0.603	0.207	Moderate
MO -> INO	0.354		0.354	0.157	Moderate

The direct effect of intellectual capital on market orientation is 0.558 with a strong size effect. The direct effect of intellectual capital on innovation is 0.406 with a moderate size effect, and the indirect effect is 0.197. This proves that market orientation can be an intervening variable for the effect of intellectual capital on innovation. The direct effect of market orientation on innovation is 0.354 with a moderate size effect. This model confirms that the intellectual capital and market orientation constructs are important in influencing innovation. This model also confirms that intellectual capital needs to go through a market orientation before it can increase innovation.

Based on the results of the bootstrapping, it is found that each pathway of the exogenous to endogenous variables has a p-value below 0.05, which indicates that all paths are significant so that all hypotheses are accepted.

This study confirms the findings of previous research regarding the relationship between intellectual capital, market orientation, and innovation (Distanont & Khongmalai, 2020; Jiménez-Jimenez et al., 2008; El-Telbani, 2013; Han & Li, 2015; Kianto et al., 2017; Rodrigues et al., 2013; Wu et al., 2008; Chahal & Bakshi, 2015; Lin et al., 2008).

Conclusion

This research study reveals the effect of intellectual capital on innovation through market orientation in film companies in Indonesia. The influence of intellectual capital on innovation directly or through market orientation is proven to be significant, as well as the direct effect of market orientation on innovation. The findings of this study are that market orientation is proven to be an intervening variable for intellectual capital in increasing innovation. The implication of this research is that intellectual capital will be able to more optimally influence innovation if it goes through the right market orientation. Film companies in Indonesia are just waiting for the right time to develop intellectual capital that is in line with their market orientation so that in turn the expected innovation can be achieved. The right step enables the sector of film, animation, and video to develop the creative economy in Indonesia and perhaps the global economy.

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