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The Effect of Market Orientation toward Organizational Learning, Innovation, Competitive Advantage, and Corporate Performance

(A Study at SME Sasirangan in South Kalimantan)

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Abstract

This study aims to examine the effect of market orientation toward organizational learning, innovation, competitive advantage, and corporate performance in South Kalimantan. The study design is classified as quantitative research design to examine the relationship between variables. The results show that market orientation has direct significant effect on organizational learning, innovation, and corporate performance, and market orientation has non-significant yet direct effect on competitive advantage. Limitation of this study lies in the reluctance of the owners of SME Sasirangan to explain the company's financial statements that financial data can only be obtained through direct answers on the questionnaires provided. The other limitation is that most SME owners in Sasirangan education level is medium, and old business tends to be dominated by a relatively new owner resulted in a bias in providing answers or statements, so the approach in this study is less comprehensive..

Keywords: Effects of Market Orientation, Organizational Learning, Innovation, Competitive Advantage, and Corporate Performance

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Introduction

The success of a company in running the business is measured through performance because performance is seen as a concept used to measure the extent to which the market performance been achieved by a product produced by the company (Hafeez *et al.,* 2011). Performance can also be interpreted as a developmental achievements or results achieved by the company during the operation, either financial or non-financial (Boso *et al.,* 2013).

To achieve good performance, a company is required to have a competitive advantage to win the competition in the business environment. Competitive advantage continuously plays a key role in improving corporate performance (Reswanda, 2011). This is confirmed by Zhou *et al.* (2009), Li *et al.* (2010), and Kamukama *et al.* (2011) stating that competitive advantage has significant influence on a corporate performance. Competitiveness can be achieved when companies have the creative power or are highly innovative as their a basic need, which in turn leads to the creation of competitive advantage (Wahyono, 2002).

Hurley and Hult, (1998) state that innovation is an organizational culture that reflects the extent to which the company is open to new ideas, receives and stimulates new approaches to encourage challenging ideas, risk taking, and being pro-active. Then innovation is regarded as a necessity for companies to implement given the rapid market competition as a result of the impact of globalization and the rapid advancement in technology (Tajeddini, 2010). Success for the company in the innovation can be said if the company is one step ahead compared to its competitors; it requires intelligence in innovation activities so the innovations are able to create competitive advantage in order to improve performance for the company (Amabile *et al.*, 1996). This statement is reinforced by Celuch *et al*. (2002), Laforet (2008), Augusto and Coelho (2009), as well as Camisón and López (2011), stated that innovation has a significant influence on competitive advantage. However, it is different from the opinion by Leskovar et al. (2007).

Narver and Slater (1990) state that market orientation refers to the company's ability to know about the market changes and customer needs, and to do inter-functional coordination to face changes in market. Furthermore, market orientation is the process of creating superior value in improving the performance of companies.

Producing superior performance aims to perpetuate the corporate performance in the future (Jaworski and Kohli, 1993). The statement is reinforced by Hafeez *et al.* (2011) stating that market orientation significantly affects company's competitive advantage and performance. Furthermore, Cambra *et al.* (2011), Raju *et al.* (2011), Boso *et al.* (2012), Mohsein *et al.* (2012), and Voola *et al.* (2012) state that market orientation significantly influences corporate performance. However, Zhou *et al.* (2009) stated that customer orientation as a component of market orientation has no significant effect on the performance of the company. Similarly, Smirnova *et al.* (2011) also state that customer orientation and inter-functional coordination, which is a component of market orientation, has no significant effect on the performance. Explicitly, to improve corporate performance and market orientation in addition to innovation, organizational learning is also important Eris and Ozmen (2012).

Marquardt (1996) states that organizational learning is a process in which an organization uses existing knowledge and builds new knowledge to shape the development of new competencies essential in a constantly changing environment. Organizational learning, relevant to building knowledge, is important for innovation. This is important for innovation and business performance (Liu, 2002). Organizational learning can also be considered as a key aspect of organizational performance (Alipour *et al.*, 2011). Organizational learning facilitates the transfer of and knowledge creation, and innovation to improve corporate performance. Organizational learning also plays a role as mediator in the relationship between market orientation and innovation (Jaworski and Kohli, 1993).

Therefore, organizational learning is indispensable to establish market orientation (Hurley and Hult, 1998). Celuch *et al.* (2002) state that organizational learning has a very important and strategic role in supporting the advancement of a company as through learning organization, a company may have a competitive advantage while increasing the performance. This is confirmed by Njuguna (2009), which states that organizational learning significantly affects competitive advantage. However, Martinette and Obenchain-Leeson (2009) stated that organizational learning effect is not significant to competitive advantage. Furthermore, the relationship between organizational learning and corporate performance is reinforced by Peteraf (1994), Jiménez and Cegarra-Navarro (2007), Alipour *et al.* (2011), Mohamed and Sulaiman (2011), that organizational learning significantly affects corporate performance.

2. Literature Review and Conceptual Model

2.1 Market Innovation

Narver and Slater (1990) define market orientation as an organizational culture that is most effective in creating important behaviors for the creation of superior value for buyers as well as the performance of the business. Subsequently (Narver and Slater, 1990) confirm that market orientation includes (1) customer orientation, (2) competitor orientation, and (3) coordination among functions. Customer orientation is the company's ability to meet the needs of its customers and to satisfy its customers completely both now and in the future (Day and Wensley, 1988). Competitor orientation is the company's ability to be able to know the strengths and weaknesses of competitors, as well as the strategy undertaken by competitors both now and in the future (Day and Wensley, 1988; Aaker, 1989; Porter and Schwab, 2008).

Jaworski and Kohli (1993) put an emphasis on profitability meaning that anything done by sellers to satisfy customers should be back to the main objective of profitability. This means the company is not allowed to establish good relations with customers by satisfying their needs, yet scarifying profitability. Therefore, whatever done by sellers, they should remain in the framework of ultimate goal that is profit. Many experts in the field of marketing conclude that the main target is profitability of the market orientation or economic welfare and they find that profitability is the consequence of market orientation (Jaworski *and* Kohli, 1993).

From the description above, it can be concluded that the orientation on customers and orientation on competitors include all information related to customer needs and company's position in the competition should be disseminated to all the departments or units that exist within the organization. This aims for all departments or units that exist within an organization can identify and do the follow up. Coordination between functions must be based on customer information and competitor's position. Then, all functions or parts within the company are making the same efforts to create superior value for both the business and customers. Finally, the company should focus on long term and main goal of achieving high profitability.

2.2 Market Orientation and Organizational Learning

Raju *et al.* (2011) state a fact that cannot be avoided that market has a structure that is very dynamic and difficult to predict, demanding a company to identify and to determine any changes that occur and undergo continuous improvement so that it has the ability to adapt to these changes. To make continuous improvements, good managerial knowledge is obviously needed.

2.3 Market Orientation and Innovation

Market orientation is very much depending on the willingness of organizations to innovate. Baker and Sinkula (2009) say that market orientation is described as different efficacy levels of organization and the ability to create innovation to respond to the external environment and meet customer needs. Based on the opinion, it is certain that the success in innovating the role of market orientation is crucial; it is supported by some empirical research conducted by Panayides (2006), Li *et al.* (2008), Baker and Sinkula (2009), Augusto and Coelho (2009), and Rahaba (2012), which states that there is significant relationship between market orientation and innovation.

2.4 Market Orientation and Competitive Advantage

Implementation of market orientation will bring influence to increase the competitive advantage. Research conducted by Juan and Zhou (2010) proves that market orientation has a positive impact on competitive advantage. Companies that implement market orientation have advantages in terms of customer knowledge and this can be used as a source for creating products that comply with the wishes and needs of customers. Emphasizing market orientation towards competitiveness is based on identifying customer needs so that each company is expected to answer these needs through the creation of new products or the development of existing products in order to create superior value for customers on an ongoing basis and can be an asset for the company to win the competition.

2.5 Market Orientation and Corporate Performance

Market orientation not only helps to increase competitiveness but also directly affects corporate performance.

Studies provide empirical support for the existence of a positive relationship between market orientation to performance including the research conducted by Tajeddini (2010), Juan and Zhou (2010), Raju *et al*. (2011), Hafeez e*t al*. (2011), Voola *et al.* (2012), Mohsein *et al*. (2012), and Boso *et a*l. (2013) stating that market orientation significantly affects corporate performance.

Some of the indicators used to measure market orientation are customer orientation, competitor orientation, and market information. Customer orientation is the willingness of companies to understand the needs and desires of customers. Competitor orientation is the willingness of companies to monitor the strategies of competitors. Market information is the company's efforts to seek information about the condition of the industrial market.

2.6 Organizational Learning

Organizational learning is the sharing of knowledge within the company, improving skill, and experience to the company managers (Ipe, 2003). Sharing knowledge and experience on a regular basis is a way of internal discussion (Calatone *et al.,* 2002). Thus, through organizational learning, companies can develop a unique human and organizational capital that is difficult to replicate and evolve continuously with the company (Armstrong and Foley, 2003). Armstrong argues that employee skills, knowledge, and abilities (human capital) are associated with the organizational culture to form a unique resource that other companies cannot acquire and apply.

2.7 Innovation

Keskin, (2006) was one of the first economists to define 'innovation'. He defines five possible types of innovation, namely (i) the introduction of new product or a qualitative change in an existing product; (ii) the process innovation new to an industry; (iii) the opening of a new market; (iv) the development of new sources for supply for raw materials or other inputs; and (v) changes in industrial organization.

2.8 Innovation and Competitive Advantage

According to Gatignon and ve Xuereb (1997), in product innovation there are three important things to note, namely product's excellence, uniqueness of the product, as well as the cost of the product.

Product innovation can fail for many reasons. Errors in implementing the strategy is often the case, other causes include the design of products that are not innovative, misjudge the competition, and high design or cost of production. Not adaptive can also cause problems due to the rapid rate of growth in products in the market.

Research by Droge and Vickrey (1994) finds that a product can be used as a source of competitive advantage. Companies that are able to design products according to customer needs are able to survive amid competition for the products remain in demand by customers. Thus, innovation can be used as a source of competitive advantage of companies. Some of the indicators used to assess the innovation are power of creativity, technical innovation, design changes, distribution system changes, and payment administration systems. Technical innovation is the innovation process in the company's products. Research supports the relationship between innovations to competitive advantage are Zhou *et al.* (2009), Augusto and Coelho (2009), and Camisón and López, (2011)

2.9 Innovation and Corporate Performance

Quick innovation is substantial in providing a positive effect on a new product (Cooper, 1998). The more innovative a company in producing a new product, the more positive influence on the development of financial performance is (Alipour *et al.*, 2011). The shorter the cycle time to produce a new product, then the greater the sales, profits, and return on equity for the company is (Gupta *et al.,* 2006).

2.10 Competitive Advantage

Judging from many previous studies, competitive advantage itself has two different meanings but interrelated. The first emphasizes on excellence or superior in terms of resources and expertise of the company. Companies that continue to pay attention to the development of performance and seek to improve the performance have the opportunity to achieve a competitive position. Actually, a company has a strong capital has to continue to compete with other companies (Droge and Vickrey, 1994).

Zhou *et al.* (2009) state several indicators used to measure competitive advantage, namely uniqueness, rarity, not easily imitated, not easily replaced, and competitively priced. The uniqueness is a combination of the value of art and the taste of the customer. Competitive price is the company's ability to adjust product prices to general prices in the market. Not easily found means that the product cannot be easily found. Not easily imitated means it can be imperfectly imitated. Difficult to replace means it cannot have an exact replacement.

2.11 Competitive Advantage and Corporate Performance

Nelson (1991) states when a company only produces a set of products with a set of processes, it will not guarantee long-term competitive advantage. Competitive advantage is reflected in the company's ability to innovate and compete through excellence to trigger the creation of corporate performance. Juan and Zhou (2010) acknowledge that competitive advantage have a significant effect on performance as measured by sales volume, the rate of profit, market share, and return on investment. Competitive advantage can be obtained from the company's ability to manage and utilize the resources and capital it has. Chapman *et al.* (2003) state that in turn, competitive advantage is an important factor to produce good performance. Story *et al.* (2011) stated that the development of expertise, incubation, and acceleration is an important indicator in triggering the creation of competitive advantage in order to improve corporate performance.

2.12 Corporate Performance

Corporate performance is essentially a measure of achievement gained from the process of overall marketing activities of a company or organization. In addition, corporate performance can also be seen as a concept used to measure the extent to which the market performance been achieved by a product produced by the company (Hafeez *et al.,* 2011). Researchers agree that measuring the performance of the business or company is not just simply use a single size (Jaworski and Kohli, 1993). There are several approaches in measuring corporate performance, the size of the organization's success including profitability, sales growth, competitiveness, and market share size (Jacobson, 1988). Ferdinand (2006) also states that corporate good performance is expressed in three main scale value, i.e. sales, sales growth, and market share.

For small business performance measurement, there has been no agreement about how and by what procedures should it be done. Thus, performance measurement used in this study is done through sales growth, profit growth, and capital growth. Based on the literature review, the concept of the research model was shown in Figure 1.

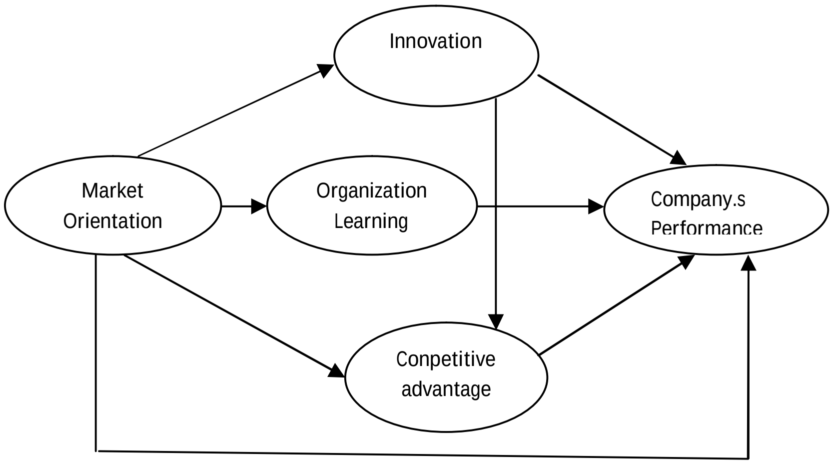

Figure 1: Research Model

2.15 Research Hypotheses

Based on the conceptual framework described above, the hypotheses of this study are as follows:

1: Market orientation has a significant effect on organizational learning 2: Market orientation has a significant effect on innovation. 3: Market orientation has a significant effect on competitive advantage. 4: Market orientation has a significant effect on corporate performance. 5: Organizational learning has a significant effect on corporate performance 7: Innovation has a significant effect on competitive advantage 8: Innovation has a significant effect on corporate performance 9: Competitive advantage has effect on corporate performance.

3. Research Method

3.1 Population and Sample

The population in this study are all Small Medium Enterprises (SME) of Sasirangan in South Kalimantan, total 101 business units across five districts and cities in South Kalimantan, while the sample of SME Sasirangan in South Kalimantan consist of 54 business units. Based on calculations on the population, the number of samples is chosen using the Slovin formula. Proportional random sampling was used and a total sample of 50 units SME Sasirangan is obtained.

3.2 Data Collection and Analysis

Data was collected through a closed questionnaire on market orientation, organizational learning, and innovation in order to increase competitive advantage and corporate performance. In addition, data collected through direct interviews with leaders of SME Batik Sasirangan in South Kalimantan. The SME owners act as respondents in this study and they have to answer questions systematically. Analytical tool used in this study is Generalized Structured Component Analysis (GESCA).

4. Results

In this study, testing the hypothesis (Structural Model) is performed in order to determine the direct effect and the indirect effect between the variables to be studied. Testing the hypothesis on GESCA for direct effect is performed using the t-test. The indirect effect is proven indirectly; if the direct effect of predictor variables to mediating variables is significant and the direct effect of mediating variables to responsive variables is also significant, then the direct effect is significant. If one of the direct effect or both are not significant, the indirect effect is insignificant. Results of hypothesis testing in the form of diagram can be seen in Figure 2.

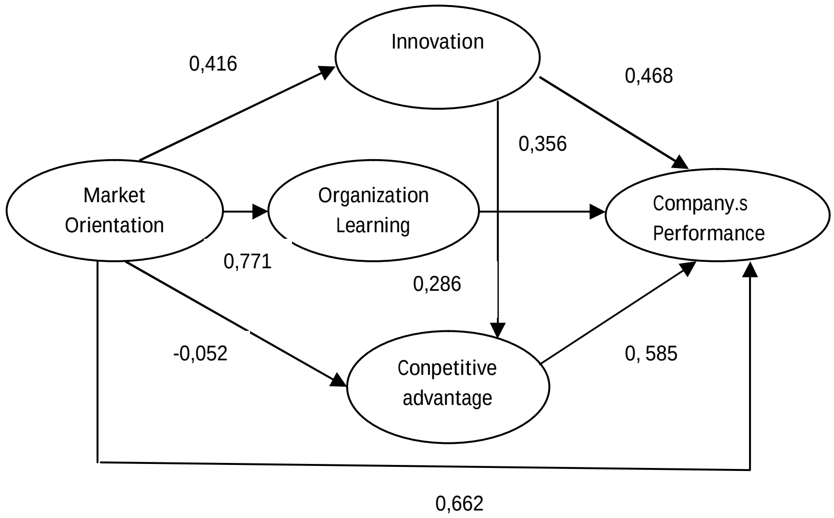

Figure 2: Path Analysis Results of Hypothesis Testing

Figure 2 indicates that:

Hypothesis 1 market orientation has direct significant effect on organizational learning with a path coefficient value of 0.771*

Hypothesis 2 market orientation has direct significant effect on innovation with a path coefficient value of 0.416*

Hypothesis 3 market orientation has direct non-significant effect on competitive advantage with a path coefficient value of -0.052

Hypothesis 4 market orientation has a direct significant effect on corporate performance with a path coefficient value of 0.662*

Hypothesis 5 organizational learning has direct significant effect on corporate performance with a path coefficient value of 0.356*

Hypothesis 6 innovation has direct significant effect on competitive advantage with path coefficient value of 0.286*

Hypothesis 7 innovation hasdirect significant effect on corporate performance with a path coefficient value of 0.468*

Hypothesis 8 competitive advantage has direct significant effect on corporate performance with a path coefficient value of 0.585

5. Discussion

Based on the results of the study, market orientation has significant effect on organizational learning. This is evidenced from the results of statistical tests performed through GESCA program shown in Figure 2. Path analysi shows the value of market orientation towards learning organization of 0.771 (significant at α 0.05). These results show the implementation of market orientation through indicators of customer orientation, competitor orientation, and coordination among SME Sasirangan leaders to do learning organization to all employees in various units as market orientation will be able to support the establishment of effective organizational learning.

Furthermore, the results of the study shows that market orientation has direct influence on innovation significantly with a path coefficient value of 0.416 (significant at α 0.05).These results support the research by Shan *et al*. (2009), which states that market orientation encourages every company to perform an innovation because innovation can only run well when supported by a complete market information. Here are the results of the study on the direct effect of market orientation on competitive advantage, that is non-significant. It can be seen from the statistical test GESCA program with a path coefficient value of -0.052 (significant at α 0.05).These results illustrate that the market orientation through indicators of customer orientation, competitor orientation, and coordination of functions do not provide a good enough contribution in creating competitive advantage. Such conditions, occurring due knowledge of market orientation, especially knowledge of competitor orientation, is relatively limited for owners of SME Sasirangan.

The results of this study are inconsistent with the opinions of Narver and Slater (1990) which state that market orientation is an organizational culture that focuses on the marketing strategy of customer orientation, competitor orientation, and coordination across functions to create competitive advantage. Meanwhile, the results of market orientation influence corporate performance are significant. These results were confirmed through GeSCA which show clearly that the path coefficient value of the direct influence of market orientation on business performance is equal to 0.662* (significant atα 0.05). These results illustrate that the orientation of the market carried out by SME Sasirangan gives the right direction to improve company performance. Market orientation is one source of market information for SME Sasirangan that is very effective in supporting decision-making in marketing field.

Through market orientation, a company knows about the criteria of the products needed by the market, knows the level of customer satisfaction obtained after consuming products, and can find out the company's position in the competition as well as to coordinate functions so market information may be followed up properly.

This study supports the results of research conducted by Smirnova *et al.* (2011), Tajeddini (2010), Li *et al.* (2010), Raju *et al.* (2011), Cambra *et al*. (2011), Hafeez *et al.* (2011), Voola *et al.* (2012), Mohsein *et al.* (2012), and Boso *et al.* (2012) which state that market orientation significantly influences corporate performance.

Meanwhile, analysis on the effect of organizational learning to innovation is significant. This is evident from the test results on path coefficient value on the direct influence of organizational learning on innovations of 0.524* (significant at α 0.05). This result can be interpreted that the indicators of organizational learning through sharing knowledge and increasing skill can improve innovation, be it product innovation, process innovation, and marketing innovation. This result supports the idea by Senge (1990) that organizational learning is a continuous learning process and transforms itself into a capacity for innovation and growth. The results also support research by Mohamed and Sulaiman (2011), which examines the direct influence of organizational learning on innovation resulting in significant effect. Furthermore, he states that innovation can only work well when supported by the knowledge and good skills.

Referring to the statistical test results, it can be said that organizational learning significantly influences competitive advantage. It can be seen in Figure 2. From the diagram, itcan be seen clearly that the path coefficient is equal to 0.447 (significant at α 0.05). This result suggests that organizational learning through knowledge sharing and increased skills of employees conducted by SME Sasirangan could encourage the creation of competitive advantage that is measured by the quality and uniqueness of the product. The results of this study support the research of Vijande *et al.* (2005) which states that organizational learning significantly influences competitive advantage. Furthermore, they state that organizational learning is an important instrument in developing skills and knowlage in order to support the creation of sustainable competitiveness. The results also confirm that organizational learning has significant influence on corporate performance.

This is evidenced from the results of statistical tests through GeSCA that the path coefficient value obtained is 0.356 (significant at α 0.05). The results support the research of Jiménez and Cegarra-Navarro (2007) which confirm that organizational learning significantly influence corporate performance.

Furthermore, the results of studies related to the effect of innovation on competitive advantage shows that it has direct and significant effect, with a path coefficient value of 0.286 (significant at α 0.05). These results give meaning to SMEs Sasirangan that innovation will be able to encourage the creation of competitive advantage. This is in line with the statement by Cooper (1998) explaining that the development of innovation is a necessity for the company to face the global competition, because innovation is a medium for companies to create superior value to win competition. This study supports the studies of Camisón and López (2011). The results prove that innovation through product innovation and process innovation has a significant effect on competitive advantage.

Furthermore, Camisón and López (2011) state that innovation is an absolute requirement for every company in facing consumers considering the competition tends to ask for more innovative products. The results also support the research by Carmen and Jos (2008), Shan *et al*. (2009), Tajeddini (2010), Zhang and Duan (2010), Eris and Ozmen (2012), which states that innovation significantly, influences corporate performance. Based on the results of statistical tests performed through GeSCA, competitive advantage has direct and significant effect on corporate performance, with a path coefficient value of 0.55* (significant at α 0.05). The results of this study provide guidance for SMEs Sasirangan that competitive advantage is able to improve corporate performance. The results of this study are consistent with the statement of Chapman *et al.* (2003) that in turn competitive advantage is an important factor in producing good performance. The study also supports the research of Peteraf (1994) and Zhou *et al.* (2009) that competitive advantage significantly affects corporate performance.

6. Conclusion

Market orientation has significant effect on organizational learning. Market orientation has significant effect on innovation. Market orientation has non-significant influence on competitive advantage. Market orientation has significant influence on corporate performance. Organizational learning has significant effect on innovation.

Organizational learning has significant effect on competitive advantage. Organizational learning has significant effect on corporate performance. Innovation has significant effect on competitive advantage. Competitive advantage has significant effect on corporate performance.

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