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Market Orientation, Learning Orientation and Small Medium Enterprises Performance:The Mediating Role of Innovation

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ABSTRACT

This study aims to empirically demonstrate the relationship of market orientation, learning orientation on innovation and business performance within the scope of the small and medium enterprises (SMEs). Besides, this research also explaines the importance of company's innovation as a mediating relation to improve business performance. The samples of this study were 155 managers or owners of Meubeller SMEs in the Region of Karisidenan Surakarta. The sampling technique used in this research was purposive sampling. The basic consideration of this research was the experience of the SMEs Meubeller (either the manager or owner) in managing their businesses. The hypothesis testing results showed that market orientation gave positive effect on business performance and innovation of the company. Orientation learning gave positive effect on business performance and innovation of the company. Company's innovation influenced business performance.

Keywords: Market Orientation, Learning Orientation, Performance, Innovation
JEL Classifications: L1, M31

1. INTRODUCTION

The Meubeller industry in Indonesia in recent years experiences a decline in competitiveness. It is seen from: A decrease in production volumes, the contribution in gross domestic product, as well as in foreign exchange earnings, and also a decrease in Trade Specialization Index (ISP). This condition is caused by several problems that hinder the industry to develop, among the problems are: Limited supplies of wood raw materials or rattan which price is relatively expensive, low human resource capabilities compared to competitor countries, especially in the field of design and engineering production, the higher number of imported Meubeller overflows the domestic market as the effect of free market, and also the stringent demands on environmental issues in the countries of export destination.

One important strategy for improving the performance of the company is innovation (Abou-Moghli et al., 2012; Hoonsopon and Ruenrom, 2009; Hsu, 2012; Najib and Kiminami, 2011; Salavou and Avlonitis, 2008). Innovation is an essential component of the competitiveness of companies in improving performance and is a part of growth strategies to enter new markets and increase existing market share (Kumar, 2012). Companies which are motivated to improve competitiveness in global market also begin to implement a strategy based on innovation in anticipating the rapid technological change and tighter global competition through collaboration and value creation *(*co-creation*)* with customers (Laforet, 2009; Meroño-Cerdán et al., 2008; Ngugi et al., Bournemouth University, 2010).

Besides innovation, market orientation is also an important factor in improving business performance (Aljanabi and Noor, 2015; Baker and Sinkula, 1999; Carbonell and Escudero, 2009; Kara et al. 2005). Slater and Narver (1994) revealed that classification of market orientation is divided into two types of market orientation; responsive and proactive. Further mentioned that further researches are still required to study the market orientation which is divided into the one with responsive characteristics and the one with proactive. The results of the study stated that market orientation had positive effect on company performance.

Keskin (2006) in his study said that in addition to market orientation, organizational learning also affects the performance. A study conducted by Michna (2009) provided evidence of the relationship between organizational learning and performance of the organization. The dimension of organizational learning has a correlation to the performance of the organization. While Eris and Ozmen (2012) in their research showed that organizational learning has a correlation to the performance of the organization.

A research by Eris and Ozmen (2012) provided evidence of the role of market orientation, organizational learning, and innovation on company's performance. While Kropp et al., (2006a) said that there is a relationship between entrepreneurial orientation, marketing activities, and organizational learning on entrepreneurial performance in the International business companies.

This study aims to contribute thoughts on the role of market orientation and organizational learning on innovation and business performance improvement. Various previous studies have provided evidences of positive relationship of market orientation and organizational learning on innovation and performance. Based on the descriptions, it is important for small and medium enterprises (SMEs) with market-orientation and the need of organizational learning in improvng business performance.

This study also comes from the phenomenon of export Meubeller sales trend in Indonesia that is showing a decline. On the other hand, the market potential served by SMEs Meubeller in Surakarta is increasing. Seeing the potential of the Meubeller SMEs market, then the SMEs Meubeller actors should be able to improve their ability in creating innovative business.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

2.1. Market Orientation, Innovation, and Business Performance

Market-oriented organizations need to develop a better understanding on the strengths and weaknesses of competitors, to use that knowledge to develop and implement strategies in order to create better customer value and customer satisfaction. Narver and Slater (1990) stated that the primary dimension of market orientation is customer orientation and competitor orientation and in order to be able to apply both orientations better, it needs to be combined with the third orientation that is coordination among functions within the company that will increase the durability of the company against competitors while increasing satisfaction of customers.

Meanwhile Kohli and Jaworski (1990) explained models of antecedents and consequences of market orientation. The research results showed that the policy role of senior manager, the dynamics in the cooperation across departments within the company, as well as the organizations system as antecedents of market orientation followed by the role of the response of employees, customer responsiveness, and performance of the company as the consequences of market orientation. Further explained that successful market orientation, according to Kohli and Jaworski (1990), have three main requirements: (1) Focus on customers, (2) coordinated marketing, (3) coordination across departments within the company.

Smirnova et al., (2011) tested the effect of market orientation with the dimension of customer orientation gives positive effect on relational capabilities and insignificant on business performance. Market orientation with the dimension of cross-functional orientation gives insignificant effect on relational capabilities and significant one on business performance. Market orientation with the dimension of cross-functional coordination does not significantly affect on relational capabilities and business performance. Relational capabilities give effect on business performance. A study supported the above research was also conducted by Wang and Feng (2012) which showed that customer orientation gives positive effect on the capabilities of customer relationship management (CRM), customer centric organizational systems positively affect on the capabilities of CRM, CRM technology has positive effect on CRM capabilities, CRM capabilities give positive effect on company performance.

A research by Eris and Ozmen (2012) provided clear evidence of a positive relationship of market orientation, organizational learning, and innovation on company performance. However, studies that examined the relationship between organizational learning organizational performance using indicators of corporate performance such as market growth, profit growth, customer satisfaction and financial statements gave contradictory results.

Based on literature review and previous study, we propose:

H1: Market orientation gives positive effect on business performance.

The study developed by Kohli and Jaworski (1990)) and also Slater and Narver (1994) found that quick and accurate responses to customer needs become important factors when the company is dealing with the aggressive competitors that are ready to break through the market. Meanwhile, Carbonell and Escudero (2009) suggested that leaving a strong influence on the organization's ability to reach speeds of their innovation, so as to improve performance in new product launches.

Bodlaj (2003) stated that the market orientations (both proactive and responsive) played an important role in the innovative performance marked by the success of sales of new products that add value for customers and improve the performance of the company. Market orientation itself according to Jensen and Harmsen (2001) is seen as an important factor of innovation performance of companies that is characterized by the level of success of new product development. Meanwhile, Slater and Narver (1994) in their study found a positive relationship between the orientation of the market and the consequences of innovation, which the innovative performance of new products.

Based on literature review and previous study, we propose:

H2: Market orientation gives positive effect on innovation.

2.2. Learning Orientation, Innovation and Business Performance

Learning orientation is an important factor in achieving organizational innovation and superior company performance, as in some researchers including (Baker and Sinkula, 1999; Eris and Ozmen, 2012; Eshlaghy and Maatofi, 2011; Kropp et al., 2006b; Mavondo et al., 2005). Learning orientation is the development of new knowledge or insight that has the potential behavior to develop innovation within the company and even able to learn from each personnel of the company is a sustainable advantage for the company (Baker and Sinkula, 2009). There are three indicators of learning orientation in this study, namely: Commitment to learn, shared vision, and a variety of views, the success of the company.

A reasearch by Eris and Ozmen (2012) provided clear evidence on the role of market orientation, organizational learning and innovation on company's performance. However, the studies that examined the relationship between organizational learning and organizational performance using indicators of corporate performance such as market growth, profit growth, customer satisfaction, and the financial statements give contradictory results. While Mavondo et al. (2005) in their research found that lerning orientation, customer orientation and the role of human resources gave positive effect on company performance. Other studies that examined the causal relationship between organizational learning and corporate performance concluded that the learning process in the organization has an influence on the performance of the organization (Eris and Ozmen, 2012; Lin and Kuo, 2007).

Kropp et al. (2006a) examined the relationship between entrepreneurial orientation, marketing activities and organizational learning on entrepreneurial performance in the international business companies and the results showed positive relationship between innovation, market orientation and organizational learning with international business performance. While Michna (2009) in his research found the relationship between the three variables consisting of cross-cultural management in the enterprise, organizational learning and organizational performance correlated to organizational learning. The dimensions of an organizational learning had a correlation to the performance of the organization.

Based on literature review and previous study, we propose:

H3: Orientation learning gives positive effect on business performance.

The results of the study examined the relationship of organizational learning to innovation giving different results, but experts and practitioners continue to believe that organizational learning gives effect on the company's innovation (Lin and Peng, 2008). Furthermore, Lin and Peng (2008) in their study concluded that learning orientation affects innovation, and innovation influenced the performance of a business. Researchers such as Sony and Naik (2011) also concluded that the dimensions of the six sigma contributed to the commitment to learn and organizational learning contributes positively to innovation performance.

Lin and Peng (2008) in their study found that the orientation of the market undertaken by the company provided a real contribution to the learning orientation of the company. Furthermore, this study also showed that the entrepreneurial orientation variable affects innovation, learning orientation affects the innovation, so that the innovation also provides a dominant influence on business performance.

Based on literature review and previous study, we propose:

H4: Orientation learning gives positive effect on innovation.

2.3. Innovation and Business Performance

Innovation is widely seen as an important component of competitiveness that is embedded in the organizational structure, the production process, launched products, as well as marketing strategy within a company (Alpkan et al., 2010). Further explained, the basic guideline to determine the activity of innovation at a company level is divided into four different types of innovation, namely: Product innovation, process innovation, marketing innovation, and organizational innovation. Type of innovation as a whole has a positive impact on company's performance.

A research conducted by Eshlaghy and Maatofi (2011) showed the important role of innovation that could make a positive contribution to the performance of the company. The company's role in responding to the bumpy environment requires innovation, which automatically has a central role in reaching comparative excellence and highest performance. Although many researchers in the past have investigated the influence of innovation on organization performance, it seems the role of innovation needs to support the company's performance.

Meanwhile the result of another researcher discovered that it was important for companies to be critical for innovations since they are important parts of the company and the opportunities for the company's success in the future (Holtzman, 2008). Another finding also found that many companies were doing innovation, both in the form of technological innovation and also marketing (Lin and Chen, 2007; Meroño-Cerdán et al., 2008).

A study of Olson et al., (2005) described the company's performance with regard to how the company's business strategy is implemented effectively and efficiently. The process of the implementation of business strategy is related to how marketing activities completed. The result of the performance is less precise when only seen from one dimension, so that the measurement of marketing performance is not enough to use a single size.

A study of Eshlaghy and Maatofi (2011) summed up the importance of innovation that could make a positive contribution to the performance of the company. The company's role in responding to the bumpy environment requires innovation which automatically has a central role in reaching comparative excellence and highest performance. Although many researchers in the past have investigated the influence of innovation on performance organization, it seems the role of innovation is needed to support the company's performance.

Based on literature review and previous study, we propose:

H5: Innovation gives positive effect on business performance.

Based on the above results, an empirical research model can be developed as follows.

3. RESEARCH METHODS

3.1. Sampling

Respondents of this study came from the SMEs of Meubeller industries in Surakarta area. While the unit of this study was the managers or owners of SMEs Meubeller in Surakarta, Sukoharjo, Sragen where they filled out a questionnaire and had an interview. Number of questionnaires collected in the region was 32 respondents from Surakarta, 63 respondents from Klaten, and 60 respondents from Sragen. So, the total sampling was 155 respondents.

The sampling technique used in this research was purposive sampling. The basic consideration applied was the experience of the SMEs Meubeller (either the manager or owner) in managing their businesses. The other consideration referred to the definition of SMEs according to Act No. 20/2008 on the criteria of SMEs, including: Having wealth net of more than Rp. 50 million and Rp. 500 million, excluding land and buildings, and having an annual sales turnover of more than 2.5 billion rupiahs to 50 billion rupiahs.

3.2. Measurement

Market orientation is an organizational culture that is highly effective and efficient to produce culture needed in order to create superior value for buyers (Kohli and Jaworski, 1990). The question items used to measure market orientation employ three sub-factors: Competitor orientation, customer orientation and inter-functional coordination. The instrument in this study was measured by using Likert scale with range of score from 1 to 5. Score 1 represents the least agree answer and score 5 values the highest agreement.

Learning orientation is the development of new knowledge or insight that has the potential behavior to develop the innovation process within the company and even able to learn from each personnel of the company is a sustainable advantage for the company (Baker and Sinkula, 2009). There are three indicators of learning orientation in this research: Commitment to learn, shared content, and a variety of different views, success of the company. The instrument in this study was measured by using Likert scale with range of score from 1 to 5. Score 1 represents the least agree answer and score 5 values the highest agreement.

Innovation is a way to continuously build and develop organization that can be achieved through the introduction of new technologies, new applications in new forms of organization (Low et al., 2007). The instrument used to measure innovation in this research implemented three indicators, namely: Product innovation, process innovation, and marketing innovation. The instrument in this study was measured by using Likert scale with range of score from 1 to 5. Score 1 represents the least agree answer and score 5 values the highest agreement.

Business performance is an output that has been achieved through the company's operational activities, including the achievement of corporate goals through both internal and external achievements (Lin and Peng, 2008). The business performance in this study employed indicators of increased sales volumes, improved earnings, asset enhancement, and increased number of customers. The instrument in this study was measured by using Likert scale with range of score from 1 to 5. Score 1 represents the least agree answer and score 5 values the highest agreement.

3.3. Measure Validity and Reliability

After collecting the data, the next step was testing the validity and reliability of the instrument used to find out its validity and reliability. The hypothesis testing in this study used structural equation modeling (SEM) program with the same step; to test the parameters resulted from goodness of fit and directly test the hypothesis of research on the causal relationship developed in the model. Maximum likelihood estimation (MLE) technique was used in this study. The samples used in this study have met the criteria of recommended number of sample adequacy for the technical MLE and the criteria of average error variance of indicator (average variance extracted) with a minimum sample size of up to 150 with the provision of standardized loading estimated is <0.7 and communality value equals to 0.5.

The instrument testing (questionnaire items) of this study applied confirmatory factor analysis in examining the relationship of constructs and the indicators (validity of the questionnaires). The reliability test was conducted by using Cronbach alpha (Cronbach's α). Here are the results of confirmatory factor analysis test and Cronbach's α.

4. ANALYSIS AND RESULTS

The results of the statistical test using SEM on full model can be observed in Figure 1. While in Table 1, it describes the result of the assumption test on SEM development. The test scores have indicates the fulfillment of goodness of fit criteria as shown by Chi-square at 76.353, probability value at 0.006, TLI at 0.952, goodness of fit index (GFI) at 0.931, adjusted GFI at 0.887, and 0.062 of RMSEA which indicate that those scores have met the determined cut-off. It suggests that this research model is accepted and meets the determined criteria (standards).

Meanwhile, the calculations for mean, standard deviation, and matrix correlation among construct of market orientation, learning orientation, innovation, and performance can be illustrated in Table 2.

The score of correlation between market orientation and business performance indicates an insignificant correlation (0.360). The relation between the construct of market orientation with innovation shows a less strong correlation (0.447*). The association between the construct of learning orientation and business performance indicates a strong correlation (0.571**). The construct relation between market orientation with innovation shows a strong correlation (0.586**). Similarly, the relation of construct between innovation and business performance also indicates a strong correlation (0.617**).

Figure 2 indicates standardized path coefficients of relationship among market orientation, learning orientation, innovation, and business performance. In addition, the result of this study is also shown in Table 1 which formulates 5 hypotheses.

The discussion on the relationship of each variable can be explained as follows.

Market orientation affects insignificantly on business performance. Table 2 shows the result of structural model of relationship between market orientation and business performance as indicated with (t = 0.448<1.96) score with significance value (0.654>0.05). Hence, the hypothesis which declares the positive influence of market orientation on business performance is not confirmed. Thus, hypothesis 1 is rejected.

Market orientation has a significant effect on innovation. Table 2 illustrates the result of structural model of relationship between market orientation and innovation as indicated with the score of (t = 2.297>1.96) with significance value (0.022<0.05). Therefore, the hypothesis which states that market orientation positively affects innovation is confirmed. So, hypothesis 2 is accepted.

Learning orientation significantly affects business performance. Table 2 indicates the result of structural model of association between learning orientation and business performance as shown with (t = 2.670>1.96) score with significance value (0.008<0.05). Hence, the hypothesis which describes an existence of positive effect of learning orientation with business performance is proven. Thus, hypothesis 3 is accepted.

Learning orientation significantly affects innovation. Table 2 shows the structural result of relationship between learning orientation and innovation as indicated with (t = 4.152>1.96) score with significance value (0.000<0.05). Hence, the hypothesis

Figure 1: The full model of association among market orientation, learning orientation on innovation and business performance

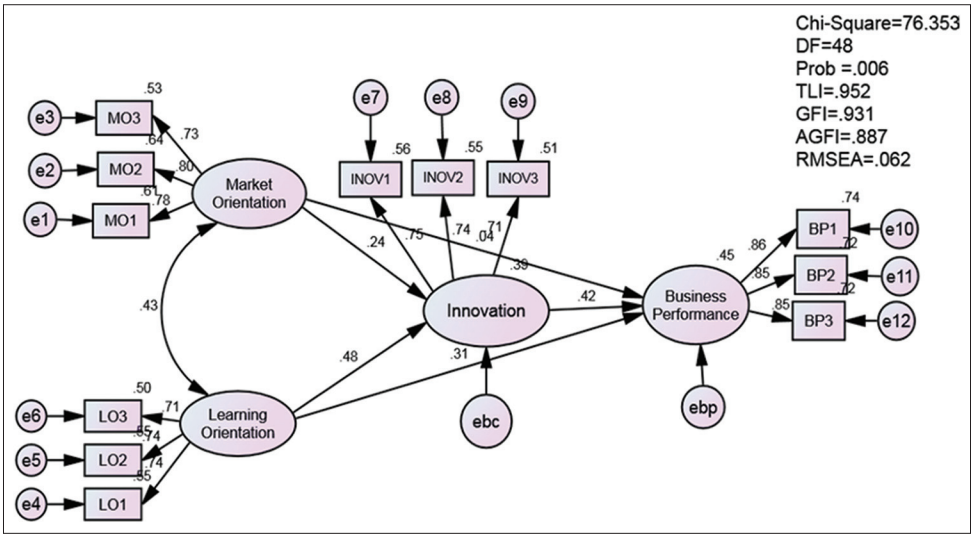


Table 1: Scale items for measures

Reflective scale names and items (measured on 1-5 point Likert scale Indicating the extent to the which the respondent agrees with following statements)	Standardized factor loading
Market orientation (Cronbach's α = 0.814)	
Competitor orientation	0.784
Customer orientation	0.800
Inter-functional coordination	0.730
Learning orientation (Cronbach's α = 0. 775)	
Commitment to learning	0.743
A shared vision	0.741
Various views, the success of the company	0.709
Innovation (Cronbach's α = 0. 778)	
Innovation in the creation of a new product	0.749
Innovation in the production process	0.741
Innovation in product marketing activities	0.713
Business performance (Cronbach's α = 0.8 88)	
The sales growth	0.860
Increased profits	0.848
Asset growth	0.847

which states that there is a positive effect of learning orientation on innovation is confirmed. Thus, hypothesis 4 is accepted.

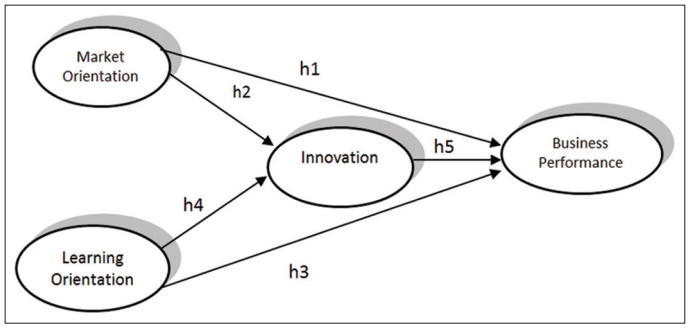
Innovation has a significant effect on business performance. Table 2 illustrates the result of structural model of association between innovation with business performance as indicated by the score (t = 3.484>1.96) with significance value (0.000<0.05). So, the hypothesis which claims a positive effect of innovation on business performance is confirmed. Thus, hypothesis 5 is accepted.

5. DISCUSSION

This study is designed to give empirican evidences on:

- The relationship of market orientation and business performance
- The relationship of market orientation and innovation
- The relationship of learning orientation and business performance
- The relationship of learning orientation and business performance
- The relationship of innovation and business performance

Figure 2: Conceptual model of market orientation, learning orientation, on innovation and business performance



The result of this study has proven that market orientation insignificantly affects business performance. This finding is totally different to a research done by Smirnova dkk. 2011 which describes that market orientation with the dimension of orientation on competitors gives effect on business performance. Another different result is also found by Wang dan Feng 2012 which claimes that customer orientation positively affects company's performance.

Market orientation gives significant effect on innovation. This finding is in line with Bodlaj (2003) which finds a significant relationship of market orientation (proactive or responsive) on innovation as marked by the success of new product sales. Similarly, Jensen and Harmsen (2001) also find the same result that discovers a crucial factor of company's innovation performance as marked by the level of new product development success.

Learning orientation affects business performance. This result is supported by the previous study conducted by Eris and Ozmen (2012) on the role organization learning and innovation toward company's performance. Mavondo et al. (2005) also support the result of this study, they find that learning orientation, customer orientation, and human resources positively affect company's performance.

Learning orientation affects innovation. This finding is in line with Lin and Peng (2008) who conclude that learning orientation affects innovation that eventually innovation affects business performance. Another finding as from Sony and Naik (2011) has also confirmed this study which concludes that the dimension of six sigma contributes to the commitment to learn and the organization learning gives positive contribution on innovation performance.

Innovation gives significant effect on business performance. This result supports the previous finding from Eshlaghy and Maatofi (2011) which reveals the important role of innovation that will

Table 2: Descriptive statistics and correlations

Construct	Mean±standard deviation	1	2	3	4
Market orientation	3.541±0.681	1.000			
Learning orientation	3.647±0.773	0.428**	1.000		
Innovation	3.310±0.674	0.447**	0.586**	1.000	
Business performance	3.212±0.873	0.360	0.571**	0.617**	1.000

*Correlation is significant at the P<0.1 level (two-tailed). **Correlation is significant at the P<0.05 level (two-tailed). ***Correlation is significant at the P<0.01 level (two-tailed)

Table 2: The test result of path coefficient of relationship among market orientation, learning orientation on innovation and business performance

Hypothesis	Standardized path coefficients	t value	Probability	Result
H1				
Market orientation→Business performance	0.058	0.448	0.654	Not significant
H2				
Learning orientation→Business performance	0.409	2.670	0.008	Significant
H3				
Market orientation→Innovation	0.233	2.297	0.002	Significant
H4				
Learning orientation→Innovation	0.448	4.152	0.000	Significant
H5				
Innovation→Business performance	0.598	3.484	0.000	Significant

Note: *Significant at P≤0.05; if (t) ≥1.96

provide positive contribution on company's performance. A study by Eshlaghy and Maatofi (2011) has also confirmed this research finding, they underline the important role of innovation that can contribute positively of company's performance.

6. CONCLUSIONS

This study offers empirical evidence on the relationship of market orientation and business performance which in the previous researches have been proven empirically. This study also provides theoretical contribution on the previous clarification study conducted by Narver and Slater (1990) on the primary dimensions of market orientation are customer orientation and competitor orientation which are able to boost company's performance. Kohli and Jaworski (1990) have also explained the roles of market orientation, dynamic within companies cross department coorperation, and also organization system as an antecedent of market orientation that is then followed by the role of customer response which affects the company's performance.

An important finding of this study indicates an insignificant result of relationship between market orientations with business performance. It means, an intense effort needs to be carried out by the actors of Meubeller SMEs to respond the customers, to respond the movement of competitors, and also to conduct intensified cross functions coordination. One of the efforts that need to be done by the actors is to actively respond on what is demanded by the customers.

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