

The Intervening Effect of Market Orientation on Entrepreneurial Orientation, Operations Strategy, and Business Performance

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Abstract— The objective of this study was to examine the influence of entrepreneurial orientation and operations strategy towards business performance through intermediaries which market orientation as an intervening variable or not. This study used a quantitative approach which focused on proving the hypothesis and generating some conclusions. The sample required thirty owners of the SMEs of pottery / ceramics in Kasongan Yogyakarta from the existing population with a minimum provision have been in operation for three years. The result was to provide evidence about the hypothesis that the entrepreneurial orientation and operations strategy significantly influenced business performance. The direct effect of the two independent variables of business performance was greater than if there was market orientation as the intervening variable. The suggestions that can be given to the owners and people involved in management decision-making on SME is to improve their entrepreneurial orientation, because these variables have a significant direct impact on business performance. The entrepreneurship orientation can be enhanced through three components, namely: innovation, risk taking, and proactiveness.

Keywords—Market Orientation; Entrepreneurial Orientation; Operation Strategy; Business Performance

I. INTRODUCTION

Small and medium enterprises (SMEs) is one important part of the economy of a country or region, not least in Indonesia. Based on the calculation of statistics central body (BPS), the composition of national GDP is composed of SMEs of 53.32%, then 41.00% of large businesses, and government sector 5.68%. In the last five years, SMEs show the strength as a support of the national economy according to BPS's Production Balance Director Supriyanto in the Office of Cooperatives website. So it can be concluded that SMEs have an important role in the Indonesian economy. Therefore, the government should give more attention to the small and medium enterprises to be more developed so as to contribute more to the Indonesian economy.

II. LITERATURE REVIEW

Small and medium enterprises (SMEs) is one important part of the economy of a country or region, not least in Indonesia. Based on the calculation of statistics central body

(BPS), the composition of national GDP is composed of SMEs of 53.32%, then 41.00% of large businesses, and government sector 5.68%. In the past five years, SMEs have demonstrated their strength as the backbone of the national economy, according to BPS Director of Production Balance Supriyanto on the official website of the cooperative. So it can be concluded that SMEs have an important role in the Indonesian economy. Therefore, the government should give more attention to the small and medium enterprises to be more developed so as to contribute more to the Indonesian economy.

The purpose of this research is to test the role of entrepreneurial orientation and operations strategy to business performance either through intermediary that is market orientation as intervening variable or not. The selected object in this research is small and medium enterprises engaged in the production of pottery and ceramics in Kasongan Yogyakarta area in 2011. The reason for choosing this industry is one type of small and medium enterprises that have long existed and able to survive after facing various bad conditions that befall the nation's economy. The industry's ability to withstand bad conditions is an interesting thing to look at.

III. METHOD

This study uses a quantitative approach. This research is an explanatory research, which is a research that aims to examine the role of entrepreneurial orientation, operations strategy, and market orientation in improving business performance.

The variables to be studied and identified in this research are three independent variables, dependent variable and intervening variable. The first independent variable in this study is entrepreneurial. Measurement of entrepreneurship orientation through three main components, namely innovativeness, risk-taking, proactiveness. To measure the entrepreneurial orientation (X1) variable, a measurement instrument developed by [1] was used.

The second independent variable in this research is an operational strategy which is a long-term production plan of a company and provides a 'map' of product function for business strategy to be achieved [2]. According to [2], the operating

strategy dimension consists of cost, quality, flexibility and delivery. To measure the operatiois strategy variable (X2), the measurement instrument is used.

The intervening variables in this study are market orientation as the most effective and efficient organizational culture creates the behaviors necessary for superior value creation for buyers and performance so that it excels in business. [3] conclude from several literatures that market orientation consists of three behavioral components: customer orientation, competitor orientation, and cross-functional coordination and two decision criteria: long-term focus and profitability. To measure market orientation (Z) variables, measurement instruments developed by [1] were used.

The dependent variable in this study is business performance which is the overall performance of an organization that includes operational and financial performance, business performance can be divided into four types of performance measurement, namely profitability, market response, market position value and success of new product [1]. to measure the business performance (Y) variable, a measurement instrument developed by [1].

In order to evaluate the variables of entrepreneurial orientation (X1), operations strategy (X2), market orientation (Z1) and business performance (Y1), the Likert scale has been modified for research purposes, using 4 points (1-4). Because the data types assessed for the three variables are different, the data processing in this study uses the Partial Least Square (PLS) program where the PLS approach is distribution free (does not assume certain distributed data can be nominal, category, ordinal, interval and ratio [4].

Sampling method in this research is sampling based on purposive sampling technique is non-random sampling technique that selects people who are selected by the researcher based on the special characteristics possessed by the sample and is considered to have a close relationship with the characteristics or characteristics of the population which are already known and will be able to help answer the research questions that are being worked on [5].

The criteria that must be fulfilled to be a sample in this study is that SMEs have at least been operating for at least 3 years with the reason to be known the tendency of its performance. According to [6] the sample is part of the number and characteristics possessed by the population. Respondents in this study are the owners/employers / decision-makers and employees on small and medium enterprises (SMEs) who know the development of business for at least the last 3 years so that the accuracy of perception of research problems can be guaranteed.

Validity test is done to find out how far the measuring instrument (questionnaire) measure what is desired. Valid or not the measuring instrument can be tested by exploring the scores obtained on each item with the total score obtained from the sum of all score questions using correlation product moment correlation (intercorrelation method) from Karl Pearson. The reliability test is a measure of the internal consistency of the indicators of a construct showing a degree until each indicator indicates a common construct or latent

factor. In other words how specific things help each other in explaining a common phenomenon.

Partial Least Square is a powerful analytical method because it can be applied to any data scale, does not require many assumptions and the sample size does not have to be large. PLS in addition can be used as a confirmation theory is also used to build relationships that have no theoretical basis or for testing propositions [4]. There are two kinds of indicators in the PLS approach, the first indicator is a reflexive indicator or reflective indicator. Reflective indicators are indicators that are thought to be influenced by latent constructs, or indicators that are considered to reflect/present latent constructs. The second indicator is a formative indicator or formative indicator. Formative indicators are indicators that are thought to affect latent variables. Formative indicators observe the causal factors of latent variables.

The relationship model between variables in the conceptual framework shown by the following figure:

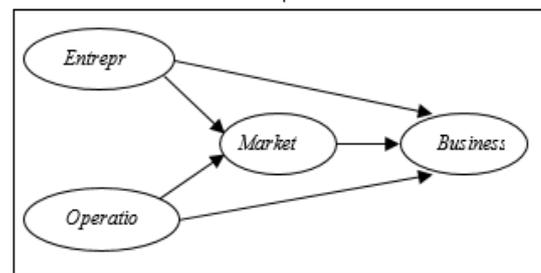


Figure 1. Conceptual framework.

IV. RESULTS AND DISCUSSION

Although Kasongan pottery has to compete with plastic and metal products, but the existing image of exclusivity becomes its own competitiveness. The process of making it essentially the same, but pottery creations will have more power through the finishing process that requires modern technology. Flowerpot shape, anglo, cool, wok, pot, saucer, and kendhi are the plural in Kasongan area. But only a few types of modern businesses can transform them into high-value products through equipment and knowledge technology.

In data processing using Partial Least Square (PLS) is done in two stages, the first stage is to test the measurement model (outer model). The readability of the validity and reliability of the constants is from the loading factor value. The indicator is said to be valid and reliable if it has a loading factor value greater than or equal to 0.5. While the second stage is to test the structural model (inner model). In this stage aims to determine whether there is influence between variables. Testing is done by using t test.

The measurement model stage aims to ascertain whether the indicator is part of the latent variable. There are two stages in the measurement model: validity construct and reability construct. The measurement model test on variables of entrepreneurial orientation, operations strategy, market

orientation, and business performance are done together, because in PLS procedure can not be tested if only using one latent variable. The validity construct test shows that all indicators used in this research are valid. While the output of composite reliability and cronbach alpha good for entrepreneurial orientation variables, operations strategy, market orientation, and business performance are all above 0.7. Therefore, the value of cronbach alpha for each variable whose value is greater than 0.6 so it can be said that the overall item statement for each variable is reliable. Tests on the structural model by looking at the R-square value which is a goodness-fit test model and see the significance of the influence between variables by looking at the coefficient of parameters and the significance value t statistics [4].

Based on R-square value table, this research model shows that how much influence between variables, for market orientation variables is influenced by entrepreneurial orientation and operations strategy of 0.539421 or 53.94% and the rest of 46.06% influenced by other factors outside of this research that influence market orientation. For business performance variable, the R-square value is 0.659351, which means that business performance is influenced by entrepreneurial orientation, operations strategy and market orientation of 65.93% and the remaining 34.07% is influenced by other factors affecting business performance.

Hypothesis testing and relationship between variables can be seen from the calculation of Inner Weight on the model. The entrepreneurial orientation variable has a positive and significant impact on business performance. SMEs of pottery / ceramics in Kasongan is an industry that requires owners with high entrepreneurship orientation to produce good business performance. Entrepreneurial orientation is measured through three components according to [1], namely innovativeness, risk-taking, and proactiveness. These three components are needed to improve the performance of SMEs of ceramic in Kasongan Yogyakarta. Business performance is measured through profitability, market responsiveness, market position value and new product success [1].

The entrepreneurial orientation variable also has a positive and significant effect on market orientation. SMEs of pottery / ceramics in Kasongan Yogyakarta is an industry that has a market-oriented entrepreneurial traits to gain long-term profitability. The UKM entrepreneurs with their entrepreneurship orientation must have innovation in developing their pottery / ceramic products. The higher the innovation will be, the higher the ownership of pottery / ceramic SMEs in Kasongan in collecting and analyzing information from the environment. Likewise, the decision of the SME owners to take risks for their business continuity, the higher the opportunities and market threats, the higher the risks taken and there should be distribution in all parts of SMEs to discuss the risks that must be taken for the good of SMEs themselves. Finally, entrepreneurship involves proactiveness in identifying market opportunities and taking advantage of them before a competitor, that action is associated with information generation, dissemination, and responsiveness of the information obtained.

Operational variables have positive and significant impact on business performance. This result is in accordance with the results of a study conducted by (Agustina 2002) which revealed that higher-performing entrepreneurs apply better operating strategies than low-performing entrepreneurs. Thus, a manager needs to pay more close attention to the selection of operating strategies he or she takes. Operating strategies to be taken should be tailored to the company's resources to support the company's competitive advantage over the long term. It should be emphasized to all personnel in the organization, the philosophy of continuous improvement to improve the quality of products produced, with the optimum cost, so as to optimize the performance of the company.

The results obtained that operational strategy does not affect the market orientation. Both of these variables do not affect each other because between operations strategy and market orientation is a stand-alone construct and no interrelations that affect each other. Operational strategy is a long-term production plan of a company and provides a 'map' of production functions for business strategy to be achieved [7]. Market orientation, which is an organizational culture consisting of a series of beliefs to attract consumer interest that will impact long-term profitability. The definitions of these two variables explain that between the two variables have different orientations and are not related to each other.

The result of the research shows that market orientation has negative and significant effect to business performance. This result indicates that market orientation variable is less able to be intervening variable to business performance variable. Most studies find a positive relationship between market orientation and performance, but some empirical exceptions do not find the relationship or even detect a negative relationship [1]. Differences in the results of this study can be due to differences in objects used and the existence of other factors that do not become variable in this study. These variables are a competitive environment and economic context, preliminary studies by [1]. Based on interviews with some owners of pottery / ceramic SMEs in Kasongan, several years ago many events were not expected by the people of Yogyakarta especially the owners of SMEs in Kasongan, ranging from natural disasters (tsunamis), eruption of Mount Merapi, and the global crisis in America. This has impacted around the world so that their businesses run down turnover, raw material prices have increased, the number of domestic and foreign demand has decreased. Therefore, owners of ceramic SMEs assume that market orientation is not able to be a variable that affects business performance on ceramic SMEs in Kasongan significantly.

V. CONCLUSION

Variables of entrepreneurial orientation and operations strategy proved able to influence positively and significantly directly to business performance and market orientation variables. While market orientation variables proved unable to be intervening variable in this study so that this variable is not able to influence business performance variables directly and significantly. This is related to the perception of SME owners in Kasongan that focus more on how to rebuild business from

business slump due to environmental factors that are difficult to control such as natural disasters (tsunami), eruption of Mount Merapi, and global crisis in America rather than giving attention to market orientation .

The impact of the uncontrollable environment is that the undertakings have decreased turnover, raw material prices have increased, the number of domestic and foreign demand has decreased. The suggestions that can be given to the owners and people involved in management decision-making on SME / ceramic SMEs in Kasongan is to improve their entrepreneurial orientation, because these variables have a significant direct impact on business performance. The entrepreneurship orientation can be enhanced through three components, namely: innovation, risk-taking, and proactiveness. In addition, it is also advisable to improve the operating strategy on the business, as these variables have a significant direct impact on business performance. The operational strategy can be enhanced through four dimensions in the operational strategy, namely cost, quality, flexibility and delivery. Although the owners of SMEs consider that market orientation factors are less able to impact business performance directly and significantly due to unfavorable business climate conditions, the environment is not in good condition and the market is sluggish, but it is advisable for SME owners to constantly strive to expand market and remain oriented to get more customers.

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