

The Influence of Market and Learning Orientation on MSME Business Performance Mediated by Innovation

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ABSTRACT

The purpose of this research was to investigate the effect of market orientation and learning orientation on MSMEs business performance in West Jakarta, with innovation as a mediating variable. The sample selection method in this study used the judgment sampling with a sample of 130 respondents who were MSMEs in West Jakarta. The data analysis method used in this study is the smart Partial Least Square (PLS) software version 3.00. The results of the data analysis conclude that there is a positive and significant influence of market orientation, learning orientation, and innovation on business performance. Innovation is also able to mediate the relationship between market orientation and business performance, as well as the relationship between learning orientation and business performance among MSMEs in West Jakarta, Indonesia.

Keywords: Market Orientation, Learning Orientation, Innovation, Business Performance

1. INTRODUCTION

According to Tambunan [1], Micro, Small and Medium Enterprises (MSMEs) are important factors for economic growth and development in every country, including Indonesia. MSMEs have become the main source of job creation not only in developing countries, but also in developed countries. Sofyan [2] said that in Indonesia itself, MSMEs have an important and significant role for economic growth, because the existence of MSMEs can create new jobs, absorb labor, contribute to the formation of Gross Domestic Product, and greatly utilize the existing domestic resources. In the role of MSMEs which are important for the Indonesian economy, MSMEs certainly cannot be separated from the problems or obstacles experienced by their various owners in Indonesia. According to Tambunan [1], the problems and constraints experienced by MSME owners include limited access to information in the market, the lack of skills and knowledge of existing resources in managing business, and the intense competition which makes MSMEs difficult to develop. With these obstacles or problems, of course, it will affect the performance of the MSMEs themselves. In order to overcome the existing obstacles or problems, business owners must understand what market orientation, learning orientation, and innovation are in order to improve the performance of their business. Based on the factors described above, this study aimed to: (1) Examine the influence of market orientation on business performance among MSMEs; (2) Examine the influence of learning orientation on business performance among MSMEs; (3) Examine the influence of innovation on business

performance among MSMEs; (4) Examine whether the innovation variable can mediate the relationship between market orientation and business performance; (5) Examine whether the innovation variable can mediate the relationship between learning orientation and business performance.

1.1. Related Work

Powel [3] said that in a market environment full of challenges and rapidly changing, an organization is required to be able to adapt to these relentless changes. However, not all organizations are ready to make changes due to the lack of knowledge to initiate a change and an organization considers that the change is difficult to do. In order to adapt to business world which is full of challenges and rapidly changing, the theory used in this study is the Resource-Based View (RBV) theory. According to Nurhilalia et al. [4], RBV theory can be used as a strategy by a company based on market demand, when the competitiveness is not enough to provide effective results for the company. However, Wahyuni et al. [5] defined RBV Theory as a theory used to assess a company's resources against the market, which is reflected by a market-oriented norm, value, and belief. These norms, values, and beliefs are focused on the idea of gathering information about the behaviour of consumers and competitors. In addition, this theory can also be used to observe the contribution of an organization to the actions taken to meet customer needs and create excellence in product and business performance. By this way, it can be concluded that with the RBV theory, companies can

prioritize their effective resource-strategies to build a value to maintain competitiveness, build good company profitability, and be able to group organizational capabilities into market-oriented and learning-oriented resources, which then will increase the sustainable competitive advantage and improve the performance of those companies.

1.2. Our Contribution

Researchers expect that a study on the influence of market and learning orientation on business performance with innovation as mediating variables, can help MSMEs to understand the state of the market so that later MSMEs can create customer-value quality to compete and survive in the market, and they can also understand the needs of consumers that will lead to an increase in business performance and make MSMEs a superior business.

1.3. Paper Structure

Section 2 introduces the understanding of the theories used in this paper, which include those from market and learning orientation, business performance, and innovation. Section 3 presents the relationship between the variables used in this paper. Section 4 presents the results of this study that have been analysed using Smart PLS. Section 5 discusses about the managerial implications of the research results, and Section 6 concludes this research results and presents directions for future research.

2. BACKGROUND

2.1. Market Orientation

Kohli & Jaworski [6] defined market orientation as the information that can be known by all organizations related to the current or future consumer needs. Later, this information can be disseminated to other departments in a company. Haryanto et al. [7] said that a market-oriented organization should have insight into the strengths and weaknesses of its competitors. When an organization has understood the strengths and weaknesses of competitors, then it can plan and develop strategies to realize a value and customer satisfaction for the better result. Based on the description of market orientation above, it can be concluded that market orientation is a process to seek information about the weaknesses and strengths of competitors in the market so that company can create new opportunities that will provide value for the company itself, and can understand the needs of consumers both today and in the future.

2.2. Learning Orientation

According to Baker & Sinkula [8], learning is very important for a business in order to adapt to a new

environment. Real et al [9] said that learning orientation is a basic attitude towards the learning process in companies that use managerial support. Meanwhile, Mahmoud et al. [10] defined learning orientation as an activity to create and utilize the knowledge within an organization in order to optimize competitive advantage. With the explanation of learning orientation above, it can be concluded that learning orientation is a process of obtaining information, disseminating information, and understanding information that can have direct impact on the results and can increase individual and organizational effectiveness.

2.3. Business Performance

Business performance according to Venkatraman et al. [11], is explained as a point-of-view from the strategic management perspective, which is part of the concept of the overall effectiveness of the company. Meanwhile, Wiklund et al. [12] described that business performance in small and medium enterprises has a multidimensional nature, which in empirical studies serves to combine various performance dimensions. By this way, it can be concluded that business performance is an organization's ability to improve its capabilities that are multidimensional and part of the concept of effectiveness, which can combine various dimensions of performance to achieve success.

2.4. Innovation

Laforet [13] said that innovation has been widely studied in large companies, but not with small companies. In small companies, innovation is often ignored even though it is the key for companies to survive. Innovation can also shape the company to perform differently from competitors in the market and make the company much better, Usman et al. [14]. With the definition of innovation above, it can be concluded that innovation is a process to acquire, share, and absorb the knowledge for a change, when an organization wants to develop a new product or service.

2.5. The Effect of Market Orientation on Business Performance

According to Haryanto et al. [7] a market-oriented organization needs to understand the strengths and weaknesses of competitors and use this market-oriented knowledge to formulate and implement strategies in order to create better customer value and satisfaction. The research conducted by Buli [15], concluded that market orientation affects company performance, because with this market orientation, MSMEs can take advantage of some business potentials, which can later improve business performance. By this way, it can be concluded that market orientation has a positive and significant influence on business performance.

H₁: Market orientation has a positive and significant influence on MSME business performance.

2.6. The Effect of Learning Orientation on Business Performance

A company certainly needs a learning orientation in order to survive in a new environment, because this kind of orientation can increase the knowledge of an individual or organization. Learning orientation is very important for a company, because with this orientation, a company can act as a processor of knowledge and not simply as a collector or storage for knowledge. In order to develop the core competencies of a company, the input from consumers, networks, and competitors must be utilized. A learning orientation will affect to the extent to which companies improve this learning that results as long-lasting main competencies. The research conducted by Vij & Farooq [16] concluded that learning orientation has a positive and significant impact on business performance, because a learning-oriented business must concentrate on optimizing and exploiting competitive advantages to offer greater value and gain market share, which in turn will result in an increase in overall business efficiency.

H₂: Learning orientation has a positive and significant influence on MSME business performance.

2.7. The Effect of Innovation on Business Performance

According to Alpkan et al. [17], in general, it is believed that innovation is an important part of competitiveness that is embedded in the organizational structure, production processes, products released, and marketing of the company's internal strategy. Innovation is also considered a picture of environmental uncertainty, lack of understanding of technology to develop a new output, effectiveness costs, new market opportunities, and operational efficiency. According to Calantone [18] et al., the role of innovation is needed by a company to overcome an environment full of competition. Indirectly, innovation will play a major role to achieve competitive advantage and maximum performance. The research conducted by Suliyanto & Rahab [19], revealed that innovation greatly affects business performance, because it can be incorporated into business strategies so that a company's business performance increases.

H₃: Innovation has a positive and significant influence on MSME business performance.

2.8. The Effect of Market Orientation on Business Performance with Innovation as a Mediation Variable

According to Jaworski & Kohli [20], companies that bring innovation into their business strategies, can have a higher market orientation, because they can better understand the market and consumer needs today and in the future. In

order to compete in the market, realize market challenges, and adapt to rapid changes, a company must also have innovation. With innovation, a company can strengthen its market orientation to motivate employees to get new ideas and opportunities to fulfil their desires and market needs, Jiminez-Jiminez et al [21]. The research conducted by Mahmoud et al. [10] mentioned that there is a positive and significant relationship between market orientation and innovation. The previous research conducted by Buli [15], also revealed that the relationship between market orientation and innovation can be a combination that can make MSMEs thrive.

H₄: Innovation mediates the relationship between market orientation and MSME business performance.

2.9. The Effect of Learning Orientation on Business Performance with Innovation as a Mediation Variable

Calisir et al. [22] defined learning orientation as the ability of a company to maintain or improve performance based on experience. A company that has a learning orientation can improve its innovation capabilities by applying new technologies to innovation, using knowledge and power to understand the market, monitoring competitors intelligently, and learning from the failures experienced by the company, Calantone et al. [18]. The research conducted by Choi [27], mentioned that there is a positive and significant relationship between learning orientation and innovation. This can happen because the more organizations encourage learning orientation, it will become more innovative. In addition, the support from managers for learning orientation also needs to be done, because the existing resources in the organization will later provide more time to create ideas and seek information, that will lead to innovations which finally will improve the performance.

H₅: Innovation mediates the relationship between learning orientation and MSME business performance.

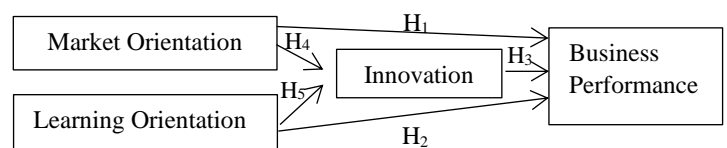


Figure 1 Research Framework

3. RESULTS

Data analysis in this study consists of validity test, reliability test, coefficient-of-determination test (R²), Q-square measurement test (Q²), effect-size test (F²), path-coefficient test, Goodness-of-Fit test (GoF), and path-coefficient and mediation analysis. The results of the validity test indicate that the indicators used in this study have met the requirements, namely the Cronbach's alpha

above 0.7 and the AVE value exceeding 0.5, which means that all data used in this study are considered valid. The results of reliability test show that all indicators used in this study have also met the research requirements, namely Fornell-Larcker test, because the square of AVE must be higher than its relationship with other latent variables. Meanwhile, based on the cross-loading test, the data is declared valid, because the indicator value of each variable

owned is greater than the relationship between indicators from other variables. The reliability test used in this study consists of the composite reliability and the Cronbach alpha value. The conditions that must be met for a variable to be considered reliable, are that the composite-reliability value must be above 0.7 and the Cronbach's alpha value must exceed 0.6.

Table 1 The Reliability-Test Results

Variable	Composite Reliability	Cronbach's Alpha	Description
Market Orientation	0.884	0.836	Reliable
Learning Orientation	0.894	0.862	Reliable
Innovation	0.915	0.884	Reliable
Business Performance	0.870	0.814	Reliable

Source: SmartPLS version 3.00. data processing results

The results of hypothesis testing are as follows:

Table 2 The Results of Hypothesis Testing

H	Hypothesis	t-statistics	p-value	Conclusion
H₁	Market Orientation → Business Performance	3.311	0.001	Accepted
H₂	Learning Orientation → Business Performance	2.305	0.022	Accepted
H₃	Innovation → Business Performance	3.039	0.002	Accepted
H₄	Market Orientation → Innovation → Business Performance	2.005	0.045	Accepted
H₅	Learning Orientation → Innovation → Business Performance	2.605	0.009	Accepted

Source: SmartPLS version 3.00 - Data Processing Results

4. DISCUSSIONS

The result of data analysis that have been carried-out in this study, indicates that the first hypothesis could be accepted, because market orientation can have an effect on improving the performance of a business. By using market orientation as a strategy in a company, companies can survive in an uncertain environment, because they are already prepared to enter the market and can realize a better value and customer satisfaction. The result of this study is certainly in line with the research conducted by Buli [19], which concluded that there is a positive and significant relationship between market orientation and business performance, because with market orientation, MSMEs can utilize their potential advantages, can adapt to

the market, and can be closer to the market towards customers, by establishing superior service so that market orientation will later provide a role to improve business performance.

The result of data analysis shows that the second hypothesis could also be accepted. With a learning orientation used as a corporate strategy, it will affect business performance, because learning orientation can be an added-value for organizations to increase competitive advantage and individual effectiveness assisted by shared commitment, open-mindedness, and a shared vision. The result of this study is certainly in line with the research conducted by Vij & Farooq [16], which stated that there is a positive and significant relationship between learning orientation and business performance. The effect of learning orientation on business performance is more visible in small companies, because these companies depend on their employees who have moderate skills. Employees who have these kinds of skills tend to want to gain new knowledge and develop through the learning orientation used by the company. For this reason, with a learning orientation, employees have the opportunity to generate creative and innovative ideas, that will later produce superior business performance.

The result of the third-hypothesis test shows that Innovation has a positive and significant influence on MSME business performance, which is acceptable because innovation can be a key for MSMEs to survive. Innovation can also shape MSMEs to be different from competitors, which will make them much better than before. Innovation is also needed by MSMEs so that consumers are not bored with the products offered. This research is actually in line with the research conducted by Keskin [24] concluding that there is a positive and significant relationship between innovation and business performance, because when a company often tries-out new ideas, looking for a different way from competitors to develop products, it can gain broader market-share and support performance-growth.

The fourth hypothesis mentioning that innovation mediates the relationship between market orientation and MSME business performance, was declared acceptable in data

analysis that have been carried-out in this study. By using innovation and market orientation as a business strategy, MSME players can have a better level of performance. Business actors can also realize that innovation and market orientation are very important to be used as business strategies, in order to be able to compete among business actors in the market and be able to understand the needs of consumers now and in the future. The result of this study is certainly in line with the research conducted by Mahmoud et al. [10]. The study revealed that innovation can mediate the relationship between market orientation and MSME business performance, because there is full support from innovation for market orientation in order to improve business performance.

The fifth-hypothesis, namely that innovation mediates the relationship between learning orientation and business performance of MSMEs, was declared acceptable. From the result of this study, it can be seen that by using learning orientation as a business strategy, MSME actors can increase innovation capability based on the knowledge that has been learned so that new ideas can emerge, which finally will have an impact on performance. In addition, by using a learning orientation and innovation, MSME actors can also better understand about market conditions and can learn from the existing mistakes that should not to be repeated in the future. The result of this study has certainly been supported by the previous research conducted by Haryanto et al. [11], whereas there is a positive and significant relationship between learning orientation and business performance, through innovation as a mediating variable. That is, innovation can mediate the relationship between learning orientation and business performance.

5. CONCLUSIONS

Based on the results of data analysis that have been carried-out in this study, it can be concluded as follows:

- (1) Market orientation has a positive and significant influence on MSME business performance in West Jakarta.
- (2) Learning orientation has a positive and significant influence on MSME business performance in West Jakarta.
- (3) Innovation has a positive and significant influence on MSME business performance in West Jakarta.
- (4) Innovation mediates the relationship between market orientation and MSME business performance in West Jakarta.
- (5) Innovation mediates the relationship between learning orientation and MSME business performance in West Jakarta.

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