

RESEARCH ARTICLE

Creating Market Orientation and Business Culture to Increase SMEs Performance in Aceh, Indonesia

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Abstract: Market orientation is a business culture in which all employees are committed to continue the creation of superior value for customers, though only little attention is given to this issue. The purposes of the study is to investigate several contextual factors such as: market orientation, business culture, business commitment, and business performance in case of SMEs practices in Aceh Province of Indonesia. This research used quantitative method with 200 questionnaires that was spread to 200 managers as respondents, which represent a wide variety of SMEs (53% products, 47% service sectors) and the data was analyzed using Structural Equation Modeling (SEM). Concerning the market orientation consequences, the result showed that market orientation has a positive correlation with business commitment and business performance, and business culture also has a significant influence on business performance. However, business culture insignificantly influences business commitment, and business commitment insignificantly influences business performance as well for the case of SMEs in Aceh Province of Indonesia.

Keywords: Market orientation, Business culture, Business commitment, business performance, SMEs, Aceh - Indonesia.

JEL Classification: M, M2, M21

Micro businesses or Small and Medium Enterprises (SMEs), occupy a strategic position in the Aceh economy, one of the provinces in Indonesia. SMEs play an important role in creating jobs and economic

empowerment of the people. The number of SMEs in Aceh reached 55,783 units, which consist of micro-enterprises (39,571 units or 71%), small businesses (13,728 units or 25%), and medium-sized enterprises

(248 units or 4%) (Department of Industry, Trade and SMEs of Aceh, 2012). It is estimated that SMEs in Aceh have absorbed a workforce of about 275,000 people (these SMEs are engaged mainly in the sectors of trade, services, agriculture, industrial, and marine fisheries).

Although it has a prominent position in supporting the local economy, SMEs in Aceh do not developed optimally. They continue to experience various problems, which are mostly related to capital, product marketing, managerial capabilities, and business productivity. The weaknesses on business management are the most frequent barrier faced by micro and small businesses. There are still a lot of micro and small businesses which conduct businesses without planning, control, and evaluation. It is due to the limited knowledge and characteristics among businesses which are generally categorized as family businesses.

Market orientation is the business culture that produces outstanding performance through its commitment of creating superior value for customers. Practitioners usually use this term as an implementation of marketing concepts. Its construct can be viewed either from a behavioral perspective (Kirca, Jayachandran, & Bearden, 2005) or from a cultural perspective (Homburg & Pflesser, 2000).

Some researchers consider market orientation and business culture as organizational phenomena that influence business outcomes (Lok & Crawford, 2004); and thus, improve business performance (Kohli & Jaworski, 1990; Narver & Slater, 1990) and they reflect the performance of the organization. Business commitment, which is usually defined as the willingness of employees to participate and involve by giving their highest effort and loyalty in a particular organization, has a number antecedents and consequences, for instance business performance (Yiing & Ahmad, 2009; Rashid, Sambasivan, & Johari, 2003).

The purpose of this study is to investigate several conceptual variables concerning market orientation, business culture, business commitment, and business performance in the context of SMEs at Aceh Province in Indonesia. This is important because an organization needs to implement different attitude as to their funding sources and business strategies compare to their commercial counterparts (Macedo & Pinho, 2006). SMEs have to preserve their unique and scarce resource in order to survive in a tight business competition.

Theoretical Review and Hypothesis

Market Orientation

Market orientation is one of the basic keys of a marketing concept and marketing strategy paradigm. Therefore, researches on market orientation in early 1990s have gained wide support and have been conceptualized in two related but different approaches (Piercy, Harris, & Lane, 2002). The first approach was developed by Kohli and Jaworski (1990) which is known as the behavior-based view of market orientation. The second one was proposed by Narver and Slater (1990) known as the culture-based interpretation of market orientation. Hult, Ketchen, and Slater (2005) concluded their research by recognizing the importance of both Narver and Slater's and Kohli and Jaworski's concepts. While the previous detected business culture and the latter business information process behaviors, they together created more wholistic image of market orientation than neither alone. Hult et al. (2005) disagreed with the idea that market orientation directly leads to enhanced performance. Thus, they hypothesized that market orientation and market information processing (MIP) both are positively related to business responsiveness, which in the end has positive effect on performances.

Market orientation is a root concept in marketing theory (Kok, Hillebrand, & Biemans, 2003). Although there are different definitions of market orientation, this concept usually focuses on three components: customers, competitors, and coordination among tasks. All the definitions offered from market orientation by experts, such as Kohli and Jaworski (1990), have an operational focus on data collection, data dissemination, and the ability to respond to what has been received (Erdil, Erdil, & Keskin, 2004). Further, Grinstein (2008) cited the definition of market orientation (MO) from Narver and Slater (1990) that defined market orientation as: "... the most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and thus, continues superior performance for the business" (p. 20–35).

Initially, it is likely to appear as an overlapping construct between market orientation and business culture. However, this research considered market orientation as a set of behaviors that exists in various levels of business types while business culture is considered as a model of business operation within

an organization that determines how employees communicate and deal with their consumers. Moreover, we also analyzed how the adoption influences the business commitment of the organization. Thus, we formulate the first hypothesis as follow:

H1. Market orientation and business commitment are positively related.

Business Culture

Business culture is regarded as the behavior of people in a particular organization that represents their involvement and identification. Needle (2004) stated that the study on business culture can take on multiple aspects, including collective values and the principles of business actors, local culture, types of management style, and so forth. It is also argued that business culture may be a critical key that consists of a set of shared assumption which has significant implications on any situation within the organization that can direct its course (Ravasi & Schultz, 2006). As stated in Mullock's (2014, par. #) article, "It is used to be defined as a pattern of collective assumptions accepted by all group members that will also influence the interaction among employees within an organization. Moreover, it may affect on how much employees identify with an organization (Schrodt, 2002). However, Jarrat & O'Neill (2002) stated that it is difficult to say that the business culture guarantees the success of the company but the companies with strong business culture always have more chances to become successful than their competitors."

Further, McShane and Von Glinow (2012) stated that "Business culture is the set values and assumptions shared within an organization that defines what is important and unimportant in the company and, consequently, directs everyone in the organization toward the 'right way' of doing things" (p. 418). Schein in Luthans, Avey, Clapp-Smith, and Li (2008) stated that business culture is:

A pattern of basic assumptions-invented, discovered, or developed by given group as it learns to cope with its problems of external adaptation and internal integration that has work well enough to be considered valuable and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems. (p. 818-827)

Since 1980, more than 4,500 articles have examined various issues on the subject of business culture. This concept has attracted the attention of many researchers in management field for years (Harris & Ogbonna 2002) and been widely used by organizations all over the world as it has a significant contribution in the field of business and management. The second hypothesis is:

H2. Business culture has an influence on business commitment.

Business Commitment

Meyer and Allen (1997, p. 8) have defined "business commitment or organizational commitment as a psychological link between an employee and his or her organization that makes it less likely that the employee will voluntarily leave the organization". Business commitment is related to job satisfaction in that both deal with the nature of workers' emotional reactions to work. However, commitment can be applied to the entire organization, whereas satisfaction is applied to the specific job an employee has (Wikispace, 2016). Business commitment represents the belief in organizational goals and values that correspond to the employees' involvement in any organizational situation and their loyalty. Lock and Crawford (2004) defined it as an emotional attachment that influences the level of participation and involvement of employees on their tasks which also linked to their performance. The employees will be more motivated if they are psychologically attached to the organization's mission and values.

Business commitment implies the emotional attachment of employees to and involvement with an organization, thus business commitment is inseparable from organizational performance. The engagement level of employees increases the level of business commitment and finally improves the organizational performance. Therefore in the aggregate, companies should strive to hire and retain employees with high business commitment (Cohen & Golan, 2007). The third hypothesis is:

H3. Market orientation and business performance are positively related.

Business Performance

Performance is an indicator that may be comprised of productivity, quality, consistency, and so forth. Business performance refers to the outcomes of various organizational processes which occur in the course of its daily organizational activities. A number of researches have examined and proposed the concept of business performance (Appiah-Adu & Ranchhod 1998), but Ford and Schellenberg (1982) argued that many researchers still have different arguments in defining it. However, Dess and Robinson (1984) wrote that most of them have the same view in term of defining it as a complex phenomenon.

It is difficult to measure the performance of an organization. However, Kim (2005) stated that the evaluation can still be implemented in traditional ways, as an objective measurement. Initially the measurement was focused on financial indicators, with time, the measurement model were increased by adding non-financial indicators. This measurement process has a positive impact on the business success as the report of an organization's performance level is able to quantify the results. The next two hypotheses can be stated as follows:

H4. Business culture and business performance are positively related.

H5. Business commitment and business performance are positively related.

SMEs in Indonesia and Aceh

SMEs consist of three types of enterprises, that is: micro enterprises, small enterprises and medium enterprises. Micro enterprises is defined as a small business that employ 1-9 employees with net assets worth less than Indonesian 50 million rupiahs or total annual sales of less than 300 million rupiahs; small enterprises employ 10-49 employees with net assets worth 50 million – 500 million rupiahs and total annual sales of 300 million to 2.5 billion; while medium enterprises employ 50-249 employees with net assets worth of 500 million – 10 billion rupiahs and total annual sales of Rp2.5 million – Rp50 billion (Kushnir, Mirmulstein, & Ramalho, 2010; The Ministry of SMEs and Cooperatives, 2011).

In Indonesia, SMEs have contributed over 75% of national income and 97% of national employment. According to the Central Statistics Agency (BPS), there are an estimated 48.9 million micro, small, and

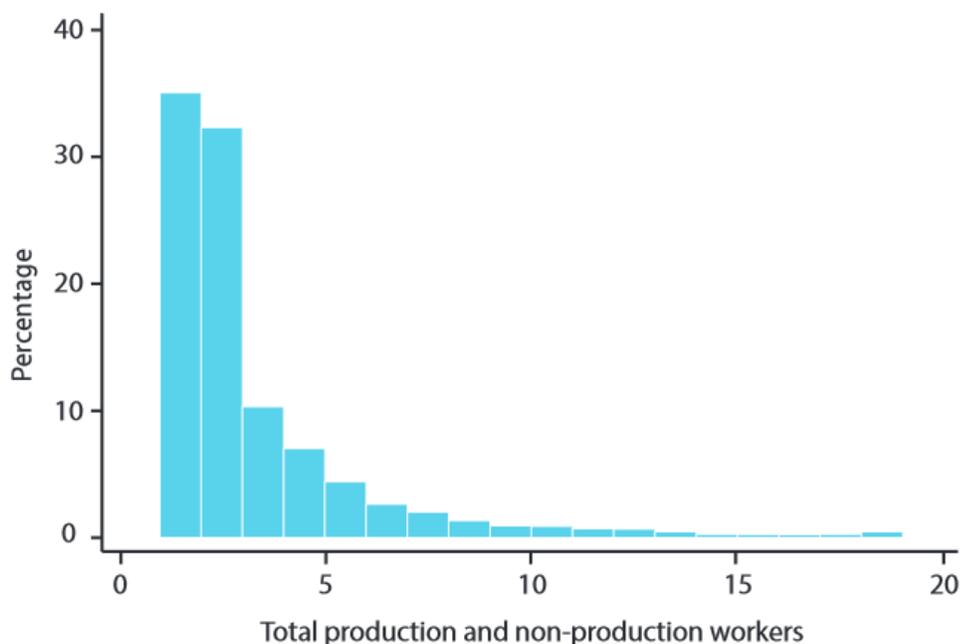


Figure 1. Number of worker of micro and small firms.

Source: National Team for the Acceleration of Poverty Reduction, 2015.

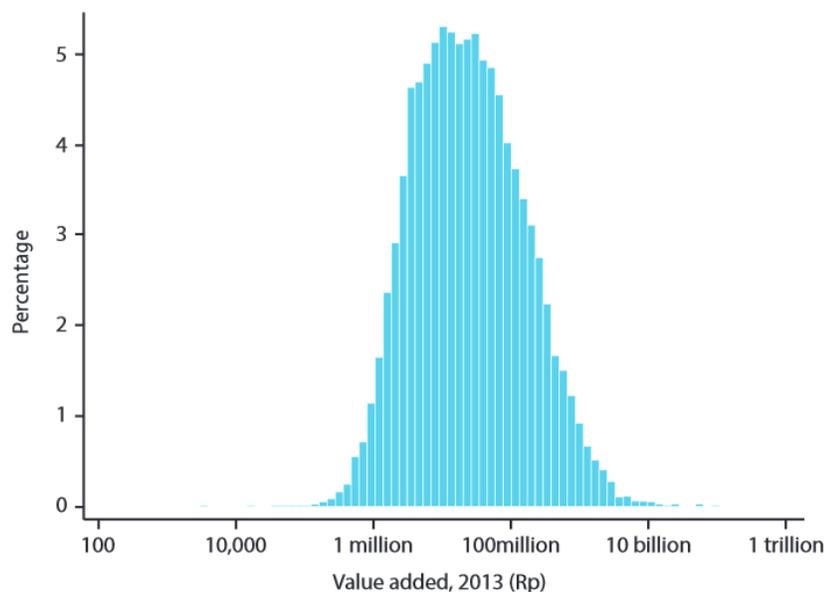


Figure 2. Value added of micro and small enterprises in Indonesia.
Source: National Team for the Acceleration of Poverty Reduction, 2015.

medium enterprises operating in Indonesia, employing at least 85.4 million people and contributing 53.3% of Gross Domestic Product. Currently, SMEs in Aceh has absorbed a workforce of about 275,000 people (Department of Industry, Trade and SMEs in Aceh, 2012).

Figure 2 shows that in 2013, 97.9% of the firms had a total annual value of between USD269.89 and 10 USD2.6 million.

According to the National Team for the Acceleration of Poverty Reduction of Indonesia, there are five key points regarding SMEs in Indonesia:

1. Most of the firms in Indonesia are SMEs, which give a considerable contribution to its economy and employment;
2. Employees in SMEs sector are paid lesser;
3. Regarding its productivity, large firms outperforms SMEs;
4. SMEs owner and operators used to have lack of formal education thus rarely register their firms; and
5. Most of the SMEs used to only serve local markets.

The revival of Indonesia's SME is a result of the 1998 financial crisis. During 1998 financial crisis, SME become the last social safety network. In 1998, the unemployment rate in Indonesia was rapidly increasing in which about 12 million people considered open unemployment or 11% of labor force in Indonesia are unemployment (Anton, Muzakan, Muhammad, & Sidiq, 2015).

Research Method

Research Design

Questionnaire was the most important tool for this study that included variety of questions completed by one manager and two or three employees in each selected SMEs. The study also used deep interview approach in order to collect the data and to obtain information and opinions from experts at early stages of the study. Confirmatory factor analysis was used to determine the validity of these questionnaires. The data was analyzed using Structural Equation Modeling (SEM).

The questionnaire consists of six sections. The first section consists of questions related to market orientation strategy of the organization, second section

Table 1. *Sample Sectors of Small and Medium Enterprises*

No.	SMEs sector	Banda Aceh	Great Aceh	Pidie	West Aceh Region	Total
	Products					
	Coffee processing	3	1	-	-	4
1	Food processing	9	6	12	17	44
	Fashion	21	15	5	4	45
	Others	6	2	3	2	13
	Total					106
	Services					
2	Restaurant and café	21	7	6	11	45
	Electronic repair shop	8	4	4	7	23
	Others	12	5	3	6	26
	Total					94

is about business commitment of the organization, the third section is about business culture within the organization, the fourth section is regarding business performance of the organization, and last section is about the linkage among the variables proposed in the hypotheses.

Data Collection

The data were collected from 200 small and medium enterprises in Banda Aceh, Great Aceh, Pidie, and West Aceh Region. The data were distributed and collected by students from the Department of Management, Economic Faculty – Syiah Kuala University who were taking Research Methodology Class in the academic year of 2014. Responses represent a wide variety of SMEs (53% product, 47% service sectors).

Research Subject (Population and Sample)

The study was focused on SMEs operating in four region of Aceh Province. A set of questionnaires were sent to 200 SMEs in Aceh. These SMEs were identified from Bureau of Statistics (BPS) Aceh, data bases covering SMEs sector, then the sample selected by convenience sample.

Measurement Scales

The proposed hypotheses were tested by first estimating the structural model developed from existing theory. We adopted positivist theory and descriptive cross-sectional survey research design. Confirmatory factor analysis was performed to check the validity of the reflective measures used in this

study, which includes all of the measures. The factors generally held up very well except for two factors that dropped in order to provide acceptable fit. The most common indices were used to evaluate the confirmatory factor analysis model, for example, Chi-square (χ^2) test was used as the strictest form of model testing; square error of approximation (RMSEA) was used as goodness-of-fit indicators with score of 0.069, which can be considered acceptable as proposed by Hair, Anderson, Tatham, and Black (1998) that the model should have RMSEA value ≤ 0.08 ; while the comparative fit index (CFI), incremental fit index (IFI), normed fit index (NFI), of the model should be ≥ 0.90 . Moreover, the composite reliability (CR) and variance exact (VE) must scores ≥ 0.7 and ≥ 0.5 , respectively.

Items were scored on a 5-point scale, rating from “strongly disagree” to strongly agree”. The loading factor of >0.5 on all the variables means that all indicators are valid, with the value of composite reliability (CR) > 0.7 and variance exact (VE) > 0.5 . The results show that all the indicators on each constructs are valid and reliable to measure the structural models.

Research Finding and Result

The causal links between variables were checked by the analysis of a structural equation model. This is statistical methodology which is used in testing hypothesis in accordance with a method of multivariate analysis for verifying systematic theory on some phenomena. It also represents an equation model for identifying a causal link among the structural model.

As can be seen in Table 2, H1, H3, and H4 were accepted, while H2 and H5 were rejected. Results showed that market orientation has a positive correlation with business commitment and business performance. However, business culture has a negative correlation with business commitment but a positive link with business performance. The highest score was between market orientation variable and business commitment (CR=0.718; VE=0.543) and the lowest one was between business culture and business commitment variables (CR=0.695; VE=0.499).

The hypotheses relationship results in Table 2 show that market orientation has a significant influence on business commitment and business performance (CR=0.718, VE=0.543; CR=0.715, VE=0.521). Consistent to the previous studies, our results support the notions that there is a significant relationship between market orientation and business performance (Narver & Slater, 1990; Grewal & Tansuhaj, 2001; and Njeru, 2013) and a significant relationship between business market orientation and performance (Rogers & Wright, 1998; Kotler, Saliba, & Wrenn, 1991; and Day, 1994). Avlonitis and Gounaris (1997) also revealed a positive relationship between market orientation and company performance using profit, sales volume, and market share as measures. However, other researches (Agarwal, Erramilli, & Dev, 2003; Sandvik & Sandvik, 2003) revealed an insignificant relationship between market orientation and performance. Therefore, it is apparent that empirical evidence on the relationship between market orientation and performance is inconclusive (Owino & Kibera, 2015).

The result also shows that business culture has an insignificant influence on business commitment (CR=0.695, VE=0.499). This is inconsistent with the previous researches (Greenberg & Baron, 2008; Meyer & Allen, 1997) which stated that organizational culture can generate commitment and business culture

positively influences commitment; and this does not appear to support the previous findings (Peters & Waterman, 1982; Deal & Kennedy, 1982) which suggested that business culture has a significant influence on commitment. Conversely, there is a significant link between business culture and business performance (CR=0.709, VE=0.535). This is consistent with the previous findings (Deal & Kennedy, 1982; Peters & Waterman, 1982; Meyer & Allen, 1997) which stated that business culture plays an important role in the development of business performance.

Furthermore, the result shows that business commitment has no significant influence on performance (CR=0.652, VE=0.514). This statement is similar with previous study that business commitment is not significantly correlated to business performance (Steers, 1977). But, this does not fit the other previous studies (Lok & Crawford, 2004) which argued that business commitment is able to support business performance through reports of budget realization and balances and records of financial statements. Other empirical evidence (Meyer & Allen, 1997) also asserted that high business commitment can support achieving tasks established by the organizations. Therefore, it may be concluded that there is a relative relationship between business commitment and performance.

Based on the above review, the model path diagram analysis for this research is as shown in Figure 1.

Discussion

The analysis to the hypotheses proposed in this study revealed that there is a strong relationship between market orientation and business performance (H1) and market orientation

Table 2. *Research Hypotheses Relationship*

No.	Hypothesis variables	CR	VE	Remark
1.	Market orientation → business commitment	0.718	0.543	Significant
2.	Business culture → business commitment	0.695	0.499	Not significant
3.	Market orientation → business performance	0.715	0.521	Significant
4.	Business culture → business performance	0.709	0.535	Significant
5.	Business commitment → business performance	0.652	0.514	Not significant

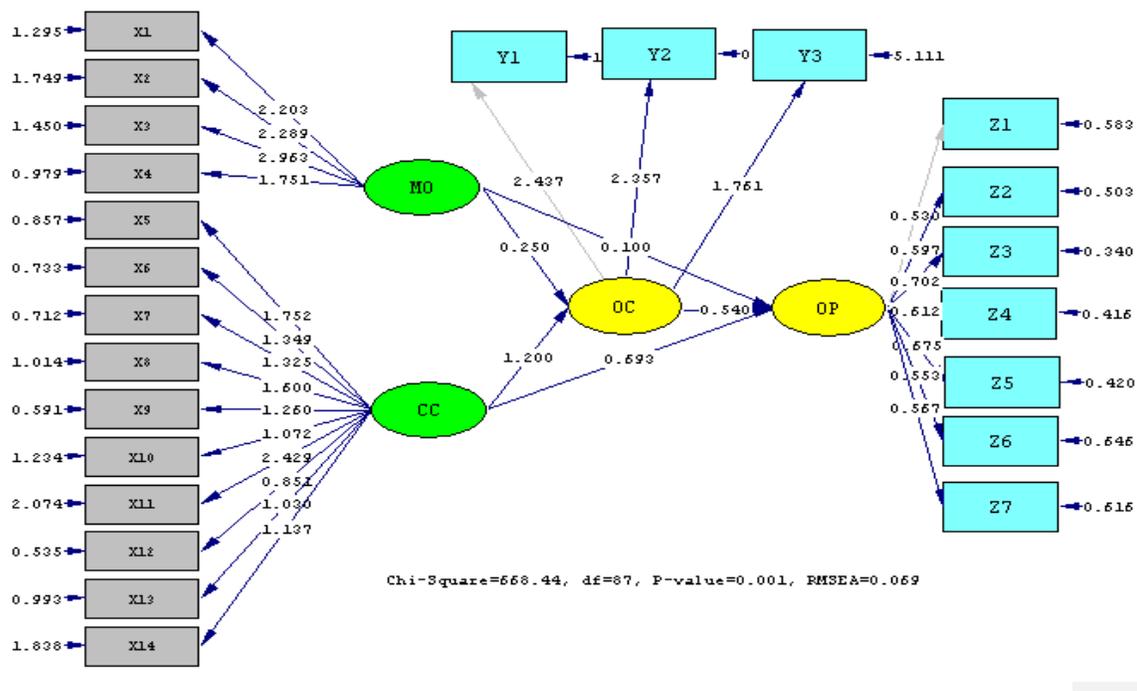


Figure 1. Result of model path diagram.

positively related to business performance (H3) as shown in Table 2 for research hypotheses relationship. This supports the statement that business orientation (customer and competitor) is concerned with the organization's long-term decisions to improve business performance (Gatignon & Xuereb, 1997). Regarding customer orientation, it is believed that it can facilitate the gathering of relevant, accurate, and timely information from target market that enables a firm to sustain superior competitive advantage (Kohli & Jaworski, 1990). Moreover, market orientation is recognized as an important variable in improving firm performance (Chu & Fang, 2006). It has a strong correlation with business performance because market orientation creates an organizational culture that results in a responsive comprehension and attitude to market needs. According to Narver and Slater (1990), market orientation becomes a very effective culture within an organization that produces a very effective behavior for creating a superior value that led to the performance improvement. However, some research papers do not verify a direct influence between market orientation and performance if the approach is done from an inter-organizational perspective (Chung, Huang, Jin, & Sternquist, 2011).

This study also revealed that business culture has a significant influence on business performance (H4 supported). Deal and Kennedy (1982) believed that culture is the most important and effective factor on success or failure of an organization. Gupta (2011) also proved a high performance organizational relation with organization culture and its leadership style. Therefore, understanding the organizational culture helps the organization to better judge and anticipates the behavior of the individuals within the organization (Robbins, Judge, Millett, & Boyle, 2011). The concept of culture will makes sense when the vast changes in the organization are managed. The commitment of the staff following the culture governs the organizations and this causes self-confidence and feeling of value in the staff and also paves the ground for commitment in the organization with a self-management approach.

Two other hypotheses variables were rejected in this study: the relationship between business culture and business commitment and the relationship between business commitment and business performance (H2 and H5 rejected). Similar, but weaker pattern of associations with commitment was also observed with the corresponding organizational culture variables in the present study. A possible explanation for this lack

of support is that these two constructs operate at the same level with respect to the influence on business commitment. On the contrary, previous researches had found that organizational commitment has a positive relationship with organizational culture and job satisfaction (Blegen, 1993; Al-Aameri, 2000). Enhancing professional commitment in staff has the potential to produce benefits for both the individual and their organization (Cohen & Golan, 2007). Companies can make this relationship to their competitive advantage and for this they have to maintain high relationship between employee job satisfaction and organization culture.

One of the main limitations of this study is that this study only examined a substantial sample of SME companies in Aceh, thus the data were collected only in Aceh. This study only analyzes a specific situation in time of study, not their overall conduct over time. Besides, this study includes a relatively small number of companies. Thus, we propose a future research to investigate the relationships between these variables in other cultural and organizational settings.

Conclusions

The research is mainly purposed to investigate the relationship between several conceptual framework among market orientation and business culture with business commitment and business performance. The study was conducted in the case of SMEs sector at Aceh Province in Indonesia, as can be seen in Table 2. Three hypotheses on this study (H1, H3, and H4) are significantly correlated and in line with the previous studies, but two other hypotheses (H2 and H5) are insignificant. This is due to weaker pattern of association with business commitment that also corresponds to business culture at present study. Besides it also presumed that this can be caused by the model of organization that existed in Aceh. Therefore, to support the SMEs in Aceh, business culture and commitment should be studied more comprehensively in order to support business performance.

However, as there are still relatively limited empirical studies on market orientation and business culture in Aceh Province, this article will have worth for government policy makers and other stakeholders in enhancing business development policy, especially those related to small and medium enterprises.

Moreover, this article will also be valuable for those practitioners and researchers in the field of business development to enrich their references regarding the topic.

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