The Influence of Market Orientation Towards Innovation and Business Performance At Companies in The Creative Industries in The Bandung City

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ABSTRACT

This research aims at investigating market orientation, business innovation and business performance on Bandung city's creative industries and at scrutinizing the influence of market orientation towards Bandung city's creative industry business performance. The selection of Bandung city's creative industry is influenced by various reasons such as Bandung city's national and international achievement on creative industry. To answer the formulated research questions, the method applied is quantitative research method. The type of the research is Descriptive research and Verificative Explanation Research. The data time horizon is cross sectional which depics a specific phenomenon at one particular time. The analysis unit in this study is leaders of 129 companies under the 15 subsectors of creative industry. Then, each variable goes through empiric hypothesis testing through the use of Structural Equation Modeling (SEM). The research findings reveal that market orientation, innovation, and business performance are in high condition. The result of coefficient of determination is 62% of changes which occur in innovation variable are explainable by changes occurring in market orientation. The testing results in obtained t score of 5.92. This result rejects the null hypothesis implying the existence of significant influence of market orientation on innovation when it is tested on the significance level of 5%. Calculation of coefficient of determination reveals that 24% of changes which occur in business performance variable could be explained by changes occurring in market orientation. The obtained T value is at 2.22. This result rejects the null hypotheses implying market orientation to significantly influence business performance when it is tested on the significance level of 5%. From these findings, it is fair to deem market orientation influences innovation more greatly than its influence on business performance.

Keywords: Market Orientation, Innovation, Business Performance and Creative Industry

I.   INTRODUCTION

Creative industry currently experiences a significant growth and significantly contributes to economic growth in various countries including Indonesia. Other contributions are in form of expansion of job opportunities, stimuli for more innovation so more added values get accrued on the company, role as country's identity, and others. Various opportunities are resulted from such development. Market and

consumer behavior change are some examples in which the change of living standard consequently alters an individual's needs. Presently, one does not only need to fulfill his primary needs (clothing, food, and house) but also he needs to satisfy his needs for entertainment such as music and films, which are some products of creative industry. Moreover, consumers' preference has also shifted from generic products, which are manufactured in factories, to unique products produced by creative industries.

Market orientation has been increasing over the last few years and it is deemed a key element in achieving company performance (Han, et al. 1998). For three decades, scholars and marketeers observed this phenomenon and concluded that business performance is influenced by market orientation. (Narver and Slater, 1990). Market-oriented businesses are deemed to be more erudite concering the market, to have better relation with consumers, and to perform better compared to their competitors due to ability to acquire and distribute market information. These businesses, moreover, will be superior in identifying opportunities and more open to current business opportunities and events, able to identify competitors' moves and consumers' demand, and come to decision based on comprehension acquired from the market (Day, 1994).

In order for the sustainability of creative industry development to be maintained, it is essential that a company adopt market orientation. Majority of studies on market orientation are limited in terms of (1) market orientation being only a dependant variable (Baker and Sinkula, 2005), (2) being only conducted in big-scaled business or organization, (3) being conducted in developed countries (Adu, 1998, and Kuada & Buatsi, 2005). These flaws abandon the facts that small-scaled business and developing countries have different market dynamics.

II.   LITERATURE REVIEW

2.1   The concept of creative industry

Creative industry becomes one of the sectors which is well acknowledged in the current era of creative economy. Numerous studies concerning this topic state that it contributes to the economy by creating job opportunities, assisting regional development and urban development. Its activity relies on individual creativity, expertise and talent. Distinguishable from other industries the primary outputs of which are material products or readily available services, outputs of creative industry are in form of intellectual properties. The most cited definition of creative industry has always been the definition proposed by Creative Industries Task Force of DCMS in 1998: "Creative Industries as those industries which have their origin in individual creativity, skill & talent, and which have a potential for wealth and hob creation through the generation and exploitation of intellectual property and content".

2.2   Market orientation
2.2.1   The concept of market orientation

Numerous literatures are available for delving deeper into the concept of market orientation. Definition proposed by Narver & Slater (1990) sees market orientation as: the most effective and efficient organization culture to nurture required behavior for materializing business' superior performance. Kohli & Jaworski (1990) differentiate their definition of this concept by stating that "market orientation is correlated with

market intellegency concerning the current and future consumers' demands, distribution to all departments, and response for such action". Kohli & Jaworski view market orientation as the seeking of consumer-based information which is communicated and followed up in various functions of an organization.

Measurement of market orientation has always been based on the following two perspectives:

First, market orientation is an organizational culture which nature is to always provide superior value for the customer (Slater & Narver, 1994). To attain such capability, an organization requires commitment for gathering information and coordinating consumers' demands, competitors' capabilities, and interested parties in the organization. Synergy of all organization system will eventually enhance the organization's performance. Operationally, such synergy is in form of organizational behaviors which are always consumer-oriented, competitors, and coordination between the organization functions .

a. Consumer Orientation

Orientation towards consumer requires that a producer comprehend the infinite consumer value chain (Narver & Slater, 1990). Such comprehension must be committed to satisfying consumers and monitoring their demands.

b. Competitor Orientation

Orientation towards competitors means it is essential that a producer comprehend short-term and long-term strengths and weaknesses of current and future competitors (Narver & Slater, 1990). Competitors' moves must constantly be detected and anticipated so one's organization could give appropriate response in order for it to be triumphant.

c. Interfunction coordination

Involvement of all parties in an organization is the definition of interfunction coordination thus to provide superior products becomes not only the responsibility of marketing division (Kohli et al, 1993; Han et.al, 1998). Interfunction coordination will be established once an open communication between all organization functions is maintained. Unimpeded flow of information sharing will result in better problem solving capability. In contrast, if each function is not open to each other, every individual will prefer only solving problems that exist in his division.

Second, behavioral perspective, which concentrated on organizational process or behavior, focuses on three main activities: (1) systematically gathering market intelligence concerning current and future consumer-demand; (2) spreading market intelligence to all units or departments in the organization; and (3) designing and implementing organization's response to market intelligence in a well coordinated and complete manner (Kohli and Jaworski, 1990 in Fandy Tjiptono, 2008: 88).

2.3   Innovation

Innovation has been scrutinized both on company industry level and individual level. Damanpour (1996) proposed a definition stating that innovation is a process which comprises generation, development, and implementation of novel idea or behavior. Furthermore, innovation is understood as a facility for change in an organization either as a response to external environmental change or anticipation to change the environment. Hence innovation is defined broadly comprising various type namely novel products or service, novel process technology, new organization structure

or administration system, or a novel plan. Hurley and Hult (1998, p. 44) define innovation as the notion of openness toward novel ideas as a company's cultural aspect. Essentially, innovation is an act of conceptualizing and a problem solving idea which incorporates economic values for the company and social values for the society. Thus, innovation departs from an existing matter and later altered by an added value. Innovation starts with a seemingly trivial starting point of being open to complaints from consumers, employers, environments, and society.

One of the several studies on relationship between market orientation and innovation is done by Han et.al. (1998) who conducted a study on 134 banks in the Mid-West; it was revealed that market orientation positively influences both technical and administrative innovation. In line with this research, Jaworski & Kohli (1993, p.56) state that "market orientation essentially includes the act of executing a novel idea in responding to market condition, this can be deemed an innovative behavior."

2.4   Business performance

Majority of studies on market orientation put focus on correlation between market orientation and business performance; it has broadly been assumed that market orientation is correlated with a more positive company performance (Dawes, 2000). Dawes also emphasizes that in a competitive environment, it is vital that an organization aware and be responsive to consumers' needs. Narver & Slater (1990) state that a strong market orientation in a business will encourage better effort for offering superior value for consumer which will result in superiority from the competitor and better profitability. Venkatraman & Ramanujam (1986) view business performance as a part constituting an overall organization's effectivity which includes financial indicator and operational performance.

Jaworski & Kohli (1993), in contrast, conducted a study aimed at identifying positive and significant correlation between market orientation, market target, return on equity (ROE), and overall performance with the involvement of moderating effect of environment variables. Pelham (1997) conducted another study on market orientation and performance of 160 small manufacturing industry companies by implementing steps of market orientation developed by Narver & Slater (1990) and Jaworski & Kohli (1993). This research employed return on equity, gross profit margin, and return on investment in order to measure overall profitability and reveal correlation between market orientation and strong performance.
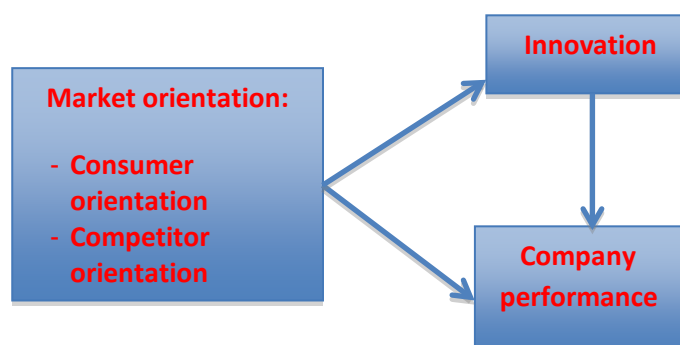

Figure 2.1 Research Framework

2.4   Hypotheses

H1: The bigger the market orientation of a company is, the greater its innovation will be.

H2: The bigger the market orientation of a company is, the better its performance will be.

H3: The greater the innovation of a company is, the better its performance will be.

III.   RESEARCH METHODOLOGY

The approach employed in this reasearch is quantitative approach. This is a Descriptive Research and Verificative Explanation Research. The analysis unit in this study comprises creative industry organization in Bandung municipality whereas the observation unit is the leader of such organizations. Approach, modelling, and solution technique to be applied as tool analysis in this research is Structural Equation Modeling (SEM) method.

Referring to the above-mentioned elaboration, the analysis unit in this research comprises creative industries in Bandung city. Consequently, the population in this research is all companies on creative industry. In 2010, 5291 creative industry companies were recorded and they comprised of the 15 types of creative industry. Employing Structural Equation Modeling (SEM), the minimum sample is determined using power analysis technique. Sampling technique used is proportional stratified random sampling method which is a random sample selection done by classifying a population into sub-populations in advance. Samples are then selected from each sub-population by applying a simple randomization technique.

The population in this study is all creative industry companies in the municipality. Having been allocated proportionally and the numbers being run down, the ideal size is 129 creative industry companies in the municipality and the respondents are the leader of these companies.

3.1   Method of analysis

Afterwards, the variables will be used for empiric hypothesis testing using Structural Equation Modeling (SEM) utilizing Lisrel Version 8.30 software.

3.2 Calculation of effect size

In a structural equation modeling analysis, researcher is able to both directly and indirectly calculate effect size of a latent variable on other variables; departing from the two effects, total effect size could be attained. In SEM format, the direct effect size score of exogenous latent variable on endogenous latent variable is represented by path coefficient annotated as γ_{ij} (gamma), whereas the direct effect size score of exogenous latent variable on other variabel late endogen is represented by β_{ij} (beta). The correlation coefficient between endogenous latent variable is represented by coeffient covariance annotated with Φ_{ii} (phi) whereas ζ_i (zeta) represents all unobserved exogenous latent variable that have been or have not been theoretically identified. The variables in the equation are classified as errors in structural equation or variable errors (Joreskog & Sorbom, 1996).

IV. RESULTS

Analysis on the influence of market orientation for innovation and business performance

To test the research hypotheses, the researcher employs structural equation modeling.

4. Model assessment for market orientation variable

Market orientation variable model assessment is a second order model assessment since it is not directly measured by an indicator; dimension is used first in the measurement. The figure of the model is as follow:
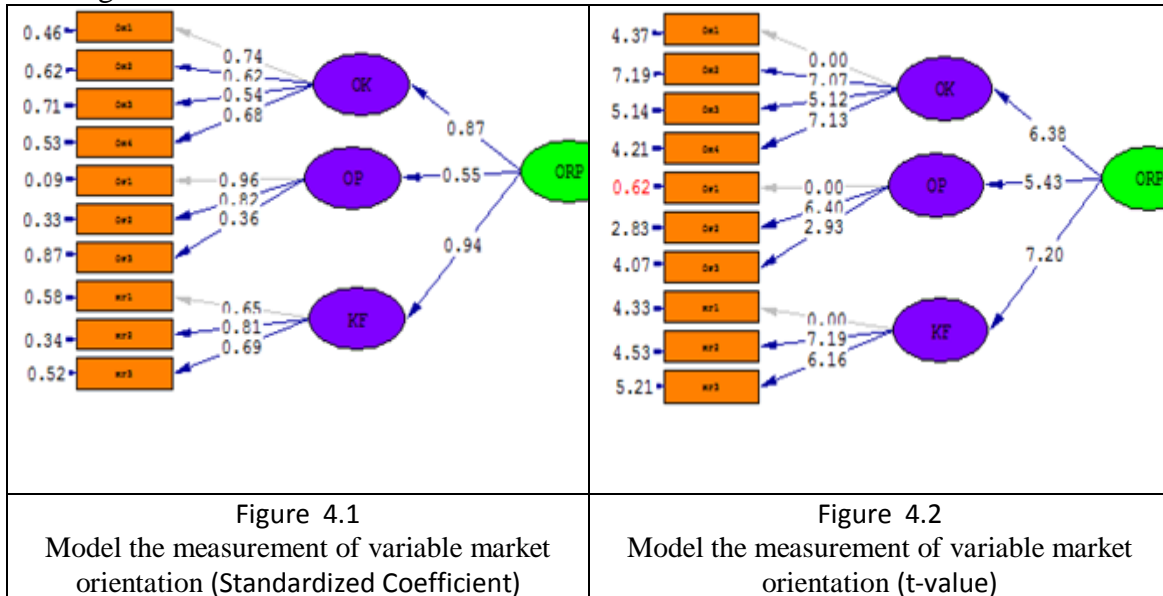

Figure 4.1
Model the measurement of variable market orientation (Standardized Coefficient)

Figure 4.2
Model the measurement of variable market orientation (t-value)

Tabel 4.1
Table Analysis of market orientation variable model assessment

Dimension	Symbol	Validity coefficient	R2	Error variance	t-obt
Consumer orientation	OK	0.87	0.76	0.24	6.38
Competitor orientation	OP	0.55	0.30	0.70	5.43
Interfunciton Coordination	KF	0.94	0.88	0.12	7.20
Composite Reliability		0.840			17.48

Analysis result using market orientation variable model assessment on its dimensions reveals that all dimensions of the revised model are valid with loading factor value of more than 0.50 and the obtained value of *t* is greater than its critical value (1.978). In addition to being valid, it is also fair to deem the four dimensions reliable given the composite reliability score of 0.840 is greater than 0.70. These results indicate that the dimensions and indicators used for measuring performance dimension are valid and reliable. The most dominant indicator in determining market orientation variable dimension is the interfunctional coordination dimension.

4.2. Innovation variable model assessment

Innovation variable after assessed using five indicators. Results of interpreting innovation variable model assessment are presented below:
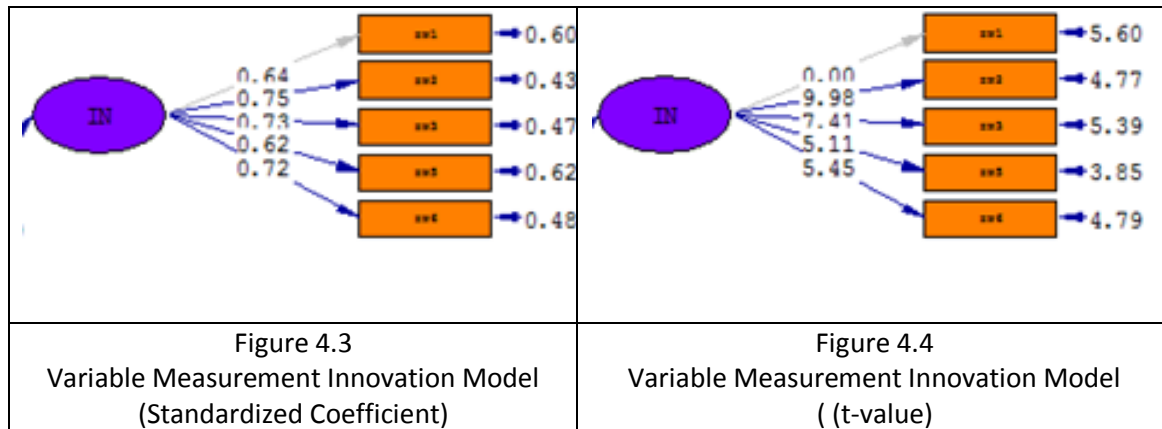

Figure 4.3	Figure 4.4
Variable Measurement Innovation Model (Standardized Coefficient)	Variable Measurement Innovation Model ((t-value)

Table 4.2 Analysis of innovation variable model assessment

Indicator	Symbol	Validity coefficient	R2	Error variance	t-obt
Our company often puts novel ideas into trial.	IN1	0.64	0.41	0.59	-
Our company seeks for new ways to do something.	IN2	0.75	0.56	0.44	9.98
The company has an approach in solving problem.	IN3	0.73	0.53	0.47	7.41
Compared to the competitors, the company more intensely launches new producsts and services.	IN5	0.62	0.38	0.62	5.11
There has been an increase of new product launching over the last year.	IN6	0.72	0.52	0.48	5.45
Composite Reliability		0.822			16.27
Variance Extracted		0.479			6.14

Model assessment for innovation variable involves indicator with high significance level. All indicators are attributed with loading factor value or validity coefficient with t-obt score that is greater than the critical t value (1.978) thus all indicators are deemed valid. Moreover, according to the composite reliability, a reliability score of 0.822 is obtained. Being greater than 0.70, it indicates that all indicators used for measuring innovation variables are highly reliable.

The most dominant indicator in measuring innovation variable is 'our company seeks for new ways to do things'.

4.3 Model Assessment Of Business Performance Variable

Business variable after the model is measured using five indicators. Results of interpreting innovation variable model assessment are presented below:

Figure 4.	Figure 4.
Business performance variable model assessment (Standardized Coefficient)	Business performance variable model assessment (t-value)
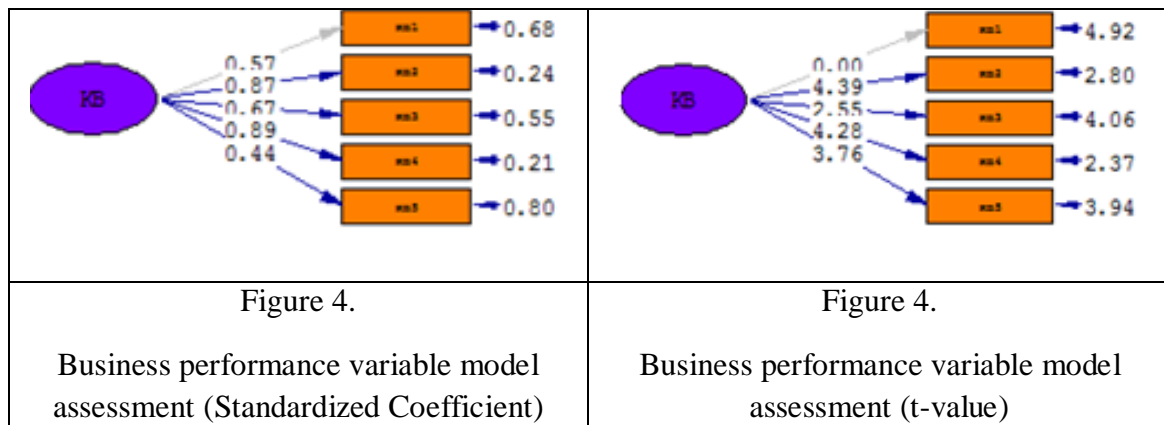
4.4 Analysis of structural model

To test the hypotheses, t-student statistic test is used and the result is presented below:

Table 4.3 Correlation analysis

Correlation	Correlation value	R^2	T-obt	Note
Market orientation - > Innovation	0.79	0.62	5.92	Significant
Market orientation -> Superior competitiveness	0.49	0.24	2.22	Significant

The calculation reveals that the value of correlation between market orientation and innovation is at 0.79 of standard deviation; in other words, for every one increase of standard deviation, the innovation will increase by 0.79 point. From the calculation of coefficient of determination, a value of 0.62 is obtained implying that 62% of changes occurring within innovation variable could be explained by changes in market orientation. The obtained t score is at 5.92. This test deems the null hypothesis rejected so there is a significant correlation between market orientation and innovation when the significance level is set at 5%.

The calculation also reveals that the value of correlation between market orientation and business performance is at 0.79 of standard deviation. It also means that for every one increase of standard deviation, there will be an increase of business performance value by 0.49. From the calculation of coefficient of determination, a value of 0.62 is obtained implying that 24% of changes occurring within business performance variable could be explained by changes in market orientation. The obtained t score is at 2.22. This test deems the null hypothesis rejected so there is a significant correlation between market orientation and business performance when the significance level is set at 5%.

Referring to the above-mentioned findings, it has been revealed that market orientation influences innovation more greatly than its influence on business performance.

V. CONCLUSION

There is a significant influence of market orientation for innovation and there is an influence of market orientation for business performance. Referring to the results, it is also revealed that market orientation influences innovation more greatly than its influence on business performance.

VI. SUGGESTION

Departing from the findings on the field and the result of calculations, the researcher will attempt on listing several suggestions for owners of creative industries in Bandung city. The suggestions are as follow:

1) Continuous access to information regarding creative industries, both the general ones and the specific ones in Bandung city, is a necessity so policies relating to creative industry could be accessed since the government has put enough concern on this industry.
2) It is essential that the owners make a good use of various forums for creative industry community so not only could everybody brainstorm solutions for existing problems, but also exploiting the potentials. Competitiveness concept, consequently, is put into good use in order to create synergy.

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