

# The Impact of Market Orientation and Dynamic

*by* Y Budi Susanto

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**IMPACT OF MARKET ORIENTATION AND DYNAMIC MARKETING  
CAPABILITY ON THE MARKETING PERFORMANCE OF 'MAKE-TO-ORDER'  
SMEs**

**Y. Budi Susanto**

**ABSTRACT**

**1**  
The objective of this research is to study the **impact of Market Orientation (MO) and Dynamic Marketing Capability (DMC) on the Marketing Performance (MP) of small and medium enterprises (SME) with the specific production strategy of Make-To-Order (MTO).** This study's population was the Shoe Home Industry at Cibaduyut, Indonesia. The descriptive research design was supported by exploratory research and done by analyzing the measurement and structural model of the constructs. An analysis was also done on the Business Environment (BE) as the contingent factor of the relationship between MO and MP. The measurement test and structural model analysis was done with the Structural Equation Modelling (SEM) approach, using LISREL 8.8 and SPSS 16.00. The result shows that MO **4** does not have a significant impact on MP. Meanwhile, DMC has a positive impact on MP. **In the context of MTO, SMEs do not need to have a high MO to have satisfactory performance.** Also, MO does not build capabilities. Thus, MO theory reaches a limit in MTO SMEs. The result also shows that the relationship of MO and MP is significantly positive moderated by BE. The negative impact of MO on DMC shows that MO does not build DMC. This research contributes in two ways: first, the curve of the relationship between MO, DMC, and MP in the context of MTO SMEs. Second, the 4 types (quadrants) of MTO SMEs based on the level of their DMC and MO. One of the **research** **4** limitations was that, besides MO, there was no analysis of other factors affecting DMC. **Other strategic orientations, such as production orientation, could be considered as factors in future research.**

**1**  
**Keywords:** Strategic Leadership Competence, Entrepreneurial Orientation, Market Orientation, Dynamic Marketing Capability, Business Environment, Marketing Performance, Maklun (MTO Strategy)

## INTRODUCTION

Market Orientation (MO) is a strategic orientation that is used to build companies' business performance (Deshpande & Farley, 1998; Jaworski & Kohli, 1993; Narver & Slater, 1993). Strategic Orientation is a strategic direction that reflects the beliefs and mentalities of a company's leaders or founders (Hitt et al., 1997) and functions as a foundation for building policies and behavior, creating superior value advantages, and improving business performance (Gatignon & Xuereb, 1997; Narver & Slater, 1990). Much previous research shows that Market Orientation is an important factor (determinant) of business performance. In their meta-analytic review, Kirca et al. (2005) consolidated all the research about Market Orientation. In this model, the researchers consolidated 4 consequences of market orientation: organizational performance (51%), customer consequences, innovation consequences, and employee consequences. Another consequence of Market Orientation is marketing performance (Frösén, Luoma, Jaakkola, Tikkanen & Aspara, 2016). Meanwhile, other research shows that Market orientation has an impact on export marketing performance (Cadogan, 2002; Julian, 2004; Morgan, 2004). Furthermore, much previous research shows intellectual assets as the antecedents of marketing performance (Kohli & Jaworski, 1993; Narver & Slater, 1990; Ramaswami et al., 2007; Song et al., 2006). Other research has focused on small and medium enterprises (SME) (O'Cass, 2009).

Unfortunately, there is little research about the relationship of Market Orientation and Performance, focusing on manufacturing SMEs with the production strategy of 'Make-To-Order.' Due to resource limitations, mainly in intangible assets such as brand awareness and financial situations, many SMEs choose to operate in the MTO business model instead of Make-To-Stock (MTS). This is supported by Gaur S. Sanjaya, Hari Vasudevan, and Gaur S. Ajai (2011) and Mike Chen, Ho Chao, and John E. Spillan (2010), who report that there is no research about the relationship between MO and functional business performance, mainly in manufacturing performance and marketing performance.

The research on MO have been done in many different context and findings. First, research done in the context of developed economies reached different conclusions than that done in developing economies. Much previous research about the impact of MO on MP

focused on big companies (Chen, Chao & Spillan, 2010). In these cases, measurement was done for organization, with the characteristic of a large-scale economy with a stable operation system. However, SMEs also need to have a proper market orientation to build a proper strategy for growth. They need a proper business model with a strong market orientation that can illustrate the factors affecting the MO and its outcomes, supported with proper measurement of SME concepts including accurate dimensions and indicators for small organizations with limited resources. Second, Market Orientation does not affect business performance directly. There is ambiguity in the relationship between MO and MP, where there is an external factor affecting the relationship (Sanjaya, Vasudevan & Ajai, 2011). Riliang Qu (2009) reported that the relationship between MO and MP was mediated by the corporate social responsibility (CSR) factor. There are some contingent factors that moderate or mediate the impacts of MO on business performance (Zou & Cavusgil, 1996). In other words, MO does not create exchange (sales) as a resource of business performance. Competitive advantage is required for the company to have an exchange; this competitive advantage must be built from a set of resources—called capability—that are able to run an operation system and process superior to that of competitors (Verwall & Verbeke, 2009). This issue is supported by Foley and Fahy (2009), who showed the mediating role of capability on the relationship between market orientation and business performance.

The objective of this research is to propose a model for describing the <sup>3</sup> impact of Market Orientation on Marketing Performance and the possible contingent factors of Dynamic Marketing Capabilities and Business Environment in the context of small and medium enterprises (SMEs) with business models based on a 'Make-To-Order' production strategy. Here, we propose two factors as the outcomes or the consequences of MO: Marketing Performance (MP) and Dynamic Marketing Capability (DMC). Marketing Performance describes consequences achieved by marketing activities as part of business performance (Jaworsky & Kohli, 1993; Johanna et al., 2016; Narver & Slater, 1994; O'Sullivan et al., 2007). Dynamic Marketing Capability is a set of individual and organizational skills for integrating, building, and re-arranging marketing internal and external capabilities to respond to turbulence in the business environment (modification of Day, 1994; Teece & Pisano, 1997; Vorhies & Morgan, 2005).

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This study briefly clarifies the structural relationship between constructs or concepts that impact MO (the antecedents of MO), and the impact of MO on business performance (the outcomes of MO) for Indonesia SMEs. Indonesia has 50 million SMEs, (BPS, 2016). One of SME centres in Indonesia is Shoe Industrial Centre Cibaduyut, located in Bandung, West Java, Indonesia. They have a specific business model, called 'Maklun.' 'Maklun' is a local terminology, defined as a production process where small and medium enterprise (SME) shoe makers fulfill the orders of a brand owner. This is done as an implementation of a Make-to-Order (MTO) strategy. In a global scale, it is almost similar to the terminology of original equipment manufacturer (OEM). This paper has an objective of elaborating the features of the Market Orientation (MO) concept to fit the characteristics of small and medium enterprises using the research population of the shoe home industry center at Cibaduyut, Bandung, West Java, Indonesia. Due to unexpected business performance, they need a business model with a clear structural relationship between market orientation and its antecedents and outcomes.

Finally, this research offers several contributions to the literature. First, we extend the relationship between MO and MP in the context of MTO SMEs. Second, there is a contingent factor, either moderating and/or mediating factors, by adding the role of the factors DMC and BE. Third, the research provides a curve of the relationship between MO, DMC, and MP. Based on the findings, the paper proposes development programs suitable for the SMEs to improve business performance. Last but not least, the paper ends with research limitations and future research.

## **THEORETICAL FRAMEWORK, HYPOTHESIS, AND MODEL DEVELOPMENT**

### **The Logic of The Model: Resource-Based Theory**

Resources are the tangible and intangible assets of a firm, used to conceive of and implement strategies (Barney & Arian, 2002). Originating in the strategic management discipline, resource-based theory was developed to address the importance of owning land (Ricardo, 1817), and has grown to include many current concepts or constructs such as core competence (Prahalad, 1992), dynamic capabilities (Teece & Pisano, 1997), market-based capabilities (Ramaswami et al., 2009), etc. Resource-Based View (RBV), as a perspective of Based Theory, believes that good business performance can be achieved when the

organization has resources that a valuable, rare, un-imitable, and non-substitutable (Barney, 1991). With these kinds of resources, it is possible for an organization to build and develop competitive advantage, and thus gain good business performance (Collis & Montgomery, 1995). This is the concept of strategic management.

Srivastava, Fahey, and Christensen (2001) tried to make a connection between RBV and marketing. RBV can be applied to marketing when marketing-specific resources are identified (i.e., are generated and leveraged in large part through marketing activities) that potentially manifest at least some of the RBV attributes (valuable, rare, etc.). Market-based assets (Srivastava, Shervani & Fahey, 2001) meet that criterion. Combined with the work of other scholars (Day, 1994, Fahey, 1999, and Hunt, 2000) they defined marketing resources as consisting of assets, processes, and capabilities. These form the logic of the research model and can be summarized as follows:



Figure 1. The logic of The Model: Resource-Based theory (Adapted from Hunt and Morgan 1997; Srivastava, 1998, 2001)

In the context of marketing, Srivastava et al. (2001) defined assets and resources coming from any marketing activity as Market-Based Assets, which include two types of assets: relational market-based assets and intellectual market-based assets. The first are related to external parties such as customers, channels, strategic partners, networks and ecosystem relationships etc. The second are related to internal property such as culture and knowledge (know-how, know-what, etc.). In this research, we study the orientations, as market-based assets, through the characteristic of culture. In the context of strategic management, culture is defined as an organization's characteristics consisting of beliefs, norms, orientation, values, and behavior. Meanwhile, according to Narver and Slater (1990), market orientation is the organization culture, allowing for a cultural perspective of market orientation (compared to the behavioral perspective on market orientation in Kohli and Jaworski, 1990).

Market orientation has the dimensions of customer orientation, competitor orientation, and product orientation.

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*MTO Strategy as marketing management strategy of SME*

Due to an efficiency program, manufacturing companies will always face the choice of production strategy: 'Make or Buy' (Moschuris, 2014). The first alternative is manufacturing the products itself, called Make-to-Stock (MTS) strategy. The second choice is ordering products from another company, called Non-MTS. The old taxonomy divided Non-MTS into three types of strategies: assemble-to-order, make-to-order, and engineer-to-order (see, for instance, Bertrand et al., 1990; Cox et al., 1992; Dilworth, 1989; Handfield, 1993; Hendry & Kingsman, 1989; Maruchek & McClelland, 1986; New & Szwajczewski, 1994; Schroeder, 1993; Vollmann et al., 1988; Wortmann, 1992). Meanwhile, Hill (1993) divided production strategy into Make-to-Stock (MTS), Design-to-Order (DTO), Engineer-to-Order (ETO), Make-to-Order (MTO), and Assemble-to-Order (ATO). The Make-To-Order (MTO) strategy is a strategy of producing goods with certain specifications and volume based on orders given by another company that owns a popular brand (Hendry, 1991).

On the other side, due to the resource limitation of SMEs in terms of financial cash flow, the marketing management of SMEs is characterized with need for rapid and certain sales that rapidly generate cash-in-flow. They also have limited capabilities in implementing a marketing mix strategy, whether in production processes, pricing, placing (distribution), or promotion processes. Meanwhile, they also face unpredictable market demand and uncertain situations. These situations force SMEs to run a marketing management that gives secure performance. They do not want to run a production process with design and volume they are not certain they can sell. This results in marketing management compromising with production strategy, i.e., instead of a production process of Make-to-Stock (MTS), marketing management needs a production strategy of Make-to-Order (MTO). This strategy gives both Production and marketing a common paradigm: to have the right product at the right place in the right quantity at the right time. To overcome uncertainty, SMEs tend to grab the order opportunity raising from the Non-MTS strategies of other companies. We called this type of SME the MTO SME. In this research, we define an MTO SME as an SME whose major products are products with specifications and volumes ordered by other

companies. The majority of Cibaduyut companies run this MTO strategy, in the form of 'maklun' in local terminology.

### **Market Orientation**

The business performance of SMEs depends largely on the market, so they must have a proper market orientation. In previous research, there are two perspectives on Market Orientation. The first is the cultural perspective (Deshpande, Farley & Webster, 1993; Narver & Slater, 1990). These researchers defined cultural MO as the norms and values of a company, and puts the market in the center of business strategy. This perspective on MO has also been called Individual MO (IMO) by Lam, Kraus, and Ahearne (2010). The second perspective is the behavioral perspective (Kohli & Jaworski, 1990, 1993), which defines market orientation as organizational activities, and is aimed at developing marketing activities with the market at the center of attention. According to Kohli and Jaworski, market Orientation is an implementation of "business philosophy, focusing on customs, and coordinated marketing" (Kohli & Jaworski, 1990), with a long-term strategic orientation. Furthermore, they defined Market Orientation as the activity of market intelligence consisting of generating information, disseminating it to the whole of the organizational functional line, and responding to it in the form of business policy and action.

Market Orientation could be a resource for sustainable competitive advantage, resulting in positive impacts on short-term and long-term business performance (Kumar, Jones, Venkatesan, & Leone, 2011). The sooner a company implements market orientation, the higher the competitive advantage, and so the higher the business performance. These companies also showed higher revenues and profitability and better growth due to the carryover effect. The real contribution of Market Orientation to profit improvement was generated by the role of MO in retaining existing customers rather than acquiring new customers. The impact of MO on business performance is moderated by the turbulence of the market, the business environment, and competition intensity (Kirca, Jayachandran, & Bearden, 2005; Kohli and Jaworski 1993, 1996; Narver & Slater 1990; Szymanski et al. 1993). Meanwhile, research on the market Orientation of small and medium enterprises (SME) has shown that Market Orientation has a positive impact on company performance in the form of manufacturing performance (Gaur et al., 2011)

### **The Antecedents of MO**

Resources do not fall from the sky. Intellectual Assets are not given freely. So, there is a fundamental question: how can we build Market Orientation, as an intellectual asset, to increase a company's competitive advantage? What are the antecedents of Market orientation? There are many research findings about the relationship between market orientation as a cultural concept with organizational performance (Cano et al., 2004; Ellis, 2006; Jalali et al., 2014; Kirca et al., 2005; Ramayah et al., 2011). In their meta-analysis, Kirca et al. (2005) reported three predictors of market orientation: top management factors, interdepartmental factors, and organizational systems. They also reported the consequences of MO, i.e., Organizational Consequences, Customer Consequences, Innovativeness Consequences, and Employee Consequences. This research provides knowledge about the factors affecting business performance. However, they did not give a comprehensive logical explanation about the relationship between culture, behavior, capabilities, advantage, and performance. Is there any logical relationship between entrepreneurial orientation, market orientation, global marketing behavior, market-based capabilities, and global marketing advantage?

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Previous research reveals three broad categories of Market Orientation antecedents: top management factors, interdepartmental factors, and organizational system (Jaworski & Kohli, 1993; Kirca et al., 2005). Due to the fact that in SMEs, individual factors have bigger impacts than interdepartmental mechanism and organizational systems on business operation, this research uses top management factors as the antecedents of Market Orientation.

#### *Strategic Leadership Competence*

Strategic Leadership Competence (SLC) is the ability of a leader to identify, process, and exploit corporate capabilities to create sustainable good business performance (Prahalad & Hamel, 1990). Meanwhile, according to Hitt and Ireland (2007) and Rowe (2001), strategic leadership is the ability to influence people and make decisions affecting long-term corporate performance while maintaining short-term financial health.

With limited resources, SMEs depend more on leaders than on organizational systems. Moreover, SMEs need leaders with strategic competence to lead the organizations to good performance, growth, and sustainability. A leader should have other competencies such as comprehensiveness, i.e., a comprehensive understanding of many aspects of the

organization such as capital management, production process, product types, HRD, and promotions. Another important competency is deftness, i.e., the ability to develop and build solutions for any organizational problem effectively and efficiently, such as conflicts, motivation, and delegation (McGrath, MacMillan & Venkataraman 1995).

As a developing organization, an SME also needs a leader within absorptive capacity, i.e., the ability to learn (Boal & Hooijberg, 2000) and absorb many new things such as technologies, processes, and materials, and implement them to gain performance (Cohen & Levinthal, 1990). An SME leader of SME should also have adaptive capacity, i.e., the ability to change him/herself (Boal & Hooijberg, 2000) in response to any environment change, such as technologies, consumer preferences, government regulations, and economic situations.

Deshpande et al. (2013) reported that the characteristic of motivation is to make achievements (achievement motivation) that have positive impacts on customer orientation, one of the dimensions of market orientation. Meanwhile, He, Xinming and Wei Yingqi (2010) reported that absorptive capacity, a dimension of strategic leadership, has a positive impact on corporate strategy. SMEs with an MTO strategy often face a situation of specification change within the production process (Deep, 2007). This means that absorptive competence is a very important factor in building market orientation. These above situations bring us to the hypothesis:

**H<sub>1</sub>:** Strategic Leadership Competence (SLC) has a positive impact on Market Orientation.

#### *Entrepreneurial Orientation (EO)*

Entrepreneurial Orientation (EO) is defined as a style, method, and process of decision making representing entrepreneurship in building and managing an organization to have good performance (Lumpkin & Dess, 1996). Previously, entrepreneurial orientation was represented by the dimensions of innovativeness, risk taking, and proactiveness (Miller, 1983). Moreover, Lumpkin and Dess (1996) add other dimensions, i.e., an autonomous mindset and competitive aggressiveness. The higher the entrepreneurial orientation, the better the marketing strategy (Dess, Lumpkin & Covin 1997; Miller & Friesen, 1984; Porter 1980).

Furthermore, Dess and Lumpkin (1996) reported that the relationship between Entrepreneurial Orientation and Business Performance is contingent. There is a strategy between these concepts. This leads to the hypothesis:

**H<sub>2</sub>:** Entrepreneurial Orientation (EO) has a positive impact on Market Orientation.

### **The Outcomes of MO**

Research done on SMEs in India by Gaur S. Sanjaya, Hari Vasudevan, and Gaur S. Ajai (2011) showed a relationship between the MO dimensions of customer orientation and competitor orientation on business performance. Meanwhile, other research shows that Market Orientation both directly and indirectly (through green supply chain management practices) impacts environmental performance (Green, Toms & Clark 2015)

Inter-firm market and entrepreneurial orientation have a significant positive influence on both market and financial performance. However, no significant impact was found for inter-firm brand orientation (Tajeddini, Elg & Ghauri, 2015). Meanwhile, according to Kirca et al. (2005), the consequences of market Orientation consist of the dimensions of new product performance, customer satisfaction performance, and quality performance. According to Ramaswami et al. (2008), these consequences are another form of the market-based process performances of new product development (NPD), customer relationship management (CRM), and supply chain management (SCM), all of which create competitive advantage.

### *Marketing Performance (MP)*

Business performance can be measured with marketing performance. However, it is not easy to build a metric for marketing performance. The inability to build a marketing performance measurement could raise big questions regarding marketing activity effectiveness (Morgan et al., 2002). According to Johanna Frösén, Jukka Luoma, Matti Jaakkola, Henrikki Tikkanen, and Jaakko Aspara (2016), big companies tend to measure marketing performance using comprehensive metrics involving as many aspects as possible.

O'Sullivan and Abela (2007) defined three streams of research on measuring marketing performance. The first is marketing productivity measurement (Morgan, Clark &

Gooner, 2002; Rust, Lemon & Zeithaml, 2004); the second is metrics identification (Barwise & Farley, 2003; Vogel et al., 2008; Winer, 2000); the third is market equity measurement (Aaker & Jacobson, 2001; Ailawadi, Lehmann & Neslin, 2002).

Much research has shown the impact of Market Orientation on Marketing Performance (Gonzalez et al., 2009; Green et al., 2015; Kircha et al., 2010; Kohli & Jaworski, 1993; Narver & Slater, 1994). According to Kohli and Jaworski (1993) the consequences of Market Orientation can be categorized into employee consequences, environment consequences, and business consequences. Meanwhile, Kirca et al. (2005) reported that much previous research has studied the impact of Market Orientation, and categorized the impacts into four types of performances: organizational performances, customer performances, innovation performances, and employee performances. Similar results have been obtained in the research done by Liem Viet Ngo and Aron O’Cass (2011), who showed that Market Orientation affects the creation of new customers and the loyalty of existing customers. In term of SMEs, Oscar Gonzalez et al. (2009) and Miguel Hernandez and Elena (2009) reported that Market Orientation has a positive significant impact on company performance.

From the above situation, we can develop a hypothesis as follows:

**H<sub>3</sub>:** Market Orientation (MO) has a positive impact on Marketing Performance (MP).

#### *Dynamic Marketing Capability (DMC)*

From a Resource-Based View, to have good business performance a company should have competitive advantage, which can be achieved only by having good market-based capabilities. Market-based capabilities are the capabilities of new product development (NPD), customer relationship management (CRM), and supply chain management (SCM). This research plans to confirm that, for companies to have market-based capabilities, they need to develop predictors for it. Meanwhile, Ramaswami, Srivastava, and Bhargava (2009) reported their research on RBV of the relationship between market-based capabilities and business performance, moderated by business process performance. There is much similar research.

The advance of technology in manufacturing and the internet has created turbulence in business environments. According to Foley and Fahy (2009), sustainable competitive

advantage will be created when a company can build capabilities with dynamic characteristics to respond the unpredictable fast changes of this turbulent business environment (Collis, 1994; Helfat et al., 2007; Teece et al., 1997). That research tried to answer the former claim of Teece, Pisano, and Shuen (1997) that the old concepts of capabilities in RBV contexts cannot answer why a company might win or lose competition in an environment where market and environment changes rapidly and unpredictably. Moreover, dynamic marketing capabilities can be built from the concept of marketing capabilities developed by Vorhies and Morgan (2005), with the dimensions of Pricing, New Product Development (NPD), Distribution or Channel Management, Marketing Communication, and Selling.

#### *Antecedents and Outcomes of Dynamic Marketing Capability (DMC)*

Miguel Hernandez et al. (2009) and Daniel Jimenez et al. (2008) reported that Market Orientation has a positive impact on SME innovation capability. Meanwhile, in the context of MTO SMEs, a company has to face the situation where the specifications of the product ordered could be changed at any time within the process of production (Deep et al., 2007). This situation makes an orientation on consumers very important in creating product development skills to overcome this product specification change problem. From the above situation, we can develop a hypothesis as follows:

**H<sub>4</sub>:** Market Orientation (MO) has a positive impact on Dynamic Marketing Capability (DMC).

Moreover, research on capabilities shows that capabilities have a significant effect on business performance in the form of brand performance, new customer acquisition, customer loyalty, and financial performance (Ngo & O'Cass, 2011; Song et al., 2007). Meanwhile, Vorhies et al. (2005) and Ramaswami et al. (2008) reported the effect of marketing capability on company performance in the form of financial performance and Firm Value. From the above situation, we can develop a hypothesis as follows:

**H<sub>5</sub>:** Dynamic Marketing Capability (DMC) has a positive impact on Marketing Performance (MP).

#### **The Contingent Factor: Business Environment**

Each company faces a business environment and must make proper responses to stay in business. There are two types of business environment: external and internal (Hitt et al., 2008). According to Stephen and Coulter (2007), the external environment is factors outside the organization affecting the organization's performance. There are two types of external business environment: general business environment and specific business environment. Specifically for SMEs, there is a third form of external business environment, i.e., social politics in the form of regulations, support from the government, etc. The general environment is any factors of the external business environment indirectly affecting and faced by all companies, i.e., demographic, economic, socio-cultural, technology, physical, global, and political (Stephen & Coulter, 2007). The specific environment is parties that have direct interaction and effects on the company, and consists of suppliers, buyers, and competitors. The social politics environment consists of regulations and any actions of the government and NGOs or associations.

Meanwhile, technology, especially information and communication technology, has made the business environment change rapidly and unpredictably, making the business environment turbulent. According to Kumar et al. (2011), a turbulent business environment has a moderating effect on the relationship between market orientation (MO) and marketing performance (MP). This turbulent business environment has to be responded to rapidly and properly by companies by developing dynamic capabilities based on their resources and the environment to get competitive advantage, good performance, and sustainable business.

Kim and Srivastava (1998) reported that the relationship between Market Orientation and Marketing Performance is moderated by the Business Environment in terms of market and technology, of which both are turbulent. From the observations, small companies (SMEs) in Cibaduyut are affected by the business environment. From this point of view, we can draw a hypothesis as follows:

**H<sub>6</sub>:** Business Environment has a moderating effect on the relationship between Market Orientation and Marketing Performance.

Based on the theoretical framework and the structural relationship hypothesized above, we can build the general research model as follows:

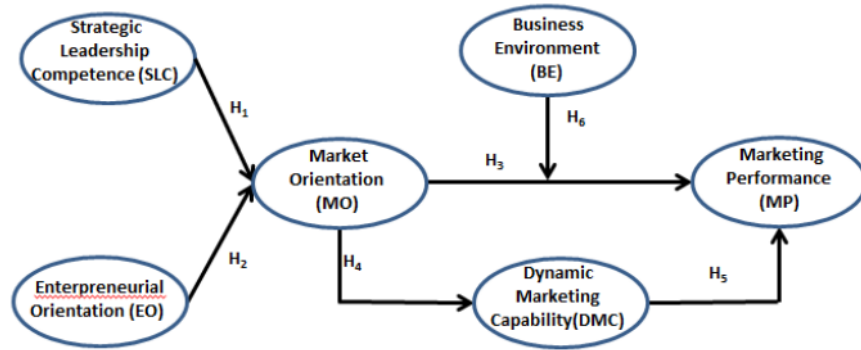


Figure 2. The Model and Hypothesized Relationships between Constructs/Variables

## RESEARCH METHOD

### The respondent

Data collection was done by survey. The respondents of the survey were the leaders of the companies, either the founders or the owners where they still run the operations as the top managers. The top managers are the only people who have information about the measurement of the concepts or variables in this research. Representing SMEs with an MTO strategy, the population studied is SME shoe companies in Cibaduyut, Bandung, West Java, Indonesia. Data collection was done in 2016 with 111 respondents using a convenient sampling technique (non-probability sampling). Eighty four point seven percent (84.7%) of these SMEs rely on the revenue of the ‘maklun’ business model, with most of their revenue coming from products ordered by other companies with more established brands, like Yongky Komaladi, Garsel, JK Collection, Gareu, Brodo, and Catenzo.

### Measurement

The concept or variable of Strategic Leadership Competence (SLC) was measured using the four dimensions of Comprehension, Deftness (McGrath, McMillan & Venkataraman, 1995), Absorptive Capacity, and Adaptive Capacity (Boal & Hooijberg, 2000). The Entrepreneurial Orientation (EO) variable was measured using the four dimensions (each with five items) of Innovativeness, Risk Taking, Proactiveness, and Competitive Aggressiveness (Lumpkin & Dess, 1996). Market orientation (MO) was measured using the three dimensions (each with 5 items) of Customer Orientation, Product Orientation, and Competitor Orientation

(Modification of Narver & Slater, 1990). The Business Environment (BE) was measured using the three dimensions (each with five items) of General Environment, Specific Environment, and Social Politic Environment (Hitt and Ireland, 2010; modification of Robins et al., 2007). The Dynamic Marketing capabilities (DMC) were measured using the five dimensions (each with five items) of Pricing, Product Development, Distribution, Marketing Communication, and Sales Generation (modification of Day, 1994; Dutta, Narasimhan, & Rajiv, 1999; Teece, 1997; Vorhies & Morgan, 2005). Marketing Performance (MP) was measured using the four dimensions (each with five items) of Organizational Consequences (Jaworsky & Kohli, 1993, Narver & Slater, 1994), Customer Consequences (Brady & Cronin, 2001, Narver & Slater, 1994), Innovativeness Consequences (Hult & Ketchen, 2001), and Employee Consequences (Jaworsky & Kohli, 1993, Siguaw, Brown & Widing, 1994).

To test the validity of the measurements, we ran a content validity test and confirmatory factor analysis (CFA) using LISREL 8.8. To test reliability, we applied the parameter of construct reliability (CR) with the cut-off  $CR > 0.7$  and variance extracted (VE) using the cut-off  $VE > 0.5$ .

### **Analysis Method**

The research was done using a descriptive research design. Descriptive analysis involving the central tendencies of the data (mean, variance, and standard deviations) was done using SPSS 15.0. This descriptive analysis helped to understand the profile and characteristics of the population, represented by the respondent, and to test the measurements with validity and reliability tests. The methods used were descriptive analysis and mean difference using ANOVA, and factor analysis using the features of SPSS.

Due to the existence of simultaneous structural relationships within the model, the data processing was done using Structural Equation Modeling (SEM) with LISREL 8.8 to test and analyze the measurements (using the method of first and second order Confirmatory Factor Analysis, CFA) and to test and analyze the hypothesis using the structural model parameters from the output of this software.

## RESULTS

Data collection began in June 2015 and ended in March 2016. Two hundreds questionnaires were distributed, and 111 (56%) questionnaires were considered valid. Descriptive analysis (Table 1) shows that the mean of the constructs for the overall sample is as follows: MO (3.9351), DMC (3.6783), MP (3.6870), and BE (3.5711). The demographic data of the respondents also show that 105 (96.40%) were men and 6 (5.40%) were women. Of the 111 respondents, 60 (54,1%) respondents were aged above 60 years old, 42 (37.89%) were aged between 41-50 years old, and 9 (8.10%) were aged 31-40 years old. Meanwhile, the ANOVA analysis result (Appendix 3. ANOVA Table) shows no significant difference in MO, DMC, and MP. There is a significant difference in BE. The means plot shows that the younger age is the most affected by the business environment.

The other demographic data of the respondents also show that the majority (94= 84.70%) has only secondary schooling and 17 (15.30%) have higher education (undergraduate and post graduate). The ANOVA analysis shows that this education background does not make a significant difference in MO, MP, and DMC, but does make a significant difference in terms of BE for the respondents. The means plot shows that respondents with secondary education have higher BE means, implying that they can compromise with the existing business environment. Meanwhile, respondents with higher education have lower BE scores, showing that they are affected by the BE. This phenomenon can be explained because most respondents with higher education are younger in age.

Regarding business ownership, a majority of respondents, 73 (65.80), has total ownership, 37 (33.30%) have majority ownership, and only 1 (0.90%) has minority ownership. Regarding the duration of business experience, the data show they have operated businesses for less than 10 years (17.10%), between 10 and 20 years (55.90%), and more than 20 years (27%). The ANOVA analysis shows that this experience does not make a significant difference in MO and DMC, but does make a significant difference in terms of DMC and BE.

In the case of the 'maklun' business model, the demographics data shows that a majority of the respondents, 94 (84.7%), has a business model where the main revenue

comes from the production of another brand and the rest, 17 (15.3), has a business model where the main revenue comes from the products of their own brands. The ANOVA analysis shows that this 'maklun' percentage does not make a significant difference in MO, DMC, and MP, but does make a significant difference in BE for respondents.

The table in Appendix 2 shows that the highest mean of the MO dimension is Customer Orientation (4.0505). This means that the SMEs pay more attention to customer satisfaction than to competitor behavior or new product technology. The highest mean of the DMC dimension is marketing Communication (3.9099). This means that in the 'maklun' business model, in order to satisfy customers, SMEs tend to improve communication rather than pricing, product development, or distribution.

The ANOVA table of dimensions (Appendix 3) shows that the pricing capability of respondents representing MTO SMEs (companies with a mostly 'maklun' business model) is higher than the pricing capability of respondents who are not representing MTO SMEs (a small volume of 'maklun'). This can be explained because the measurement was done based on the respondents' perceptions. The respondents representing 'maklun' do not need to think much in deciding price because the price is decided by the company giving the order. This makes it easy to set the price. Meanwhile, the respondents without 'maklun' must face the final customers, so they must deliberate to decide on price, resulting in a difficult-to-set price.

### **The Validity and Reliability Test (Measurement Model)**

To test the validity and reliability of the dimension indicators and evaluate the measurement model, a First Order Measurement Analysis was done. The result shows that some indicators must be removed due to irrelevance within the context of the samples and with loading factors below 0.5. The same process was done for the dimensions of the constructs. The result of the data processing shows that some dimensions must be removed. Table 1 below shows the summarized results of the second order measurement analysis.

Table 1. Result of Second Oder Validity and Reliability Test

Construct	Dimension	Loading Factor	Validity	CR	VE	Reliability
SLC	Compre	0,89	VALID	0.94	0.80	Reliable
	Deft	1.00	VALID			
	Absorb	0,87	VALID			
	Adapt	0,81	VALID			
EO	Innov	0,89	VALID	0.78	0.65	Reliable
	Agress	0,66	VALID			
BE	Genenv	0,93	VALID	0.97	0.95	Reliable
	Socpol	1.00	VALID			
MO	Custor	0,99	VALID	0.81	0.60	Reliable
	Compor	0,56	VALID			
	Prodor	0,71	VALID			
DMC	Pricing	0,94	VALID	0.86	0.69	Reliable
	Prodev	0.98	VALID			
	Marcom	0.77	VALID			
MP	Organ	0.55	VALID	0.73	0.42	Reliable
	Loyal	0,51	VALID			
	Newent	0,61	VALID			
	Employ	0,84	VALID			

Due to low SLF ( $<0.50$ ), the dimensions of EO, Risk, Proact; the dimensions of BE, Spesenv; and the dimensions of DMC, Distrib, and Sales were dropped. This dropping was done to have a better goodness of fit index without reducing the meaning of the concepts. It can be understood that in SMEs with a 'maklun' or MTO business model, distribution and sales are determined by the brand giving the order. None of the MTO SMEs were affected by specific environments. Thus, those three dimensions are not relevant to MTO SMEs.

#### **The Hypothesis Test (Structural Model)**

The path diagram with  $t$  value and estimates values resulting from data processing using LISREL 8.8 is attached in the Appendix. Based on the attached path diagram, the hypothesis testing result is summarized in the table below:

Table 2. The Result of Hypothesis Test

Hypothesis	It-Value	Coefficient	Supported/Not
H1: Strategic Leadership Competence → Market Orientation	2.66	0,33	Supported
H2: Entrepreneurial orientation → Market Orientation	1.34	0,16	Not Supported
H3: Market Orientation → Marketing Performance	1.53	0,12	Not Supported
H4: Market Orientation → Dynamic Marketing Capability	-4.38	-0,35	Not Supported
H5: Dynamic Marketing Capability → Marketing Performance	4.41	0,42	Supported
H6: Business Environment → Relationship of Market Orientation and Marketing Performance	5.09	0,91	Supported

After putting the result of the hypothesis test into the research model, the research model is as follows:

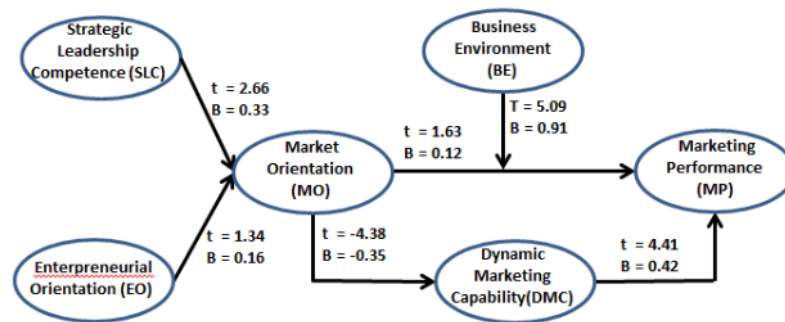


Figure 3. The Research Model with the Hypothesis Test Result

## Discussion

### *The Antecedents of Market Orientation in MTO SMEs*

Table 4 shows that Strategic Leadership Competence has a significant positive effect on Market orientation ( $t=2.66$ ). This finding is similar to the findings of previous research as summarized by Kircha et al. (2005). From the descriptive analysis of Strategic Leadership Competence, it is shown that the strongest dimension of Strategic Leadership Competence is Comprehensiveness (LF= 0.89), with the strongest indicator  $X_3$  (LF=0.69) showing the understanding of the production process. Meanwhile, the descriptive analysis of market orientation shows that the strongest dimension of Market Orientation is Customer

Orientation (LF=0.99), with the strongest indicator Y<sub>4</sub> (LF=0.83), i.e., 'Always try to find the customer's needs.' This situation implies that, in the context of small and medium enterprises with a make-to-order strategy of production process (MTO-SME), the more the leader has competence in understanding the production process, the more the SME can understand the customer's needs.

Meanwhile, Entrepreneurial Orientation does not have significant positive effect on Market orientation (t=1.34). The descriptive analysis of Entrepreneurial Orientation shows that the strongest dimension of Entrepreneurial Orientation is Innovativeness (LF= 0.89), with the strongest indicator X<sub>25</sub> (LF=0.79), i.e., 'There is a research and development activity.' Knowing the strongest indicator of Market orientation reveals that, in the context of small and medium enterprises with a make-to-order strategy of production process (MTO-SME), the stronger the SME's research and development activity, the more the SME understands the customer's needs.

#### *The Impact of Market Orientation in MTO SMEs*

Table 4 shows that Market Orientation has no significant positive impact on Marketing Performance (t=1.53). This result is opposite the findings of Pitta and Smith (2015) and Gaur et al. (2009) that Market Orientation has a positive impact on marketing performance. This result could be due to the fact that the previous results were done in the context of medium to big companies, while the Cibaduyut shoe industry consists of SMEs. This result also opposes the research findings of Hernandez et al. (2009), where market Orientation has a positive impact on the innovation capability of SMEs.

The description analysis on Marketing Performance shows that the strongest dimension is Employee Performance (LF=0.84), with the strongest indicator Y<sub>60</sub> (LF=0.76), i.e., 'The SME employees feel happy to work with their job in the company.' Taken together with the descriptive analysis of Market Orientation, we can conclude that, in the context of small and medium enterprises with a make-to order strategy of production process (MTO-SME), the more the SME has a customer orientation for understanding the customer's needs, the more satisfied are the employees working in the company.

This may be due to the fact that, in a business with a majority of revenue coming from 'maklun' or ordered by another brand as the implementation of an MTO strategy, the SMEs are driven by the companies that give the orders. They are not affected by customer

(end user) demand, what competitors do, or the latest products offered in the market because all they need to do is fulfil the qualifications and specifications ordered by the companies giving the orders. If they do care about other issues, and they develop dynamic marketing capabilities, they can risk wasting resources or even opposing the companies giving the orders.

Meanwhile, MO has a negative significant impact on DMC ( $t = -4.38$ ). This finding is in line with Kircha meta-analysis that there is no consequence on capabilities reported. The descriptive analysis of Dynamic marketing capability shows that the strongest dimension in the capability to set price (Pricing,  $LF = 0.94$ ), and the strongest indicator is  $Y_{18}$  ( $LF = 0.92$ ), i.e., the ability to set price in any occasion. Considering the descriptive analyses of Market Orientation and Dynamic Marketing Capabilities, it can be concluded that the SMEs' Market Orientation in understanding customers' needs does not improve SMEs' capabilities in setting a profitable price of a product on a specific occasion.

The above results lead to the conclusion that DMC is not built or developed by MO. The question then is: what factors affect the dynamic marketing capability (DMC) of SMEs with a 'maklun' business model? Future research can be done on this. Two concepts, strategic leadership competence and entrepreneurial orientation, can be considered as factors in future research. This finding contrasts with the findings of Jimenez et al. (2008) showing that Market Orientation has a positive impact on innovation capability.

#### *The Impact of Dynamic Marketing Capability on Marketing Performance in MTO SMEs*

Table 4 shows that Dynamic marketing Capability has a significant positive impact on MP ( $t = 4.41$ ). The descriptive analysis of Business Environment shows that the strongest dimension of marketing Performance is Employee Performance ( $LF = 0.84$ ), and the strongest indicator is  $Y_{60}$  ( $LF = 0.76$ ), i.e., 'The SME employees feel happy to work with their job in the company.' Considering the descriptive analyses of Dynamic marketing capability and Market Orientation and marketing Performance lead us to conclude that, in the context of small and medium enterprises with a make-to-order strategy of production process (MTO-SME), the stronger the SME has a capability in setting the price in any occasion, the better the marketing performance, mainly in the form of employee happiness.

#### *The Moderating Role of Business Environment*

Table 4 shows that BE has a positive significant moderating impact on the relationship between MO and MP ( $t=5.09$ ). The descriptive analysis of Business Environment shows that the strongest dimension of Business Environment is General Environment (LF= 0.93), and the strongest indicator is  $X_{52}$  (LF=0.80), i.e., 'The government infrastructure is very conducive for shoe industry.' The structural analysis shows that, in the context of small and medium enterprises with a make-to-order strategy of production process (MTO-SME), the stronger an SME has a customer orientation in understanding customers' needs, the happier the employees working in the company. This brings us to the conclusion that the better the government infrastructure, the stronger the positive impact on SMEs' customer orientation in understanding customers' needs and on Marketing Performance, mainly in the form of the employee happiness.

### CONCLUSION

The result shows that Market Orientation does not have a significant effect on Marketing Performance, and has a negative effect on Dynamic Marketing Capability. This finding brings us to the conclusion that Market Orientation has limited impact on other concepts, i.e., capability and performance, in the context of SMEs with a MTO Strategy.

DMC has a significant positive effect on MP, but MO did not have a positive effect on DMC, and MO does not build DMC. This result underscores the importance of knowing the antecedents of MO and DMC in future research. We propose two factors as the antecedents of Market Orientation and Dynamic marketing capability: first, Strategic Leadership Competence (SLC), and second, Entrepreneurial Orientation (EO). SLC is the ability to understand the business environment, formulate strategies, and implement them to reach the organizational goals according to mission and vision (Boal & Hooijberg, 2000; Hitt & Ireland, 2010; McGrath, McMillan & Venkataraman, 1995). EO is methods, processes, and decision making style, indicating the existence of entrepreneurship in the leader and the organizational as a whole (Baird & Thomas, 1985; Dess & Lumpkin, 1996).

Strategic Leadership Competence (SLC) is the ability of a leader to identify, process, and exploit corporate capabilities to create sustainable good business performance (Prahalad & Hamel, 1990). Meanwhile, according to Hitt and Ireland (2007) and Rowe (2001),

strategic leadership is the ability to influence people and make decisions affecting long-term corporate performance while maintaining short-term financial health.

Based on the analysis of the relationship between market orientation, dynamic marketing capability, and marketing performance, a curve can be created showing the many possibilities of marketing performance value based on the any situation of MO and DMC values. This curve is a contribution of this research.

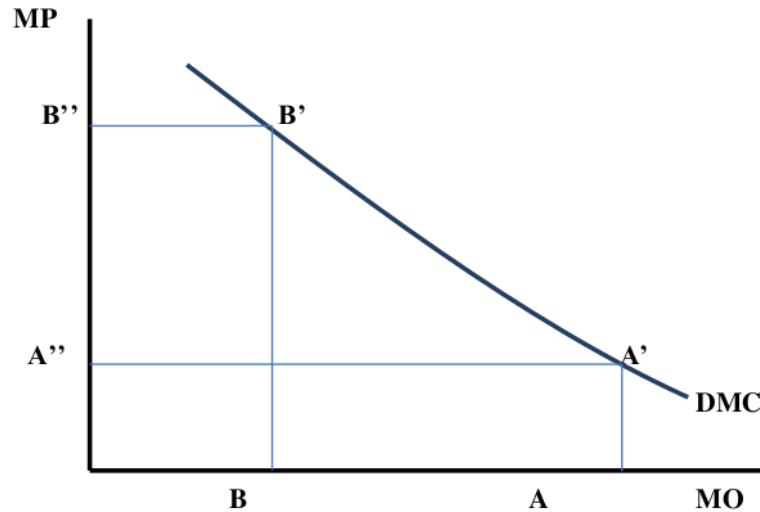


Figure 4. The curve of the relationship between MO, DMC, and MP.

The curve describes the situation of MTO SMEs as follows:

- When a MTO SME has a high degree of MO (point A), due to its negative relationship the SME will have a lower level of capability DMC (point A'), and consequently, the SME will have a lower level of performance MP (point A'').
- In contrast, when a MTO SME has a low degree of MO (point B), due to its negative relationship the SME will have a higher level of capability DMC (point B'), and consequently, the SME will have a higher level of performance MP (point B'').

Another contribution of the research is the generation of SME classification into 4 types of SME regarding the relationship and level of MO and DMC. This classification was not formed through a statistical difference test based on an experiment design. These 4 types of SME are generated in 4 quadrants as follows:

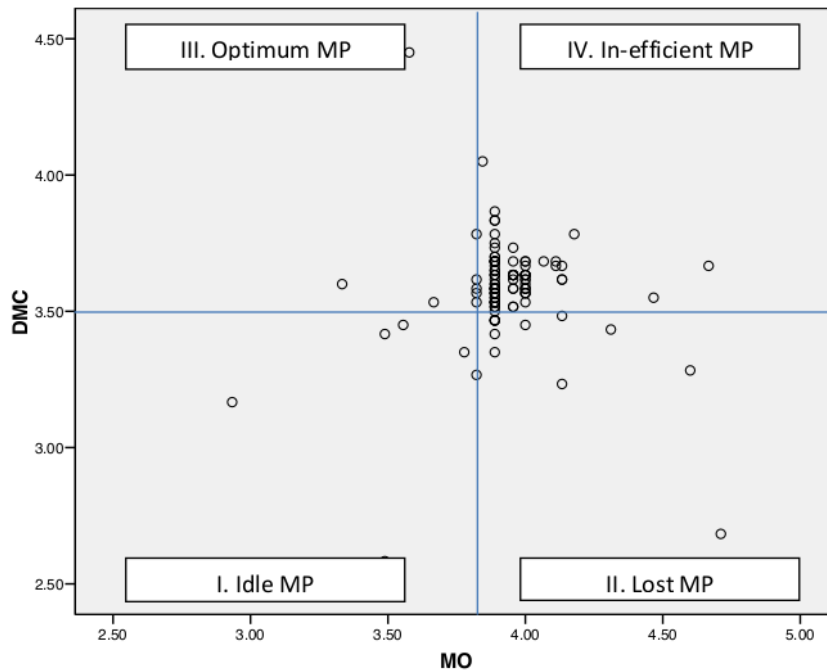


Figure 5. Performance categorization of SMEs in Cibaduyut based on MO and DMC

Figure 5 above shows the performance categorization of SMEs in Cibaduyut based on MO and DMC, as follows:

**- Type I: Idle Marketing Performer**

The first type of MTO SME is SMEs with lower levels of MO and lower levels of DMC (Quadrant I). These are SMEs with lower levels of performance, due to their low level of effort and created value (idle).

**- Type II: Lost Marketing Performer**

The second type of MTO SME is those with high levels of MO and lower levels of DMC (Quadrant II). These are SMEs with lower levels of performance, due to their inability to do MTO operational processes and confusion from the information generated by MO activities, making them 'lost.'

**- Type III: Optimum Marketing Performer**

The third type of MTO SME is those with low levels of MO and high levels of DMC (Quadrant III). These are SMEs with high levels of performance, due to their ability to do

MTO operational processes efficiently and not be confused by the information generated by MO activities.

- **Type IV: Inefficient Marketing Performer**

The fourth type of MTO SME is those with high levels of MO and lower levels of DMC (Quadrant IV). These are SMEs with high levels of performance, due to their ability to do MTO operational processes, but they do not do them efficiently because of the cost generated by MO activities.

Looking at the scatter plot above, it can be seen that the majority of Cibaduyut Shoemaker SMEs are the type In-efficient MTO SMEs (Quadrant IV). They can make good revenue, but due to inefficient operations management, they cannot have good profitability.

*Research Limitations and Future Research*

This research has limitations and suggestions for future research. First, there is no analysis on the factors affecting dynamic marketing capabilities. The finding shows that DMC has a positive effect on performance. But, MO has a negative impact on DMC, so there is no information about the factors building DMC. This situation implies the importance of elaborating the factors affecting DMC. Strategic leadership competence and entrepreneurial orientation may be considered and tested in future research. Second, there is no measurement of competing concepts of market orientation, such as interaction orientation with 4E concepts: engagement, experience, exclusivity, and emotions. Future research can be done to get better factors affecting the marketing performance of SMEs with a MTO strategy in the context of the digital marketing era. The third limitation is that the study only focuses on the population of the shoe home industry at Cibaduyut. Future research with a population of wider sectors of SMEs with a MTO strategy could be done for wider areas of industry centres or clusters covering countries, regions, or even worldwide to get better representativeness of SMEs.

# The Impact of Market Orientation and Dynamic

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