

# **Build Organization's Performance by Mixed Orientation Strategies: Competitive Advantage Mediates Market and Innovation Orientation on the Organization's Performance**

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## **Abstract**

*The purpose of this research is to analyze the influence of customer, competitor, innovation, entrepreneurship and Change Orientation Strategy (COS) on OP. This research gives contribution in developing science, especially the science of marketing management, by elaborating factors affecting the OP, so there will be clarity of how to improve OP. This research takes the population of managers of food MSMEs in Surakarta. It uses a method of convenience sampling, and determines 500 samples. The method of analysis applied is Structural Equation Modeling (SEM). This research results show that Customer Orientation Strategy (CuOS) and CA influence positively and significantly on OP. The Competitor Orientation Strategy (CoOS) and IOS do not influence OP. The Entrepreneurship Orientation Strategy (EOS) and COS has negative and insignificant effects on OP. CA has positive and significant impacts on OP and mediates the influence of CuOS and IOS on OP but does not mediate CoOS.*

**Keywords:** Organization's Performance, Mixed Orientation Strategies, Competition Advantage

## **1. Introduction**

The contribution of the Micro, Small and Medium-sized Enterprises (MSMEs) on the economy of Indonesia is very significant. Quantitatively, the development of MSMEs has soared but in terms of quality, in fact, it does not appear as desired. This motivates researchers to give input to MSMEs about factors that possibly increase their quality. Increasing the quality of MSMEs can be done by applying MOS (Khasali, 2009; Altindag, Zehir & Acar, 2011). Researches on the influence of MOS on OP produce various findings. For example, ones relating with the influence of COS on the OP show different findings. The strong CoOS gives positive influence on the incremental performance, and the strong CuOS has positive and significant influence on the innovation performance (Grawe, 2009). Researches on the influence of IOS and OP also resulted in various findings. Mavondo, Felix, Chimhanzi, Jacqueline Stewart and Jillian (2005) find that the IOS does not have significant influence on the effectiveness of the organization. Darmanto (2014) states that the IOS has insignificant and negative effect on the performance. The EOS and the COS constitute components of MOS that determines the OP. The EOS attitude influences positively and significantly on the on the MO, and will finally give impact on the OP. (Andreas & Marcus, 2010; Basile, 2012; Aljaz, 2012)

The COS is a strategy variable that determines the OP (Gravenhost, et al., 2010, Pau, 2011) A toddler tries to walk because of his "strong motivation" after getting bored of creeping, and he does so because he does not think too much of the risk. (Khasali, 2009) Based on the phenomenon of business, the theories and the results of research that were analyzed, then the research problems formulated are whether or not the MOS of customers, competitors, innovation, entrepreneurship, changes and CA manage to build OP and whether the CA mediates the influence of CuOS, CoOS and IOS on the OP. The purpose to be achieved in this research is analysis the influence of CuOS, CoOS, IOS, EOS and COS on the OP. Besides, the purpose of this study is to analyze the role of CA in building the OP. The advantages of this research are: informing that MSO can be used to develop OP of MSMEs; and informing that CA mediates the influence of CuOS, CoOS and IOS on OP.

## 2. Literature Review

### Definition of Mixed Orientation Strategies (MOS)

MOS is a strategy that gives directions to the company in creating appropriate behaviors, so as to achieve the superior performance. Both market and innovation orientations are the most important MOS for the company to achieve the long run superior performance (Zhou et al, 2005). Grinstein (2008) states that MOS is an orientation consisting of four dimensions, namely strategy of market orientation, learning orientation, entrepreneurship orientation and employee orientation. These four MOS have positive impact on the company's performance.

Other researchers also define MOS such as (Liu & Revell, 2009; Grawe, 2009). They state that the MOS is a concept that is widely used in management research of strategy, entrepreneurship and marketing. The orientation of a company's strategy reflects the strategic direction to be implemented by the company to create appropriate behavior for continuous performance of advantage in the business. The model of MOS based on the performance of MSMEs had been conducted in many researches, but the former researchers had used different orientation strategies separately, or the combination of two orientation strategies as the performance improvement of MSMEs (Ledwith & Dwyer, 2009; Li, Wei & Liu, 2010; Hakala & Kohtamaki, 2011).

### Dimension of Mixed Orientation Strategies MOS

The dimension of MOS consists of orientation of customers, entrepreneurship, learning, variable innovation, internal marketing and management information (Altindag et al., 2011, Usta, 2011). Knowledge based on resources, learning orientation and market orientation has significantly positive impact on the innovation performance (Kaya & Patton, 2011). CuOS dominates the pattern of Marketing Orientation (MO) strategy of banking. MO is an important factor to achieve the high degree performance (Kotler, 2010, Jandaghi, 2011; Abdul, T.S., Hashim, R., Karuthan, C.K.M., 2012). Entrepreneurship tends to increase new products, develop old products, facilitate the creation of new business and engineer the existing operations (Basile, 2012). Basically, there are five dimensions in entrepreneurship, the first three dimensions are proactiveness, innovation and risk taking. The two others are autonomy and competitive aggressiveness as suggested by (Foltean, 2007).

COS is a variable determining the OP (Gravenhost, et al., 2010, Pau, 2011). Toddlers practice to walk because of "high motivation" after getting bored of creeping. They do this since they "do not think much of the risk". The COS will determine OP (Khasali, 2009). CA influences positively and significantly on MP. The degree (high or low) of the MP is determined by the weakness or strength of the CA (Porter, 2008; Nagy, C., 2010; Li & Zhou, 2010; Gurhan et al., 2011). CA includes the excellence in products and the excellence in the market. This advantage affects the performance. The CA of costs include costs for the process and costs for the machines. The CA in the process and machines influences the performance (Ana, et al., 201; Francesco & Mario, 2011).

### Definition of Organization's Performance (OP)

The performance can be defined as degree of accomplishment (Coleman, S. Kariv, D., 2013). This means that the OP can be seen from the level of target achievement that is based on the objectives decided before. Guidelines for evaluating the OP must be set back to the objectives and the reasons of the organization foundation (Lewrick, M.1, M.Omar2 & Robert L.W. Jr, 2011).

### The Influence of CuOS, CoOS, IOS on OP

Lin, et al. (2008), Jing L.J.S. (2014), Hassan G., Mohammad R., Iman H. (2014) say that there is a positive relationship between MO on innovation and the company's performance. Then Reijonena & Komppulab (2010), say that the dimensions of MO is a success factor in MSMEs. The IOS and performance have positive and significant relationship (Jhonson, et al.; Grawe 2009, 2009; Ana, et al., 2011; Alias, R., Tey, Y.S. 2012). Based on the above explanation H<sub>1</sub> is formulated: The CuOS influences positively and significantly on the OP. H<sub>2</sub>: The CoOS has positive and significant influence on the OP. H<sub>3</sub>: The IOS influences positively and significantly on the OP.

### The Influence of EOS on OP

Entrepreneurship behavior has positive impacts on the company and local resources, and gives influence on the international performance (Basil, 2012, Darmanto, 2015). Based on this H<sub>4</sub> is formulated: The EOS has positive and significant impacts on the OP.

### The Influence of COS on OP

Policy in Batan known as Bureau cratic Reform functions as a corridor toward a better performance, so the output can be increased, both qualitatively as well as quantitatively. The organization change orientation serves as the variable detemining the organization's performance (Gravenhost, et al., 2010, Pau, 2011). Based on this description, hypothesis H<sub>5</sub> is formulated: The strategy of change orientation influences positively and significantly on the performance of the organization.

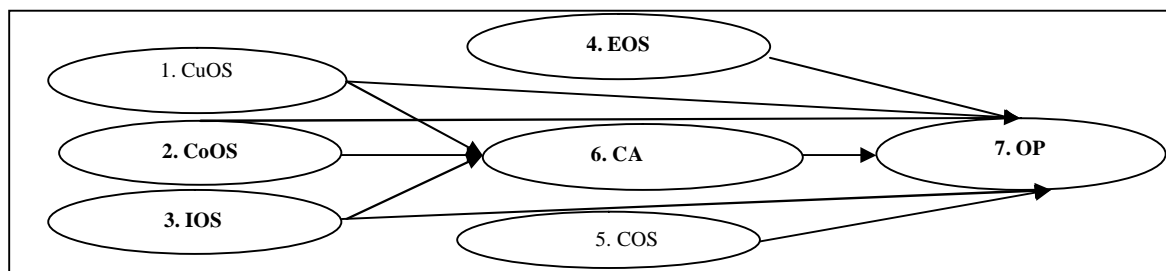
### The Influence of CA on OP

The excellence in competition can be seen from the costs that consist of the costs for the process and the ones for the machines. The excellence in cost competition for the process and machines influences the OP (Ana, et al., 2011; Francesco, 2011). Based on this description H<sub>6</sub> is formulated: The CA has a positive and significant impacts on the OP.

### The influence of the CuOS, CoOS and IOS on OP is mediated by CA.

The results of research about the influence of the CuOS, CoOS and IOS on the OP have not been consistent. This suggests further research. To solve the inconsistent relationship, researchers put the CA as a mediation variable. Thus, H<sub>7</sub> can be formulated: The influence of the CuOS, CoOS and IOS on the OP is mediated by the CA.

### The Framework of Thought



Picture 1: The Framework of Research

## 3. Methodology of Research

### The Place and Time of the Study

This research is done for MSMEs of food that consist of restaurants, caterings and food industries. The research was done in Solo, including 5 districts, namely Banjarsari, Jebres, Pasar Kliwon, Laweyan and Serengan. Solo is selected because it has the same criteria and problems of food MSMEs in Central Java or throughout the country (Nawawi, 2009).

### Population and Sample

The population of this study is micro, small and medium-sized businesses of food in Surakarta, which include stalls, restaurants, caterings and the food industries. The number of population of MSMEs Surakara city has been increasing continuously, andat present it is not known exactly. Based on the statistics of 2015, the number of MSMEs was 23,000. The sample in this research is 500 units of food MSMEs that are selected by the method of convenience sampling because the number of food MSMEs always changes. The number of sample is, according to researchers, enough and representative. The representative sample size used in the analysis of SEM is at least five times of the number of parameter (Hair, 2004; Ferdinand, 2005).The number of parameter in this research is 35 so that the number of sample is minimally:  $35 \times 5 = 175$ .This research uses 500 respondents.

### The Instruments to Collect Data

The instruments to collect data in this research are the questionnaire and the log book. The list of questions isused for collecting data through questionnaire method. The log book is used to note the process of their search.

### Variables and Indicators

Indicators of CuOS, that are commitment to satisfy the customers, to gather information about the needs of customers, the ways to satisfy customers, customers' complaints, and attention to the customers (Darmanto, 2014).

Indicators of CoOS are discussion about competitors' information; information about competitors' advantage; discussion about the excellence of the competitors; discussion about the strategy of the competitors, responding the competitors' action and surpassing the competitors (Darmanto, 2014). Indicators of the IOS are an introduction to the new products, new services, process of new production, quality of products, better raw materials (Kirca, et al, 2005). Indicators of OP are fulfillment of the sales target, number of customers, sales growth, marketing range, and profit growth (Ana, et al., 2011). Indicators of EOS are business breakthrough, doing new steps, acting more quickly than competitors, being fond of self-efforts, aggressively implement inuncertain actions (Zhou, et al., 2005). Indicators of COS are sufficient funds to make changes in the organization, commitment to changes in the organization, the organizational changes to solve boredom problem, custom of organizational changes, belief that changes can improve achievement (Gravenhorst, et at., 2009). Indicators of CA are the excellence of the quality of the products produced, products sold in lower prices with the same quality, production costs lower than competitors', the abilities of assets or equipment owned are more sophisticated, capabilities of employees are better than the rivals' (Ana, et al., 2011).

### Data Analysis

This research uses analysis of descriptive statistics and SEM. By this model of analysis, the results obtained are the value of means, deviation standard, the maximum value, the minimum value and the value of frequency. SEM analysis will show the degree of the influence of independent variable, dependent variable and mediation.

### 4. Interpretation of Descriptive Results

Analysis of SEM is used in this research results in the regression coefficient value ( $\beta$ ) and significance value (t) of the research variables, and this is presented in Table 1 below.

**Table 1: Regression Coefficient Value ( $\beta$ ) and Significance Value (t) of the Research Variables**

| dependent Variable | Independent Variable    |                         |                         |                              |                              |                         |
|--------------------|-------------------------|-------------------------|-------------------------|------------------------------|------------------------------|-------------------------|
|                    | CuOS                    | CoOS                    | IOS                     | EOS                          | COS                          | CA                      |
| OP                 | $\beta$ :0.18<br>t:3.99 | $\beta$ :0.04<br>t:0.63 | $\beta$ :0.03<br>t:0.52 | $\beta$ : -0.02 t: -<br>0,32 | $\beta$ : -0,07 t: -<br>1.08 | $\beta$ :0.69<br>t:7.62 |
|                    | CuOS                    | COoS                    | IOS                     |                              |                              |                         |
| CA                 | $\beta$ :0.14           | t: 4.56                 | $\beta$ : -0.01         | t: -0,39                     | $\beta$ :0.15                | t: 4.06                 |

Source: primary data processed in 2015

### The Influence of CuOS on OP

Through the analysis of SEM, the study obtains the results that the influence degree of CuOS on the OP is  $\beta$ : 0.18 and t: 3.99. The value of  $t_{table}$  with the level of significance  $\alpha$ :0.05,  $t_{table}$  is 1.960. The degree of  $t_{count} > t_{table}$ . Thus, the hypothesis 1 stating that the CuOS has positive and significant impacts on the OP is supported. The result of this hypothesis testing is in accordance with the result of the research done by Pau (2011) who says that customers' needs and desires give the impact on the OP. Both of these are indicators of CuOS. So the CuOS influences the OP. The result of this hypothes testing supports the result of research done by Dentoni and Domenico (2011), namely the customers' satisfaction and information network influence the innovation of small business.

### The Influence of CoOS on OP

The magnitude of the influence of the CoOS of OP is  $\beta$ : 0.04 and  $t_{count}$ : 0.63. The of  $t_{table}$  with level of significance  $\alpha$ =0.05,  $t_{table}$  is 1,960. The degree of  $t_{count} < t_{table}$ . So, hipohthesis 2 stating that the CoOS has positive and significant influence on the OP is not supported. The influence of the CuOS and CoOS on the OP is very weak. According to Verhess and Meulenberg (2004), the COS and CoOS can affect positively or negatively on the OP, depending on the owners in developing new products. If they have high authority they will have strong influence, on the other hand, if they have low authority, their influence is weak.

**The Influence of IOS on OP**

The degree of the influence of IOS on the OP  $\beta$ : 0.03 and  $t_{count}$ : 0.52. The value of  $t_{table}$  with the level of significance  $\alpha$ : 0.05,  $t_{table}$  is 1,960. The degree of  $t_{count} < t_{table}$ . Thus, hypothesis 3 stating that the IOS gives significant and positive influence on the OP is not supported. The results of this research state that if food MSMEs wish to increase the OP, they do not need to increase innovation strategy. Research on the influence of IOS and OP also result in various findings. The result of this research is in accordance with the result of research conducted by Darmanto (2013, 2014). He states that IOS has negative and insignificant impacts on the performance. Respondents of this research are MSMEs and those becoming respondents of previous research on small and medium enterprises (SMEs). So for both SMEs and MSMEs in Solo innovation strategy is not very important.

**The Influence of EOS on OP**

The degree influence of the CoOS on the OP is  $\beta$ :-0.02 and  $t_{count}$ :-0,32. The value of  $t_{table}$  with significance level  $\alpha=0.05$ ,  $t_{table}$  is 1,960. The size of  $t_{count} < t_{table}$ . So hypothesis 4 saying that the EOS has positive and significant influence on OP is not supported. These results indicate that the food MSMEs which want to develop the OP do not always use breakthrough in business, do new concepts, act more quickly than the competitors, are fond of self-efforts, carry out action that is uncertain. These results are rational because the MSMEs are of the opinion that the EOS is not important and without making strategic efforts they can be successful. MSMEs seem hard to accept improvements. The low-educated managers of MSMEs find it difficult to understand business strategy

**The Influence of COS on OP**

The size of the influence of COS on the OP is  $\beta$ :- 0,07 and  $t_{count}$ : -1.08. The value of  $t_{table}$  with significance level  $\alpha$ : 0,05,  $t_{table}$  is 1,960. The size of  $t_{count} < t_{table}$ . So hypothesis 5 stating that the COS gives positive and significant influence on the OP is not supported. This result means that if food MSMEs want to develop the OP they do not have to make changes in management of the organization, custom of organizational change. The managers, the owners and the employees should not have belief that changes will improve achievement. This result is sensible because MSMEs think that the COS is not important. MSMEs manage to get success without making strategic efforts of changes. MSMEs, especially the micro business find it difficult to accept any changes. MSMEs, especially the low-educated, will feel difficult to understand the COS. Particular groups, who have been established, may feel threatened if there are changes, as they believe that these changes will hurt them. These are the reasons why the result of COS has negative and insignificant influence.

**The Influence of CA on OP**

The size of the influence of CA on the OP is  $\beta$ : 0.690 and  $t_{count}$ : 7.62. The value of  $t_{table}$  with significance level  $\alpha$ : 0,05,  $t_{table}$  is 1,960. The degree of  $t_{count} > t_{table}$ . This means that hypothesis 6 stating that CA influences positively and significantly on the OP is supported. This supports the research conducted by (Li & Zhou, 2010; Gurhan, et al., 2011). The CA consists of advantage in products and advantage in market. The CA affects the OP. The CA in costs, consists of advantage in costs of the process and costs of machines. The advantage of the costs affects the OP. So the results of this research also support the research done by (Ana, et al., 2011; Francesco & Mario, 2011). Testing the hypothesis of the mediation is presented in table of calculation to determine of the variables of mediation, as shown in Table 2

**Table 2: Calculation of Determining the Mediation variables**

|   |            |           |           |
|---|------------|-----------|-----------|
|   | CuOS on OP | CoOSon OP | IOSon OP  |
| $B_{direct}$                                | 0.18       | 0.04      | 0.03      |
|   | CuOSonCA   | CoOSon CA | IOS on CA |
| $\beta_{indirect}$                          | 0.14       | -0.01     | 0.15      |
|   | CA pada OP |           |           |
| $\beta_{Mediation}$                         | 0.69       | 0.69      | 0.69      |
| $(\beta_{direct})^2$                        | 0.03       | 0.02      | 0.0009    |
| $\beta_{indirect} \times \beta_{Mediation}$ | 0.09       | -0,07     | 0.10      |

Source: Primary data processed in 2015

### **The CA mediates the influence of CuOS on the OP**

Table 2 shows that the value of  $\beta$  of the CuOS on the OP that is mediated by CA is 0.09, while the value of  $\beta$  of direct CuOS that is squared, is 0.03. The value of  $\beta$  of the CuOS that mediated by by CA > the value of  $\beta$  of direct relationship of CuOS on the OP is multiplied is  $0.09 > 0.03$ . This result shows the CA mediates the influence of CuOS on the OP. The value of  $\beta$  from the CoOS on the OP that is mediated by CA is -0,07, while the value of  $\beta$  with direct relationship of customer is squared and the value is 0.02. The value of  $\beta$  from the CoOS on the OP that is mediated by the CA < the value of  $\beta$  with direct relationship of CoOS on the OP that is squared, that is  $-0,070 < 0,209$ . This result indicates the CA does not mediate the influence of CoOS on the OP. The value of  $\beta$  from IOS on the OP that is mediated by CA is 0.10, while the value of  $\beta$  with direct relationship of CuOS that is squared is 0.0009. The value of  $\beta$  from the IOS on the OP that is mediated by the CA > the value of  $\beta$  with direct relationship to CuOS on the OP that is squared, namely  $0.10 > 0.0009$ . This result indicates that the CA mediates the influence of the IOS on the OP.

### **Interpretation of the CA mediates the influence of the CuOS, CoOS and IOS on OP**

The testing of this hypotheses indicates that CuOS and IOS have positive and significant impacts on the OP, and its influence is mediated by its CA, while the CoOS does not influence the OP and the CA does not manage to mediate this influence. The result of this research is in line with one of previous researches. Some of them state that they are influential, and some others claim that they do not have any effect. The excellence of this research is that the researchers put variable of CA as mediating variable, so that the relationships between the CuOS, CoOS, IOS are more evident. The CA mediates the influence of CuOS on the OP. This is the first finding of this research, since the researchers have never found any research that tests variable of CA mediating the influence of CuOS on the OP. These results are quite rational because CuOS which is able to increase the CA will increase the influence of CuOS on the OP. The CA does not mediate the influence of CoOS on the OP. This is the second finding of this study, because as long as the researchers search through their librarian research, they have never found any research testing a variable of CA mediates the influence of CoOS on the OP. The result is that it does not mediate. The results of this research are very logical because for MSMEs, the CoOS does not cause any effects on the OP. The CoOS does not have effect on the CA. Generally, MSMEs in running their businesses do not care about their competitors, because they may be their own relatives or their own neighbours who have been very close to them, and even they regard competitors as their business partners. This is the third finding of this research because competitors are turned to be their business partners. As long as the researchers search through their librarian study, they have not found the CA mediates the influence of IOS, and they have not found one that tests the variable of CA mediates the influence of IOS on the OP. Similarly, they have not found either a research resulting in the CA mediates the influence of IOS on the OP. This result is really acceptable because with innovation, CA will be reached. With CA will cause the sales target to be fulfilled, the number of customers to increase, sales growth to get higher and higher, the scope of market to get larger and larger, the profit growth to increase more quickly, and the profit achievement to be better. These all are indicators of OP. Thus, with the good strategy of IOS and support of CA, the OP will be superior.

### **5. Conclusions, Implications, Limitation and Further Research**

The CuOS influence positively and significantly on the OP. The CoOS and IOS do not have effects on the OP. The EOS and COS influence negatively and insignificantly on the OP. The CA influences positively and significantly on the OP. The influence of the CuOS and IOS on the OP is mediated by the CA, while the influence of CoOS is not. The implications of this research are that the improvement of the OP for food MSMEs can be done by improving the CuOS by means of increasing the commitment to satisfy customers, gathering information about the needs of the customers, understanding the way to satisfy customers, taking the customer's complaints into account and giving attention to the customers. Increasing the IOS can be realized by means of the introducing the new products, new services, new production process, improving the quality of the products, and providing better raw materials. Improving the strategy of competition excellence can be done by improving its indicators, namely, the advantage of product quality, the relatively high selling price, the relatively low production cost, the ability of providing sufficient assets, the ability of skills and the production capacity. The limitation of this research is that the respondents are low educated. They are not willing to fill in the questionnaire themselves, so that the researchers have to recite it. Some of MSMEs do not care about the research activities, so they are unwilling to be respondents.

Recommendation of this study is that the future researchers who want to do research on the influence of the CoOS on the OP with mediating variable of CA. This is recommended because the research on the influence of the CoOS on the OP with mediation variable of CA results in contradiction to what is hypothesized.

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## Appendix 1

List of abbreviation

|      |                                       |        |                                     |
|------|---------------------------------------|--------|-------------------------------------|
| CA   | Competitive Advantage                 | OP     | Organization's Performance          |
| CoOS | Competitor Orientation Strategy       | MSME's | Micro, Small and Medium Enterprises |
| COS  | Change Orientation Strategy           | MSO    | Mix Strategy Orientation            |
| CuOS | Customer Orientation Strategy         | MO     | Market Orientation                  |
| EOS  | Entrepreneurship Orientation Strategy | MP     | Market Performance                  |
| IOS  | Innovation Orientation Strategy       |        |                                     |