

# The Relationship between Strategy Orientation and Marketing Performance: The Role of Organizational Change Capability

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## Abstract

*Small and Medium-sized Enterprises (SMEs) have a great contribution to the economy of Indonesia. Their qualitative development, however, is not as rapid as their quantitative one. This research is intended to provide information about conceptual controversy relevant to the role of market orientation, innovation orientation and marketing performance. Population of this research are owners or managers of SMEs in food sector in Solo Raya, Indonesia. The research uses sampling area method, and the number of sample is 250. The method applied in analyzing the data is the Structural Equation Modeling with Lisrel software. This research reveals the results: customer and competitor orientation have positive and significant influence on technical innovation and marketing performance orientation. Technical innovation orientation shows negative and insignificant effect on marketing performance. The organizational change capability moderates the influence of customer orientation on the orientation of technical innovation, but it does not moderate the influence of competitor orientation on the orientation of technical innovation.*

**Key Words:** strategy orientation, customer orientation, competitor orientation, technical innovation orientation, organizational change capability, marketing performance

## 1. Introduction

Small and medium-sized enterprises which are often referred to by the term SMEs are important economic actors in a country or a region, including in Indonesia. In this country its contributions to Gross Domestic Product (GDP) amounted to 56.7 percent, to non oil-and-gas export was 15 percent, and to labor absorption was 99,6%. Apart from these facts, unfortunately, SMEs lacked attention from the Government, so in the future there must be coaching for SMEs mainly in marketing sector (Nawawi, 2009). Their crucial economic contribution and significant increase in terms of quantity are, unfortunately, not followed by their increase in quality. Quality improvement of SMEs can be done by applying a Strategy Orientation (Urata, 2000; Altindag, Zehir & Acar (2011). Strategy Orientation (SO) constitutes a strategic guide of a company in creating the proper behaviour so as to achieve superior performance (Zhou, Yim & Tse, 2005). It has several dimensions and a researcher may use one of these differently. Grinstein (2008) in his research uses the dimensions of the market orientation, learning orientation, entrepreneurship orientation and employee orientation.

Researches on the influence of the dimension of SO on Marketing Performance (MP) produce various findings. The influence of Market Orientation (MO) on the orientation of innovation, for example, generates different findings. Lukas and Ferrell (2000) state that the MO does not have influence on the development of new products. The relationship between MO and innovation orientation (IO) is still very weak. According to Verhess and Meulenbergh (2004), the MO can influence positively or negatively on the innovation orientation, depending on the authority of the owners in developing new products. Customer orientation (CO) and competitor orientation (CoO) give positive and significant effect on the innovation orientation (IO).

The strong CoO has a positive influence on incremental innovation, and strong CO give positive and significant effect on innovation (Grawe, 2009; Lewrick 1, Omar2 & Robert, 2011). The research findings inform that the influence of MO on innovation orientation is still inconsistent.

Researches on the influence of IO and MP also show various findings. Mavondo, Felix, Chimhanzi, Jacqueline, Stewart and Jillian (2005) find that innovation orientation does not have significant influence on effectiveness of marketing. The research of Darroch and Jenny (2005) states that innovation orientation does not have influence on the performance, either measured by financial or non-financial performance. Jhonson, Dibrell and Eric (2009), in their research state that integrated innovation orientation have a positive influence on the company performance of manufacturing industries. In addition, Gurhan, Gunduz, Kemal and Lutfihak (2011) state that restructurization and productivity give positive and significant influence on competitive superiority that will, in turn, determine performance. This description shows the result of the research that the influence of IO on MP is also still inconsistent.

The antecedent variables of the MO consist of variables of entrepreneurship orientation (EO), marketing-based reward (MBR) system and learning orientation (Basile, 2012; Aljaz, 2012). EO is believed to have a direct connection with the market orientation. Sustainable EO affects the intention of entrepreneurship. Entrepreneurial behavior influences positively on the market orientation (Matsuno & Metzger, 2000; Andreas and Marcus, 2010; Basile, 2012). Meanwhile, Cristina (2011) shows the results of her research that entrepreneurship orientation and entrepreneurial behavior affect on MO and MP that operate in a dynamic environment. Employee's education level constitutes a strong influence on the application of both financial and non-financial rewards (Bau and Dowling, 2007; Hotice, 2011).

A company with a high degree of learning orientation (LO) tends to have higher performance compared with its competitors, especially in an uncertain environment and in high-intensity competition. LO has a direct influence on market orientation, but it does not have a direct and significant impact on the performance of the company (Mavondo et al., 2005; Wencong, Guilong & Yu, 2011).

The research testing the antecedent variables of MO, especially CO, they are EO, MBR, and LO still needs a further research due to the very little number of such a research and they still use various variables. Matsuno and Metzger (2000), for example, use variable of EO, and Cristina (2011) uses variable of entrepreneurial behavior. Then, Hotice (2011) uses the intrinsic-extrinsic variables and Aljaz (2012) uses financial and non-financial variables. Meanwhile, Lin et al. (2008) applies the learning variable as a mediation variable and Wencong et al. (2011) takes it as an independent variable.

The organizational change capability (OCC) can be used as variable moderating the influence of MO on IO, since the OCC brings positive and significant influence on the IO. The more powerful the OCC is, the higher the innovation orientation will be. On the contrary, the less powerful the OCC is, the lower the IO will be. The highness or the lowness of the IO depends on the degree of OCC.

SMEs that want to improve the IO have to enhance the OCC (Maree & Hyland, 2010; Oppen, 2009; Gravenhost, et al., 2010, Pau, 2011; Dentoni & Domenico, 2011). Meanwhile, MO gives positive and significant influence on the IO (Lewrick, et al., 2011). Thus, the OCC can be used as a variable moderating the influence of MO on the IO. This is consistent with the statement of Morgan and Guinness (2005) that the OCC is able to strengthen the market orientation's influence on the innovation orientation. The following parts will present, consecutively, literature review, methodology of research, interpretation of descriptive results, conclusions, limitations and further research.

## **2. Literature Review**

### **Definition of Strategic Orientation (SO)**

Many researchers give various definitions on strategic orientation, all of which, however, mention the same final goal of SO, namely to improve performance or to achieve superior performance. According to Zhou et al. (2005) strategic orientation is the company's strategic direction in creating the proper behaviour so as to achieve superior performance. Both market and innovation are the most strategic orientations for the company to achieve superior performance over a long term. Strategic orientations are ones consisting of four dimensions, namely market, learning, entrepreneurship and employee orientations.

These dimensions have a positive effect on the company's performance (Grinstein, 2008). Meanwhile, Liu and Revell (2009) define the strategic orientation as a concept widely used in research on the management of strategy, entrepreneurship and marketing. A strategic orientation of a company reflects a strategic direction which is implemented by the company to create proper behavior for the continuously superior performance in business. The definition of strategic orientation explained by Grawe (2009), covers the orientation of market, entrepreneurship, customer, cost, innovation, competitor, learning, employee and interaction.

### **Dimension of Strategic Orientation (SO)**

Marketing researchers determine various dimensions of strategic orientation when they study them. Voss and Voss (2000) use the orientation dimension of customer, competitor and technological products. Meanwhile, the dimensions used by Antonio, Emilio and Jose (2005) are technology, area of innovation, implementation flexibility, human resource system and training investment. Then, Rocelis (2005) states the strategic orientations consist of marketing focus, main competence, investment strategy and innovation. Dimensions of strategy orientation consist of orientation of customer, entrepreneurship, learner and innovation (Altindag et al., 2011) and Usta (2011) adds variables of internal marketing and management information. Then, Ming (2011) describes that dimensions of strategic orientations consist of orientation of team, managerial competence, social networking, local institutional support, low-cost orientation, and product innovation.

### **The Influence of Co and CoO on TIO**

CO and CoO have positive influence on TIO. Innovation will support the achievement of subjective performance within the company that will, in turn, encourage the achievement of objective performance (Kirca, et al., 2005; 2008; Grawe, 2009). If the company views customers as the side that must be served, then the company will carry out the orientation of the customers and competitors. However, if the customers are regarded as a sensitive determinant of price, then the company will develop competitor orientation. Customer orientation affects positively and significantly on innovation (Zheng et al., 2009).

### **The Influence of Co, CoO and TIO on MP**

Orientations focusing on marketing or customer, innovation and human resources improve financial and marketing performance (Zahra & Garvis, 2000; Rocelis, 2006; Macaes et al., 2007). Dimensions of market orientation (orientation of customer and competitor) constitute factors of success in SMEs. Market orientation has positive influence on the company's performance (Reijonena & Komppulab, 2010). Researches relating to the influence of market orientation on marketing performance for companies operating in logistic sectors were conducted in Turkey and Thailand. The results of these researches reveal that in companies with the variables of market, learning and innovation orientation effectively improve performance (Nadrol et al., 2010; Julian, 2010; Eris & Ozmen, 2012). Strategy orientation includes orientation of customer, entrepreneurship, learning and innovation. Performance consists of quantitative and qualitative. There is a positive and significant correlation between resources of technical innovation and company's performance. Innovation resources are able to create competitive superiority. Innovation strategy consists of explorative and exploitative innovations. These innovations affect company's performance (Jhonson et al., 2009; Grawe, 2009; Altindag et al., 2011). Competitor orientation has a significant influence on the capability of exploitative innovation (Ana et al., 2012).

### **The Influence of the EO, MBR and LO on and Co**

EO influences positively and significantly on the organization's commitment to learn and organization's commitment to learn has positive and significant correlation to the openness of mind, and shared vision of the companies. (Andreas and Marcus, 2010; Cristina, 2011; Basile, 2012). Motivation supports the company's success and strategic development through functional systems to measure and evaluate the advantages of reward. The research declares its result that reward is able to form a simultaneous learning agent, reduce the time needed to learn the appropriate policy and change the performance. MRB system has a positive effect on customer orientation. Intrinsic reward has positive and significant effect on the performance of the company and increases customer orientation; while the extrinsic reward does not have effect on the performance. (Devlin *et al.*, 2012; Hatice, 2012). Learning commitment is able to make an organization enable to develop knowledge about markets, rivals and customers. The strengths or the weaknesses of customer orientation can be seen from the organization's vision and mission. Workshop can change the mindset of an individual from the perspective of product orientation to customers' value orientation (Kandemir & Hutt, 2005; Macles, et al., 2007; Olsson, 2007).

Orientation of study has a direct influence on market orientation, and learning orientation does not have a direct and significant impact on the performance of the company (Micheels, Eric & Gow, 2009; Wencong, et al., 2010).

### **The OCC enhances the Influence of Co and CoO on TIO**

An organization that is able develop the superior capability of change in technology, economy and politic will quickly increase the innovation. The excellent organizational change capability will be more effective than the functional design and cross-functional design in carrying out sustainable innovation. Then, transition to the sophisticated design related to the innovation result can increase significantly (Lawler, 2000; Tushman & Charles, 2006; Lam, 2011). The troubled capability of organizational change or the low capability of organizational change has negative correlation to success. This strengthens the argument that the innovation orientation requires a good capability of organizational change. The capability of organizational change affects the innovation orientation. The lower the capability of organizational change is, the weaker the innovation orientation will be. The capability of organizational change is required in a sustainable innovation orientation. (Gravenhost, et al., 2010; Maree & Hyland, 2010). This research states that the influence of CO and CoO on TIO depends on the OCC. This corresponds with the advice of Morgan et al., (2005) that by increasing the capability of organizational change, the influence of MO (CO and CoO) on TIO will be stronger.

### **3. Methodology of Research**

This research was conducted on the SMEs in food sector which consisted of restaurants, caterings and food industries. The research was done in Solo *Raya* Indonesia, (Solo and its surrounding cities). These locations were chosen because the SMEs in food sectors here have the same criteria and problems with ones in Central Java or have the same criteria and problems with ones nationally. (Nawawi, 2009). The research uses cross-sectional time, as it is done currently, not directly related to the past research nor to the future one. It aims to know the influence of the variables examined. This is called causal research, as it aims to examine the relationship between one and other variables (Fuad, 2004). The variable relationships tested in this study are relationships between variables of customer, competitor orientations and technical innovation; customer, competitor, technical innovation and performance; entrepreneurship orientation, marketing-based reward system, learning and customer orientation; organizational change capability in strengthening the influence of customer, competitor orientation on the orientation of technical innovation. Unit of analysis in this study are the individuals of owners or managers of SMEs in food sector that consist of the owners or the managers of restaurants, catering and food industries.

### **Population and Sample**

The population of this research are the SMEs owners of restaurants, caterings and food industries who have 5 to 100 employees in Solo *Raya*. The number of the population is 15.171 people (Disperindag, 2009). The representative sample size to be used in SEM analysis is at least five times of the number of parameters (Hair, 2004). The number of parameters in this study is 40, so that the minimum number of samples is 200. In this study the number of samples is 250 respondents. The size of the samples is proportionally comparable with the number of population in every regency/city. The population and samples in each regency/city are: Surakarta 3. 512 population with 58 samples, Boyolali 1.875 populaton 31 samples, Klaten 1.983 population 33 samples. Sragen 2.461 population 40 samples, Karanganyar 2.334 population 40 samples, Sukoharjo 1.921 population 38 samples, and Wonogiri 1,081 population 32 samples.

### **Variables and Indicators**

Variable of CO is indicated by: commitment to satisfy customers, collecting information of customers' needs, ways of satisfying customers, customers' complaints, and attention to customers; these are adopted from Mavondo *et al.*, 2003.

Variable of CoO is indicated by: discussion about information of competitors, information of competitors' excellence, discussion of competitors' strategy, responding to competitors' actions, and surpassing competitors, these are adopted from Mavondo *et al.* (2000).

Variable of TIO is indicated by: introduction to new products, new services, new production process, product quality, and better raw material; these are adopted from Kirca *et al.* (2005). Variable of MP is applied with the indicators: sales target fulfilment, number of customers, sales growth, marketing reach and profit growth; these are adopted from Voss and Voss (2000).

Variable of entrepreneurship orientation is applied with the indicators: business breakthrough, new things, acting quickly, desire to make independent effort, and aggressiveness in performing uncertain actions; these are adopted from Kirca, 2005.

Variable of MBR is indicated by: additional revenue due to sales quantity, additional revenue due to customers' satisfaction, decrease of income due to sales quantity, additional income due to the increase of customers, and bonuses due to achievement; these are adopted from Zebal, 2003.

Variable of LO is used with the indicators: improvement of working system, increasing knowledge, problem solving discussion, accepting advice, and learning as the key of success; these are adopted from Mavondo *et al.*, 2003.

Variable of OCC is indicated by the indicators: fund for changes, employees' commitment, organizational change, managers' commitment of organizational change, culture of organizational change, and belief that change improves achievement; these are adopted from Gravenhorst, 2009. To measure these variables, this study uses a deferential semantic scale which consists of seven scales, ranging from the statements of Very Strongly Agree, Strongly Agree, Agree, Neutral, Disagree, Strongly Disagree, Very Strongly Disagree. These are scored starting from 7 to 1.

The data type of this research consists of primary and secondary data. Techniques of collecting data conducted in this study are questionnaire, observation and literature study. Technique of data analysis used in this research is SEM.

#### **4. Interpretation of Descriptive Results**

The results of description analysis indicate that 41.28% of food SMEs very strongly agree on the application of the customer orientation, 33.68% strongly agree and 22.96% agree. These added together, amount to 97.8%. This shows that almost all food SMEs approve customer orientation. Meanwhile, for the competitor orientation, 13% of them very strongly agree, 24.9% strongly agree, and 32.6% agree. These, added together, amount to 70.5%. This means that 70.5% of food SMEs agree competitor orientation.

The results of description analysis of technical innovation orientation show that 16.4% of food SMEs state very strongly agree, 23.3% strongly agree, and 30.4% agree. These, added together, amount to 70.1%. This shows that 70.1% of SMEs in food sector approve technical innovation orientation. Meanwhile for the entrepreneurship orientation, description analysis indicates that 16.2% of them very strongly agree, 22.4% strongly agree, 32.8% agree. These, added together amount to 71.1%. This means that 71.1% of food SMEs approve entrepreneurship orientation.

The results of description analysis of the orientation of the marketing-based reward system show that 17.2% of food SMEs very strongly agree, 23.7% strongly agree, 28.9% and agree. These, added together, amount to 69.8%. This indicates that 69.8% of food SMEs agree marketing-based reward system orientation. For the learning orientation, the results show that 27.4% of food SMEs very strongly agree, 29.7% strongly agree, and 34.8% agree. These results, added together amount to 91.9%. This shows that 91.9% of food SMEs approve learning orientation. The results of description analysis of organizational change capability indicate that 12.2% of food SMEs very strongly agree, 14.8% strongly agree, 36.7% agree. These, added together, amount to 63.7%. This shows that 63.7% of them approve organizational change capabilities.

Based on the analysis of Structural Equation Modeling (SEM), CO has positive and significant impact on the TIO. The results show that the value  $t_{\text{count}} = 4.88$ . Hence, the customer orientation has positive and significant impact on technical innovation. These support the results of previous researches of Grawe (2009), Pau (2011), Dentoni and Domenico (2011), stating that there is a relationship between customer orientation and innovation orientation.

CoO influences positively and significantly on the TIO. Based on SEM analysis, it is known that the value  $t_{\text{count}} = 7.80$ . This means that the competitor orientation has positive and significant impact on the orientation of technical innovation. These results support researches of Kirca *et al.* (2005), Neumaierova & Neumaier (2008), Lewrick I *et al.* (2011), stating that competitor orientation influences significantly on the orientation of technical and administrative innovation.

CO has positive and significant influence on MP. Through SEM analysis it is found the results that the value  $t_{\text{count}} = 9.72$ . Hence, the customer orientation has positive and significant impact on marketing performance.

This supports the results of the previous researches conducted by Voss & Voss (2000) and Usta (2011) which indicate the positive influence of market orientation strategy on marketing performance. Customer orientation is the primary market orientation strategy. Customer orientation has positive and significant effect on marketing performance.

CoO influences positively and significantly on MP. Through SEM analysis it is found that value  $t_{\text{count}} = 3.10$ . This means that the competitor orientation has positive and significant effect on marketing performance. This result supports the researches of Johnson, et al. (2009); Nadrol, et al. (2010) Eris & Ozmen (2012) and Julian (2010), stating that competitor orientation, functional coordination and interaction orientation give positive effect on company's performance.

TIO causes positive and significant impact on MP. Based on SEM analysis, it is found that the value  $t_{\text{count}} = -1.48$ . Hence, the technical innovation orientation has negative and insignificant effect on marketing performance. This result supports the researches of Darroch and Jenny (2005) and Mavondo et al. (2005), which state that innovation orientation does not have significant influence on the performance, either measured by financial performance or by non financial performance, namely, market share and sales growth. The research results relating with the influence of technical innovation orientation on marketing performance have not been consistent.

EO has positive and significant effect on CO. Through SEM analysis it is found that the value of  $t_{\text{count}} = 4.5$ . This means that entrepreneurship orientation has positive and significant effect on customer orientation. The result is in line with researches of Shabbir et al. (2010); Cristina (2011); Andreas and Marcus (2010) which state that proactiveness, customers value, entrepreneurship behavior, dynamic environment, intention of entrepreneurship, sustainable orientation and local resources have positive effect on customer orientation.

MBR has positive and significant influence on CO. Through SEM analysis it is known that the value  $t_{\text{count}} = 8,86$ . This shows that the marketing-based reward has positive and significant influence on customer orientation. This result supports researches of Zebal (2003), Gajic & Medved (2010); Devlin et al., (2010), Bau & Dowling (2007); Hotice (2011) stating that the orientation of MBR has positive and significant effect on CO.

LO has positive and significant influence on CO. The results of SEM analysis show that the value of  $t_{\text{count}} = 2.34$ . This shows that the learning orientation has positive and significant influence on customer orientation. This supports the results of the researches conducted by Mavondo et al. (2005) Wencong et al. (2011), Kandemir and Hutt, (2005); and Wang (2008) which declare that learning orientation has positive and significant influence on customer orientation.

The influence of CO on TIO group 1A is smaller than one of group 2B, that is  $t_{\text{count}} = 4.882 < 7.282$ . The influence of CO on TIO in group 1A with low OCC is smaller than group 2B with high OCC. This means the OCC can enhance CO influence on TIO. This result is in accordance with the advice of Morgan et al. (2005) who proposes that an empirical research should be conducted on the role of organizational change capability in increasing the influence of market orientation on innovation orientation.

The influence of CoO on TIO group 2B is lower than group 1A, that is  $t_{\text{count}} = 4.067$ , lower than  $t_{\text{count}} = 7.504$ . The influence of CoO on TIO in group 1A with high OCC is smaller than one in group 2B with low OCC. This means that the OCC cannot strengthen the influence of CoO on TIO. The result shows that the OCC decreases the influence of CoO on TIO. Owners or managers of SMEs in food sector have high potency of organizational change, but if their competitors do not make any changes, they will not utilize their capabilities of organizational change. Such a condition, in the end, will not make the orientation of technical innovation increase. The OCC can increase the effect of CoO on TIO if the competitors attempt to increase their technical innovation orientation.

## **5. Conclusions, Limitations and Further Research**

Customer and competitor orientation positively and significantly affect TIO. The magnitude of the effect of CO on TIO is reinforced by OCC. Meanwhile, the magnitude of the effect of CoO on TIO is not strengthened by OCC. Customer and competitor orientation has positive and significant effect on MP, but on TIO they have negative and insignificant effect. EO, MBR system and LO affect positively and significantly on CO.

Managerial implications Customer orientation can be done by improving the orientation of entrepreneurship, marketing-based reward system and learning orientation. Orientation of technical innovation can be done by improving customer orientation and organizational change capability.

Orientation of technical innovation can be done by improving competitor orientation but not by enhancing the capabilities of organizational change. Marketing performance can be done by improving customer and competitor orientation.

In this study there are some unavoidable limitations. Most owners or managers were busy, so in fact they were not willing to be respondents, and some respondents filled the questionnaire very hastily. The results of this study have not been able to explain that TIO affects MP. Similarly, they cannot explain variable of OCC in moderating the influence of CoO on TIO. It is suggested that the future researchers should conduct research on the influence of innovation orientation on marketing performance. This should be done since the research results relating with the influence of innovation orientation on marketing performance have not been consistent.

It is suggested that the future researchers should conduct research on the influence of innovation orientation on marketing performance. This should be done since the research results relating with the influence of innovation orientation on marketing performance has not been consistent. For owners or managers of food SMEs, improving marketing performance should be done by: implementing the entrepreneurship orientation, marketing-based reward and learning; applying the customer and competitor orientation, as well as improving the organizational change capability. For the government, in developing the owners or managers of SMEs in food sector, explanation should be given in detail about: the significance of applying the dimensions of strategy orientations that consist of customer orientation, competitor orientation, technical innovation orientation; the importance of applying antecedent variables of customer orientation which consist of entrepreneurship orientation variable, marketing-based reward system variable and learning orientation variable; and the importance of improving organizational change capability.

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### Appendix 1 List of abbreviation

CO : Customer Orientation	CoO : Competitor Orientation
EO : Entrepreneurship Orientation	IO : Innovation Orientation
LO : Learning Orientation	MBR: Marketing-Based Reward System
MP : Marketing Performance	MO : Market Orientation
OCC: Organizational Change Capability	SO : Strategy Orientation
TIO : Technical Innovation Orientation	

# The Relationship between Strategy Orientation and Marketing Performance: The Role of Organizational Change Capability

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## **The Relationship between Strategy Orientation and Marketing Performance: The Role of Organizational Change Capability**

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### **Abstract**

*Small and Medium-sized Enterprises (SMEs) have a great contribution to the economy of Indonesia. Their qualitative development, however, is not as rapid as their quantitative one. This research is intended to provide information about conceptual controversy relevant to the role of market orientation, innovation orientation and marketing performance. Population of this research are owners or managers of SMEs in food sector in Solo Raya, Indonesia. The research uses sampling area method, and the number of sample is 250. The method applied in analyzing the data is the Structural Equation Modeling with Lisrel software. This research reveals the results: customer and competitor orientation have positive and significant influence on technical innovation and marketing performance orientation. Technical innovation orientation shows negative and insignificant effect on marketing performance. The organizational change capability moderates the influence of customer orientation on the orientation of technical innovation, but it does not moderate the influence of competitor orientation on the orientation of technical innovation.*

**Key Words:** strategy orientation, customer orientation, competitor orientation, technical innovation orientation, organizational change capability, marketing performance

### **1. Introduction**

Small and medium-sized enterprises which are often referred to by the term SMEs are important economic actors in a country or a region, including in Indonesia. In this country its contributions to Gross Domestic Product (GDP) amounted to 56.7 percent, to non oil-and-gas export was 15 percent, and to labor absorption was 99,6%. Apart from these facts, unfortunately, SMEs lacked attention from the Government, so in the future there must be coaching for SMEs mainly in marketing sector (Nawawi, 2009). Their crucial economic contribution and significant increase in terms of quantity are, unfortunately, not followed by their increase in quality. Quality improvement of SMEs can be done by applying a Strategy Orientation (Urata, 2000; Altindag, Zehir & Acar (2011). Strategy Orientation (SO) constitutes a strategic guide of a company in creating the proper behaviour so as to achieve superior performance (Zhou, Yim & Tse, 2005). It has several dimensions and a researcher may use one of these differently. Grinstein (2008) in his research uses the dimensions of the market orientation, learning orientation, entrepreneurship orientation and employee orientation.

Researches on the influence of the dimension of SO on Marketing Performance (MP) produce various findings. The influence of Market Orientation (MO) on the orientation of innovation, for example, generates different findings. Lukas and Ferrell (2000) state that the MO does not have influence on the development of new products. The relationship between MO and innovation orientation (IO) is still very weak. According to Verhess and Meulenber (2004), the MO can influence positively or negatively on the innovation orientation, depending on the authority of the owners in developing new products. Customer orientation (CO) and competitor orientation (CoO) give positive and significant effect on the innovation orientation (IO).

The strong CoO has a positive influence on incremental innovation, and strong CO give positive and significant effect on innovation (Grawe, 2009; Lewrick 1, Omar2 & Robert, 2011). The research findings inform that the influence of MO on innovation orientation is still inconsistent.

Researches on the influence of IO and MP also show various findings. Mavondo, Felix, Chimhanzi, Jacqueline, Stewart and Jillian (2005) find that innovation orientation does not have significant influence on effectiveness of marketing. The research of Darroch and Jenny (2005) states that innovation orientation does not have influence on the performance, either measured by financial or non-financial performance. Jhonson, Dibrell and Eric (2009), in their research state that integrated innovation orientation have a positive influence on the company performance of manufacturing industries. In addition, Gurhan, Gunduz, Kemal and Lutfihak (2011) state that restructurization and productivity give positive and significant influence on competitive superiority that will, in turn, determine performance. This description shows the result of the research that the influence of IO on MP is also still inconsistent.

The antecedent variables of the MO consist of variables of entrepreneurship orientation (EO), marketing-based reward (MBR) system and learning orientation (Basile, 2012; Aljaz, 2012). EO is believed to have a direct connection with the market orientation. Sustainable EO affects the intention of entrepreneurship. Entrepreneurial behavior influences positively on the market orientation (Matsuno & Metzger, 2000; Andreas and Marcus, 2010; Basile, 2012). Meanwhile, Cristina (2011) shows the results of her research that entrepreneurship orientation and entrepreneurial behavior affect on MO and MP that operate in a dynamic environment. Employee's education level constitutes a strong influence on the application of both financial and non-financial rewards (Bau and Dowling, 2007; Hotice, 2011).

A company with a high degree of learning orientation (LO) tends to have higher performance compared with its competitors, especially in an uncertain environment and in high-intensity competition. LO has a direct influence on market orientation, but it does not have a direct and significant impact on the performance of the company (Mavondo et al., 2005; Wencong, Guilong & Yu, 2011).

The research testing the antecedent variables of MO, especially CO, they are EO, MBR, and LO still needs a further research due to the very little number of such a research and they still use various variables. Matsuno and Metzger (2000), for example, use variable of EO, and Cristina (2011) uses variable of entrepreneurial behavior. Then, Hotice (2011) uses the intrinsic-extrinsic variables and Aljaz (2012) uses financial and non-financial variables. Meanwhile, Lin et al. (2008) applies the learning variable as a mediation variable and Wencong et al. (2011) takes it as an independent variable.

The organizational change capability (OCC) can be used as variable moderating the influence of MO on IO, since the OCC brings positive and significant influence on the IO. The more powerful the OCC is, the higher the innovation orientation will be. On the contrary, the less powerful the OCC is, the lower the IO will be. The highness or the lowness of the IO depends on the degree of OCC.

SMEs that want to improve the IO have to enhance the OCC (Maree & Hyland, 2010; Oppen, 2009; Gravenhost, et al., 2010, Pau, 2011; Dentoni & Domenico, 2011). Meanwhile, MO gives positive and significant influence on the IO (Lewrick, et al., 2011). Thus, the OCC can be used as a variable moderating the influence of MO on the IO. This is consistent with the statement of Morgan and Guinness (2005) that the OCC is able to strengthen the market orientation's influence on the innovation orientation. The following parts will present, consecutively, literature review, methodology of research, interpretation of descriptive results, conclusions, limitations and further research.

## **2. Literature Review**

### **Definition of Strategic Orientation (SO)**

Many researchers give various definitions on strategic orientation, all of which, however, mention the same final goal of SO, namely to improve performance or to achieve superior performance. According to Zhou et al. (2005) strategic orientation is the company's strategic direction in creating the proper behaviour so as to achieve superior performance. Both market and innovation are the most strategic orientations for the company to achieve superior performance over a long term. Strategic orientations are ones consisting of four dimensions, namely market, learning, entrepreneurship and employee orientations.

These dimensions have a positive effect on the company's performance (Grinstein, 2008). Meanwhile, Liu and Revell (2009) define the strategic orientation as a concept widely used in research on the management of strategy, entrepreneurship and marketing. A strategic orientation of a company reflects a strategic direction which is implemented by the company to create proper behavior for the continuously superior performance in business. The definition of strategic orientation explained by Grawe (2009), covers the orientation of market, entrepreneurship, customer, cost, innovation, competitor, learning, employee and interaction.

#### **Dimension of Strategic Orientation (SO)**

Marketing researchers determine various dimensions of strategic orientation when they study them. Voss and Voss (2000) use the orientation dimension of customer, competitor and technological products. Meanwhile, the dimensions used by Antonio, Emilio and Jose (2005) are technology, area of innovation, implementation flexibility, human resource system and training investment. Then, Rocelis (2005) states the strategic orientations consist of marketing focus, main competence, investment strategy and innovation. Dimensions of strategy orientation consist of orientation of customer, entrepreneurship, learner and innovation (Altindag et al., 2011) and Usta (2011) adds variables of internal marketing and management information. Then, Ming (2011) describes that dimensions of strategic orientations consist of orientation of team, managerial competence, social networking, local institutional support, low-cost orientation, and product innovation.

#### **The Influence of Co and CoO on TIO**

CO and CoO have positive influence on TIO. Innovation will support the achievement of subjective performance within the company that will, in turn, encourage the achievement of objective performance (Kirca, et al., 2005; 2008; Grawe, 2009). If the company views customers as the side that must be served, then the company will carry out the orientation of the customers and competitors. However, if the customers are regarded as a sensitive determinant of price, then the company will develop competitor orientation. Customer orientation affects positively and significantly on innovation (Zheng et al., 2009).

#### **The Influence of Co, CoO and TIO on MP**

Orientations focusing on marketing or customer, innovation and human resources improve financial and marketing performance (Zahra & Garvis, 2000; Rocelis, 2006; Macaes et al., 2007). Dimensions of market orientation (orientation of customer and competitor) constitute factors of success in SMEs. Market orientation has positive influence on the company's performance (Reijonena & Komppulab, 2010). Researches relating to the influence of market orientation on marketing performance for companies operating in logistic sectors were conducted in Turkey and Thailand. The results of these researches reveal that in companies with the variables of market, learning and innovation orientation effectively improve performance (Nadrol et al., 2010; Julian, 2010; Eris & Ozmen, 2012). Strategy orientation includes orientation of customer, entrepreneurship, learning and innovation. Performance consists of quantitative and qualitative. There is a positive and significant correlation between resources of technical innovation and company's performance. Innovation resources are able to create competitive superiority. Innovation strategy consists of explorative and exploitative innovations. These innovations affect company's performance (Jhonson et al., 2009; Grawe, 2009; Altindag et al., 2011). Competitor orientation has a significant influence on the capability of exploitative innovation (Ana et al., 2012).

#### **The Influence of the EO, MBR and LO on and Co**

EO influences positively and significantly on the organization's commitment to learn and organization's commitment to learn has positive and significant correlation to the openness of mind, and shared vision of the companies. (Andreas and Marcus, 2010; Cristina, 2011; Basile, 2012). Motivation supports the company's success and strategic development through functional systems to measure and evaluate the advantages of reward. The research declares its result that reward is able to form a simultaneous learning agent, reduce the time needed to learn the appropriate policy and change the performance. MRB system has a positive effect on customer orientation. Intrinsic reward has positive and significant effect on the performance of the company and increases customer orientation; while the extrinsic reward does not have effect on the performance. (Devlin *et al.*, 2012; Hatice, 2012). Learning commitment is able to make an organization enable to develop knowledge about markets, rivals and customers. The strengths or the weaknesses of customer orientation can be seen from the organization's vision and mission. Workshop can change the mindset of an individual from the perspective of product orientation to customers' value orientation (Kandemir & Hutt, 2005; Macles, et al., 2007; Olsson, 2007).

Orientation of study has a direct influence on market orientation, and learning orientation does not have a direct and significant impact on the performance of the company (Micheels, Eric & Gow, 2009; Wencong, et al., 2010).

### **The OCC enhances the Influence of Co and CoO on TIO**

An organization that is able develop the superior capability of change in technology, economy and politic will quickly increase the innovation. The excellent organizational change capability will be more effective than the functional design and cross-functional design in carrying out sustainable innovation. Then, transition to the sophisticated design related to the innovation result can increase significantly (Lawler, 2000; Tushman & Charles, 2006; Lam, 2011). The troubled capability of organizational change or the low capability of organizational change has negative correlation to success. This strengthens the argument that the innovation orientation requires a good capability of organizational change. The capability of organizational change affects the innovation orientation. The lower the capability of organizational change is, the weaker the innovation orientation will be. The capability of organizational change is required in a sustainable innovation orientation. (Gravenhost, et al., 2010; Maree & Hyland, 2010). This research states that the influence of CO and CoO on TIO depends on the OCC. This corresponds with the advice of Morgan et al., (2005) that by increasing the capability of organizational change, the influence of MO (CO and CoO) on TIO will be stronger.

### **3. Methodology of Research**

This research was conducted on the SMEs in food sector which consisted of restaurants, caterings and food industries. The research was done in Solo *Raya* Indonesia, (Solo and its surrounding cities). These locations were chosen because the SMEs in food sectors here have the same criteria and problems with ones in Central Java or have the same criteria and problems with ones nationally. (Nawawi, 2009). The research uses cross-sectional time, as it is done currently, not directly related to the past research nor to the future one. It aims to know the influence of the variables examined. This is called causal research, as it aims to examine the relationship between one and other variables (Fuad, 2004). The variable relationships tested in this study are relationships between variables of customer, competitor orientations and technical innovation; customer, competitor, technical innovation and performance; entrepreneurship orientation, marketing-based reward system, learning and customer orientation; organizational change capability in strengthening the influence of customer, competitor orientation on the orientation of technical innovation. Unit of analysis in this study are the individuals of owners or managers of SMEs in food sector that consist of the owners or the managers of restaurants, catering and food industries.

### **Population and Sample**

The population of this research are the SMEs owners of restaurants, caterings and food industries who have 5 to 100 employees in Solo *Raya*. The number of the population is 15.171 people (Disperindag, 2009). The representative sample size to be used in SEM analysis is at least five times of the number of parameters (Hair, 2004). The number of parameters in this study is 40, so that the minimum number of samples is 200. In this study the number of samples is 250 respondents. The size of the samples is proportionally comparable with the number of population in every regency/city. The population and samples in each regency/city are: Surakarta 3. 512 population with 58 samples, Boyolali 1.875 populaton 31 samples, Klaten 1.983 population 33 samples. Sragen 2.461 population 40 samples, Karanganyar 2.334 population 40 samples, Sukoharjo 1.921 population 38 samples, and Wonogiri 1,081 population 32 samples.

### **Variables and Indicators**

Variable of CO is indicated by: commitment to satisfy customers, collecting information of customers' needs, ways of satisfying customers, customers' complaints, and attention to customers; these are adopted from Mavondo *et al.*, 2003.

Variable of CoO is indicated by: discussion about information of competitors, information of competitors' excellence, discussion of competitors' strategy, responding to competitors' actions, and surpassing competitors, these are adopted from Mavondo *et al.* (2000).

Variable of TIO is indicated by: introduction to new products, new services, new production process, product quality, and better raw material; these are adopted from Kirca *et al.* (2005). Variable of MP is applied with the indicators: sales target fulfilment, number of customers, sales growth, marketing reach and profit growth; these are adopted from Voss and Voss (2000).

Variable of entrepreneurship orientation is applied with the indicators: business breakthrough, new things, acting quickly, desire to make independent effort, and aggressiveness in performing uncertain actions; these are adopted from Kirca, 2005.

Variable of MBR is indicated by: additional revenue due to sales quantity, additional revenue due to customers' satisfaction, decrease of income due to sales quantity, additional income due to the increase of customers, and bonuses due to achievement; these are adopted from Zebal, 2003.

Variable of LO is used with the indicators: improvement of working system, increasing knowledge, problem solving discussion, accepting advice, and learning as the key of success; these are adopted from Mavondo *et al.*, 2003.

Variable of OCC is indicated by the indicators: fund for changes, employees' commitment, organizational change, managers' commitment of organizational change, culture of organizational change, and belief that change improves achievement; these are adopted from Gravenhorst, 2009. To measure these variables, this study uses a deferential semantic scale which consists of seven scales, ranging from the statements of Very Strongly Agree, Strongly Agree, Agree, Neutral, Disagree, Strongly Disagree, Very Strongly Disagree. These are scored starting from 7 to 1.

The data type of this research consists of primary and secondary data. Techniques of collecting data conducted in this study are questionnaire, observation and literature study. Technique of data analysis used in this research is SEM.

#### **4. Interpretation of Descriptive Results**

The results of description analysis indicate that 41.28% of food SMEs very strongly agree on the application of the customer orientation, 33.68% strongly agree and 22.96% agree. These added together, amount to 97.8%. This shows that almost all food SMEs approve customer orientation. Meanwhile, for the competitor orientation, 13% of them very strongly agree, 24.9% strongly agree, and 32.6% agree. These, added together, amount to 70.5%. This means that 70.5% of food SMEs agree competitor orientation.

The results of description analysis of technical innovation orientation show that 16.4% of food SMEs state very strongly agree, 23.3% strongly agree, and 30.4% agree. These, added together, amount to 70.1%. This shows that 70.1% of SMEs in food sector approve technical innovation orientation. Meanwhile for the entrepreneurship orientation, description analysis indicates that 16.2% of them very strongly agree, 22.4% strongly agree, 32.8% agree. These, added together amount to 71.1%. This means that 71.1% of food SMEs approve entrepreneurship orientation.

The results of description analysis of the orientation of the marketing-based reward system show that 17.2% of food SMEs very strongly agree, 23.7% strongly agree, 28.9% and agree. These, added together, amount to 69.8%. This indicates that 69.8% of food SMEs agree marketing-based reward system orientation. For the learning orientation, the results show that 27.4% of food SMEs very strongly agree, 29.7% strongly agree, and 34.8% agree. These results, added together amount to 91.9%. This shows that 91.9% of food SMEs approve learning orientation. The results of description analysis of organizational change capability indicate that 12.2% of food SMEs very strongly agree, 14.8% strongly agree, 36.7% agree. These, added together, amount to 63.7%. This shows that 63.7% of them approve organizational change capabilities.

Based on the analysis of Structural Equation Modeling (SEM), CO has positive and significant impact on the TIO. The results show that the value  $t_{count} = 4.88$ . Hence, the customer orientation has positive and significant impact on technical innovation. These support the results of previous researches of Grawe (2009), Pau (2011), Dentoni and Domenico (2011), stating that there is a relationship between customer orientation and innovation orientation.

CoO influences positively and significantly on the TIO. Based on SEM analysis, it is known that the value  $t_{count} = 7.80$ . This means that the competitor orientation has positive and significant impact on the orientation of technical innovation. These results support researches of Kirca *et al.* (2005), Neumaierova & Neumaier (2008), Lewrick *l et al.* (2011), stating that competitor orientation influences significantly on the orientation of technical and administrative innovation.

CO has positive and significant influence on MP. Through SEM analysis it is found the results that the value  $t_{count} = 9.72$ . Hence, the customer orientation has positive and significant impact on marketing performance.

This supports the results of the previous researches conducted by Voss & Voss (2000) and Usta (2011) which indicate the positive influence of market orientation strategy on marketing performance. Customer orientation is the primary market orientation strategy. Customer orientation has positive and significant effect on marketing performance.

CoO influences positively and significantly on MP. Through SEM analysis it is found that value  $t_{count} = 3.10$ . This means that the competitor orientation has positive and significant effect on marketing performance. This result supports the researches of Johnson, et al. (2009); Nadrol, et al. (2010) Eris & Ozmen (2012) and Julian (2010), stating that competitor orientation, functional coordination and interaction orientation give positive effect on company's performance.

TIO causes positive and significant impact on MP. Based on SEM analysis, it is found that the value  $t_{count} = -1.48$ . Hence, the technical innovation orientation has negative and insignificant effect on marketing performance. This result supports the researches of Darroch and Jenny (2005) and Mavondo et al. (2005), which state that innovation orientation does not have significant influence on the performance, either measured by financial performance or by non financial performance, namely, market share and sales growth. The research results relating with the influence of technical innovation orientation on marketing performance have not been consistent.

EO has positive and significant effect on CO. Through SEM analysis it is found that the value of  $t_{count} = 4.5$ . This means that entrepreneurship orientation has positive and significant effect on customer orientation. The result is in line with researches of Shabbir et al. (2010); Cristina (2011); Andreas and Marcus (2010) which state that proactiveness, customers value, entrepreneurship behavior, dynamic environment, intention of entrepreneurship, sustainable orientation and local resources have positive effect on customer orientation.

MBR has positive and significant influence on CO. Through SEM analysis it is known that the value  $t_{count} = 8.86$ . This shows that the marketing-based reward has positive and significant influence on customer orientation. This result supports researches of Zebal (2003), Gajic & Medved (2010); Devlin et al., (2010), Bau & Dowling (2007); Hotice (2011) stating that the orientation of MBR has positive and significant effect on CO.

LO has positive and significant influence on CO. The results of SEM analysis show that the value of  $t_{count} = 2.34$ . This shows that the learning orientation has positive and significant influence on customer orientation. This supports the results of the researches conducted by Mavondo et al. (2005) Wencong et al. (2011), Kandemir and Hutt, (2005); and Wang (2008) which declare that learning orientation has positive and significant influence on customer orientation.

The influence of CO on TIO group 1A is smaller than one of group 2B, that is  $t_{count} = 4.882 < 7.282$ . The influence of CO on TIO in group 1A with low OCC is smaller than group 2B with high OCC. This means the OCC can enhance CO influence on TIO. This result is in accordance with the advice of Morgan et al. (2005) who proposes that an empirical research should be conducted on the role of organizational change capability in increasing the influence of market orientation on innovation orientation.

The influence of CoO on TIO group 2B is lower than group 1A, that is  $t_{count} = 4.067$ , lower than  $t_{count} = 7.504$ . The influence of CoO on TIO in group 1A with high OCC is smaller than one in group 2B with low OCC. This means that the OCC cannot strengthen the influence of CoO on TIO. The result shows that the OCC decreases the influence of CoO on TIO. Owners or managers of SMEs in food sector have high potency of organizational change, but if their competitors do not make any changes, they will not utilize their capabilities of organizational change. Such a condition, in the end, will not make the orientation of technical innovation increase. The OCC can increase the effect of CoO on TIO if the competitors attempt to increase their technical innovation orientation.

### **5. Conclusions, Limitations and Further Research**

Customer and competitor orientation positively and significantly affect TIO. The magnitude of the effect of CO on TIO is reinforced by OCC. Meanwhile, the magnitude of the effect of CoO on TIO is not strengthened by OCC. Customer and competitor orientation has positive and significant effect on MP, but on TIO they have negative and insignificant effect. EO, MBR system and LO affect positively and significantly on CO.

Managerial implications Customer orientation can be done by improving the orientation of entrepreneurship, marketing-based reward system and learning orientation. Orientation of technical innovation can be done by improving customer orientation and organizational change capability.



Orientation of technical innovation can be done by improving competitor orientation but not by enhancing the capabilities of organizational change. Marketing performance can be done by improving customer and competitor orientation.

In this study there are some unavoidable limitations. Most owners or managers were busy, so in fact they were not willing to be respondents, and some respondents filled the questionnaire very hastily. The results of this study have not been able to explain that TIO affects MP. Similarly, they cannot explain variable of OCC in moderating the influence of CoO on TIO. It is suggested that the future researchers should conduct research on the influence of innovation orientation on marketing performance. This should be done since the research results relating with the influence of innovation orientation on marketing performance have not been consistent.

It is suggested that the future researchers should conduct research on the influence of innovation orientation on marketing performance. This should be done since the research results relating with the influence of innovation orientation on marketing performance has not been consistent. For owners or managers of food SMEs, improving marketing performance should be done by: implementing the entrepreneurship orientation, marketing-based reward and learning; applying the customer and competitor orientation, as well as improving the organizational change capability. For the government, in developing the owners or managers of SMEs in food sector, explanation should be given in detail about: the significance of applying the dimensions of strategy orientations that consist of customer orientation, competitor orientation, technical innovation orientation; the importance of applying antecedent variables of customer orientation which consist of entrepreneurship orientation variable, marketing-based reward system variable and learning orientation variable; and the importance of improving organizational change capability.

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**Appendix 1**  
**List of abbreviation**

CO : Customer Orientation	CoO : Competitor Orientation
EO : Entrepreneurship Orientation	IO : Innovation Orientation
LO : Learning Orientation	MBR: Marketing-Based Reward System
MP : Marketing Performance	MO : Market Orientation
OCC: Organizational Change Capability	SO : Strategy Orientation
TIO : Technical Innovation Orientation	

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