

Market Orientation on Performance in Indonesian Service Company: The Mediating Role of Service Innovation

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Abstract: - Market orientation has an important role for organizations to create superior and sustainable performance and to generate innovative services. The present study aims to propose a conceptual model regarding the relationships between market orientation and performance of the Indonesian service company, known as local enterprises water services (LEWS), located in the west Kalimantan province, with innovative services as a mediating role. Purposive sampling method was used for data collection from 120 employees employed in several departments, including production, distribution, water loss control and customer service. Data were further analyzed using structural equation modeling partial least square (SEMPLS). The model used in this study was confirmed by the collected data. Our findings suggested that market orientation positively affects service innovation and company performance.

Key-Words: - Market orientation, service innovation, company performance, company, organization, Indonesia

1 Introduction

At the 21st century, public sector is undergoing a transformation [1], divided into two phases, 1) changes in organizational structure, allocation and resources control to meet organizational requirements and 2) service quality provided by organization (customer orientation) and stakeholder orientation. This transformation leads to changes in the management of public sector, which has begun to adopt the private sector management in its operation, such as market orientation strategies.

For marketing and management experts, it is of great interest to study the market orientation since it is a vital tool to reach competitive advantages and enhance business performance. Even though many previous studies reported the effects of market orientation on business performance [2], service performance [3-5], organizational performance [6-11] and service innovation [12-14], there are few such studies in the context of private sectors economy [15-18]. Therefore, there is still unclear information on the direct or indirect market orientation effects on company performance, especially in public sectors. In a previous study, Au and Tse [19] reported that market orientation has no impact on company performance. In the present study, we attempt to evaluate the market orientation effect on performance of the Indonesian service company, known as local enterprise water services (LEWS), which belongs to the public sector.

In order to determine the association between market orientation and company performance, we used *service dominant logic* approach, in which the company must be able to create *value in use* for customers by enhancing company performance, through providing a competitive quality of products and services as customer expectations. Market-oriented companies tend to develop customer-oriented strategies, and they mostly focus on managing the customer's behavior by creating a valuable service. Therefore, in the current study, we include service innovation as a variable that is usually considered by market-oriented companies. This is because service innovation can contribute in service improvement, which further enhances company performance. For the companies, efforts on market orientation and innovation strategies are important to provide better services to the customers [20, 21].

The present study is aimed to propose a conceptual model regarding the relationships between market orientation and performance of the Indonesian service company, known as local enterprises water services (LEWS), located in the west Kalimantan province, with innovative services as a mediating role.

2 Literature Review and Hypotheses

A successful company is determined by its proper understanding in the customer's needs and desires on products and services. Market orientation is vital for the companies in order to collect information regarding the customer's needs and desires that will be further used by companies in designing marketing strategies. Considering market orientation is quite important for the LEWS in order to achieve a public value and competitive advantages. Several studies conducted in public companies showed that market orientation and company performance are positively related [5, 7-8, 10-11, 22]. Even though several studies reported the impact of market orientation on service innovation [12-14], as well as the impact of service innovation on organizational performance [21, 23-25], there are no such studies in the context of Indonesian public company of local enterprise water services.

In addition, several studies reported the association between market orientation and organizational performance in public companies [16-18], but the association between market orientation and service innovation have not been reported by those studies. Therefore, the role of service innovation as a mediating role between market orientation and company performance in the LEWS is still unclear. This study is aimed to propose a customer orientation model on company performance. Service innovation variable is used as a factor that links between market orientation and company performance. The model used in this study is intended to overcome the limitations of previous studies. The role of service innovation is incorporated into an improvement of company performance in the LEWS. Furthermore, the idea of service innovation is obtained due to the existence of market orientation strategies from companies.

3 Market Orientation and Company Performance

To date, many companies consider the importance of market orientation on company performance in order to meet customer's needs and satisfaction. Market-oriented organizations strive to provide competitive customer value, and thus, market orientation is needed and becomes an important tool for an organization to provide a better performance. In addition, market orientation is the most effective organizational culture in creating behaviors that are needed for providing superior value to customers [26, 27].

To date, many studies evaluated the impact of market orientation on organizational performance in public sectors [15-18, 28]. These studies reported that superior performance of a company relies on the level of implementation of market orientation. Thus, it is important for a company to understand the market orientation that will give chance to gain a valuable information from the customers and uses this information to respond the customer's needs and desires. Similarly, the performance of LEWS company is requested by customers for a better quality. Accordingly, we hypothesize:

H1: Market orientation and company performance in the LEWS are positively related.

4 Market Orientation and Service Innovation

There is an increasing interest in the study of service innovation [30, 31], especially in the business development during the industrial revolution. In addition, service innovation requires many considerations from organizational aspects, because the innovation capability between companies is varying and it is determined by internal and external factors. This study is focused on the service innovation process from the company's internal aspect by optimizing market orientation strategy. Market orientation plays a vital role for companies to design the significance efforts in designing the competitive value for customers.

By using the strategy of market orientation, the LEWS company can gather information regarding the customer's needs and desires, and thus, this company is possible to utilize this valuable information in creating superior advantages to customers. As described by previous studies, market-oriented companies are able to provide superior and valuable services [3-5]. The presence of market orientation enables national and regional companies to be more competitive, because market orientation has also roles as basic information for the development of service innovation that will be used by companies, organizations and public sectors. For companies, market orientation can be used as a vital tool in their decision making process, enabling them to provide markets according to the consumer's desires. Also, they can improve products or services with valuable innovations.

Several studies evaluated the impact of market orientation on service innovation [12-14], and the results showed that market orientation affects service innovation. Accordingly, we form the second hypothesis:

H2: Market orientation affects service innovation in the LEWS.

5 Service Innovation and Company Performance

Service innovation is an important aspect of a company's capability to be able to improve service differentiation. Service innovations that meet with the customer's needs and desires lead in increasing organizational income. The environment where the company operates, will always get demands from customers and stakeholders to provide superior services to all customers. Therefore, the LEWS company strives to improve and provide superior services in accordance with the customer's needs and desires. To provide a superior quality of services, the service innovation must be created since the service innovation is an important aspect of the company's capability in increasing service differentiation. Successful companies in creating service innovation are crucial to get more chances of becoming the prosperous and survival companies [32].

Innovation in public sectors is created because of public demands for new services [33], and this innovation can contribute to the service improvement [34, 35] and budget efficiency [36]. Therefore, service companies usually create strategies with the aim at improving company performance. To enhance company performance, the leader of a company must generate a continuous improvement through creating beneficial changes and new approaches, taking advantage from company's experiences, considering ideas from employees and exploring new methods to create an improvement in service innovation. Consequently, this improvement enhances the customer satisfaction, which further affects the company performance.

Several studies stated that service innovation results in improved company performance [23-25]. Accordingly, we create the third hypothesis:

H3: Service innovation affects company performance in the LEWS.

6 Service Innovation Mediates the Relationships between Market Orientation and Company Performance

Market orientation has a pivotal role for organizations in order to generate sustainable

competitive advantage. Market orientation is the capability of a company to create, disseminate and utilize the information about customers and competitors in creating superior customer value. Previous studies have only examined the association between market orientation and organizational performance in the public sectors [15-18, 28-29]. Several findings showed that market orientation affects service innovation [12-14]. Furthermore, service innovation has a positive effect on improved company performance [23-25]. These previous studies, mostly examined the impact of market orientation on organizational performance, further affecting service innovation, and finally, there is an improvement in company performance. However, no previous study has reported that service innovation has a mediating role in the relationships between the market orientation and company performance in the LEWS. Therefore, the fourth hypothesis:

H4: Service innovation mediates the relationships between market orientation and company performance in the LEWS.

7 Conceptual Model

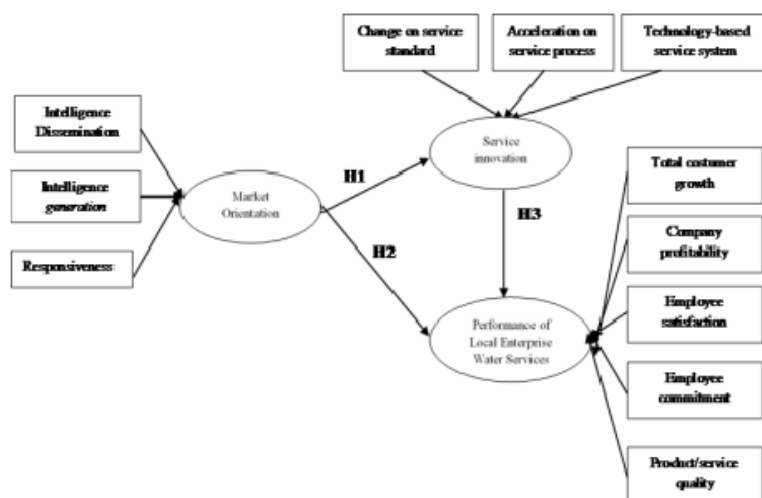


Fig. 1: Conceptual model

8 Methodology

8.1 Samples and data collection

Data were collected from 120 employees representing each department, including customer service (production, distribution and water loss control) and service office, using a purposive sampling method. As described by Hair et al. [37], the use samples more than 400 generates in a bias goodness-of-fit and the use samples ranging between 100 and 400 is advisable.

8.2 Measures

In this study, the measures were adopted from previous published studies. Market orientation was determined by adopting the scale created by Kohli and Jaworski that was modified according to the public sector context [6,18,35], consisting of intelligence dissemination, intelligence generation and responsiveness. Service innovation was measured according to previous studies [38-40], which included: changes in service standards, accelerated service processes and technology-based service systems. Performance measures of the LEWS are adopted from published studies [41-42], including total customer growth, company profitability, employee satisfaction, employee commitment and product/service quality.

8.3 Data analysis

Structural Equation Modeling Partial Least Square (SEMPLS) was used in this study. Structural Equation Model (SEM) is a multivariate analysis technique combining factor analysis and multiple regression allowing the researchers to simultaneously test and estimate the relationships between exogenous and endogenous variables with several factors.

9 Research Finding

To explain the influence between variables, we used 95% of interval confidence. The hypotheses in this study will be accepted if the t-statistic is higher than 1.96 or the P-value is smaller than 0.05. The

statistical analysis results between variables are performed in Table 1.

The results of path coefficients test showed that market orientation affects company performance of the LEWS, with the path and p-value being 0.408 and 0.000, respectively, indicating that the first hypothesis is truly accepted. For the second hypothesis, the results of path coefficient indicated that market orientation significantly affects on service innovation, depicted by path coefficient value and p-value being 0.504 and 0.000, respectively. Furthermore, statistical analysis showed that service innovation significantly affects company performance of the LEWS, with a path coefficient value of 0.316 and a p-value of 0.008, indicating that the third hypothesis is also accepted. For the fourth hypothesis, path coefficient test showed that service innovation mediates the relationships between market orientation and performance of the LEWS, with a path coefficient of 0.386 and p-value of 0.000.

10 Discussion

The present study is aimed to propose a conceptual model regarding the relationships between market orientation and performance of local enterprise water services company, located in West Kalimantan province of Indonesia, with service innovation as a mediating role. According to the results of the present study, the all hypotheses are accepted, indicating that market orientation affects performance and service innovation in the company. Also, service innovation mediates the relationships between market orientation and company performance.

Table 1. Test results of hypotheses

Variables	Path coefficient	t-statistic	P-Value	Note
Market orientation → Performance	0.408	3.013	0.000	Significance
Market orientation → Services Innovation	0.504	4.017	0.000	Significance
Services innovation → Performance	0.316	2.186	0.008	Significance
Services innovation → Market orientation and Performance	0.386	4.201	0.000	Significance

The results of this study are valuable for the company for future marketing strategies by considering market orientation. Market orientation is necessary for the public sectors because a strong market orientation generates a superior customer value through implementing higher quality of services to the customers that finally impacts on company performance [10, 43-44]. In addition, the company leaders are forced to be able optimizing

the resources they have [45], as described by Jay Barney with resources base view (RBV) approach. Furthermore, creating a strategy based on resources (RBV) possessed by the organization is a key factor that determine the success of public organizations to meet customer's needs (customer orientation) and stakeholders.

11 Conclusion

The development of service sectors over the past decades in both developed and developing countries, either in profit or non-profit services has been growing rapidly and even become a source of gross domestic product (GDP) for a country. For the LEWS company, understanding market orientation, resources possessed and business processes are important strategies for a better service innovation. The significant impact of service innovation on company performance indicated that creating service innovation is impossible when the company does not have a strong market-oriented strategy. Therefore, the implemented innovations can contribute to the service improvement. This is because the LEWS company operates in open systems with complex environments and there is an increasing demand from customers, and finally, the company must be able to create service innovation that meet the customer's needs and desires.

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