

DETERMINANTS OF CORPORATE PERFORMANCE: A STUDY ON FURNITURE COMPANIES IN JEPARA INDONESIA

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Abstract

The aims of this research were to analyze corporate performance through learning orientation, leader's characteristics, market orientation, and innovation in furniture industries in Jepara, Indonesia. The samples in this research were 110 small and medium enterprises. Based on SEM analysis results, the seven research hypothesis used were; (1) learning orientation has significant effect on corporate performance; (2) learning orientation has significant effect on innovation; (3) leader's characteristics do not have significant effect on corporate performance; (4) leader's characteristics have significant effect on innovation; (5) market orientation has significant effect on innovation; (6) market orientation has significant effect on corporate performance; (7) Innovation does not have significant effect on corporate performance. After the test and analysis, it was found that five out of the seven hypotheses were accepted and two out of them were rejected.

Keywords : corporate performance, innovation, market orientation, leader's characteristics

1. Introduction

Market orientation approach assists organization to adjust with its environment, and it is used as an effort to develop competitive advantages. Therefore, a more organizational-oriented market will be more capable of accessing its goal. Consequently, a company requires market orientation more than other strategic approaches to be successful. In addition, learning orientation is also required to be able to support the market and behavioral-oriented vision strength in organization.

Actually, learning orientation known as the acceptance of learning process in organization enables a company to continue the creation of the knowledge needed for marketing its products, technology, and relevant processes, and it is highly associated with introduction and action against market opportunity in an unstable environment (Slater and Narver, 1995). The condition of highly competitive and dynamic competition demands

aggressive and innovative attitudes. Besides, the tight competition also affects companies to be more flexible, adaptive, and responsive.

The emergence of innovation or innovation product is essentially to meet market demands so that innovation product is one of competitive advantages for companies. Innovation products are believed to be able to increase sales, profit, and competitiveness of a business organization, but the development of innovation products also means expensive products and risks for a company. Therefore, an appropriate and accurate coordination is required among the departments in a company to produce appropriate products for market. Hadjimanolis (2002) linked the owner's and corporate characteristics to innovation, and found the positive effect on corporate performance measured by profitability, size, market share, and sales growth. Thus, based on the research, the final result of innovation was corporate performance. Han and Rajendra (1998) stated that innovation product has positive effects on corporate performance.

The researches in relation with leader's characteristic to market orientation were conducted by Jaworski and Kohli (1993), and the results were; leader factor affected market orientation. Furthermore, the roles of senior manager are the important factor in supporting market orientation development.

By adapting the insights and researches above, this research was conducted to the furniture industries in Jepara Regency, Central Java Province. The reasons and considerations were; first, according to Sadler (2004), the research on small medium enterprises has no functional separation in small businesses and organizational work. They are easier to explore, and the entrepreneurship and managerial competencies can be found in each manager individually. In addition, small businesses are considered to contribute significantly in innovation. Then, Sadler (2004) also suggested that the research in small companies is full of individuals running their operational, managerial, and entrepreneurial functions.

The second reasons and considerations were that furniture industry is one of major trade commodities and export activities in Central Java mostly located in Jepara Regency, and until recently they are still actively involved in export and trading activities. Central Java Province, since 2001, has launched the program to develop export and trade with the purpose to encourage the development of trade and non oil and gas export of regional superior products that will affect economic development and employment. As the center for wooden furniture industry in Indonesia, Jepara Regency has a very important role in national economy. According to Roda et al., (2007), there were 15,271 furniture industries in Jepara and employed 176,470 workers. Based on the data of the Center Bureau of Statistic (BPS) of Jepara Regency in 2007, total furniture trade from Jepara in 2007 reached 37,894,523.92 kg of furniture with the production value of US\$ 94,640,782.15.

Loebis and Schmits (2005) stated that wooden furniture industry is one of industries that can survive in economic crisis in 1997. It was found from the furniture industry growth in Jepara and the increase of employment rate. The number of wooden furniture industries in 1997 was 2,439 and the number of the industry in 2007 increased to 3,710 (the Cooperative, Trade, and Industry Agency of Jepara Regency, 2008). Similarly, the number of employment in 1997 was 38,264 workers and increased to 49,192 workers in 2007.

Considering the contribution provided by the furniture industry, furniture industry must get attention, not only in the market aspect of teak wood furniture in Jepara but also in the aspects of corporate performance and marketing.

As the description, the fluctuation of export activities in Jepara Regency, based on the empirical data on the potency of furniture industry in 2009-2011, can be seen in Table 1 below:

Table 1 – Report of export value in Jepara Regency, 2009 - 2011

No	Year	Value (in US\$ millions)	Number of Destination Countries	Number of Exporters
1	2009	101.04	106	265
2	2010	131.39	105	290
3	2011	138.04	105	276

Source: <http://disperindag.jeparakab.go.id/index.php/web/data/9>

Table 1 shows that the number of the destination countries for furniture export decreased from 2009 to 2011. Similarly, the number of exporters increased from 2009 to 2010, and then dropped from 2010 to 2011. However, the value increased from 2009 to 2011.

Based on the source of the Regional Government, the decrease of export volume was caused by the quantity of rejected furniture since they did not meet the quality required by consumers. The rejected products were priced cheaply. This statement was in line with the managements' in Jepara Regency who stated that every product which was not suitable with consumers' orders was not paid fully (100%), but it was priced based on its incompatibility, e.g. only 80%. Therefore, it is necessary to improve the products concerning the requirements required by consumers.

The furniture industries in Central Java are only considered as the tailors because they do not have clear basic design, just imitate, minimum innovation, and tend to be controlled by buyers. In addition, the decrease of export volume was caused by the crisis which struck the European countries as the export destination countries.

2. Corporate Performance

There have been many studies recognizing the importance of innovation on corporate performance. This study was discussed in a variety of academic research perspectives in the form of conceptual and empirical research; (Prajogo, 2006), (Salomo et al., 2008), (Akgun, Keskin, & Byrne, 2009), (Rosenbusch, Brickmann, & Bausch, 2010) and (Gunday et al., 2011). They introduced changes in organization structures and processes with a view of trying or improving performance levels. An empirical study of organizational innovation and performance shows that high-performing organizations have a stronger relationship between the level of innovation in their social and technical systems. The empirical study studied the relationship between the types of innovation and corporate performance. In this study, corporate performance was divided into innovative, production, market and financial performances, and innovation was classified into four types; product, process, marketing and organizational innovations.

The findings have revealed positive effects of innovation on corporate performance in the furniture industries. They also show innovative performance as a mediator role between the types of innovation and performance aspects. The findings support the strategy of innovation as a key driver of corporate performance and should be executed as an integral part of a business strategy to improve operational performance (Gunday et al., 2011).

Significant corporate performance can be achieved if a company prioritizes innovation and manages innovation from a strategic perspective. It was demonstrated in a study by Salomo et. al., (2008) showing that the orientation of innovation has an indirect effect on performance mediated by the innovation of a new product portfolio of the company. Exploratory and exploitative innovation have positive effects on firm performance. Companies need to introduce innovations in the exploration of dynamic environment so that they will find the premium market segment to develop and survive. Meanwhile, in a less

competitive environment, companies can keep their current business systems with an exploitative innovation of low cost risk which is more beneficial to improve performance companies (Li et al., 2010). Corporate performance is the achievement of a company's business objectives as established by the maximum benefit to be able to sustain growth and development. The corporate performance indicators consist of four indicators, i.e. sales, profit, new product growth, and employee productivity.

2.1. The Role of Learning Orientation, Innovation on Corporate Performance

Several studies on the relationship of learning orientation, innovation and performance can be seen from the research results of the researchers (Calantone et al., 2002 and Aragon et al., 2007). In global competition, innovation acts as a key driver to address the issues of quality, quantity and speed. Companies strive to optimize their design search and new values in the form of new products, processes or ways of doing business.

The effectiveness of management in the innovation process requires a set of innovation balance related to all drivers of innovation such as leadership, culture and community participation and results associated with financial innovation and when to enter the market. Innovation uses all inputs, such as leadership, employee participation process, innovation strategy, innovation resources, customer feedback process, portfolio of innovation projects, and supplier participation to produce the products of innovation process. The results consist of customer, employee, organizational and overall performance impacts (Dervitsiotis, 2010).

Innovation is a multidimensional concept used as a framework for analyzing business performance, firm innovation and related contextual factors. Thus, innovation is defined as product, process, and organizational innovations, and management systems (Neely et al., 2001). In the context of innovation, it is deemed to affect company's capacity to innovate and the actual level of innovation. Innovation does not only refer to a result or a new idea but also the process of emerging ideas (Gupta, Tesluk, & Taylor, 2007). This definition also has some similarities in terms of innovation as a process and as a result (Crossan and Apaydin, 2010).

Innovation positively affects business performance (Carmen et al., 2009), and the innovations of products and processes have a strong and positive relationship with Vendor performance (Murat Ar, Ilker and Baki, Birdogan, 2011).

Previous researchers had extensively discussed the effect of innovation on corporate performance (Hernandez Delgado-Ballester Espallardo, 2009 and Salomo et al., 2008). For example, the empirical research show that innovation has a positive effect on company performance, such as innovation, production, marketing and financial performances (Gunday et al., 2011).

Based on the literature review on the kinds of innovation, understanding innovation in an organization must distinguish between how innovation is implemented and what the results of innovation that will ultimately affect corporate performance. In determining corporate, an innovation process must precede the results of innovation. Therefore, to adjust the proposed framework, the definition of innovation is "an interactive process that involves multidimensional organizational factors held or carried through the stages of the innovation process in producing innovation outcomes, such as products, services, processes and business models which are relatively new to the organization" (Suriati et al., 2011).

3. Research Method

3.1. Samples

The data used in this research was primary data, and the sampling technique was purposive sampling. The samples in this research were 110 companies in order that the data obtained was representative enough to use the analysis technique of Structure Equation Model (SEM).

3.2. Operational Definition and Measurement

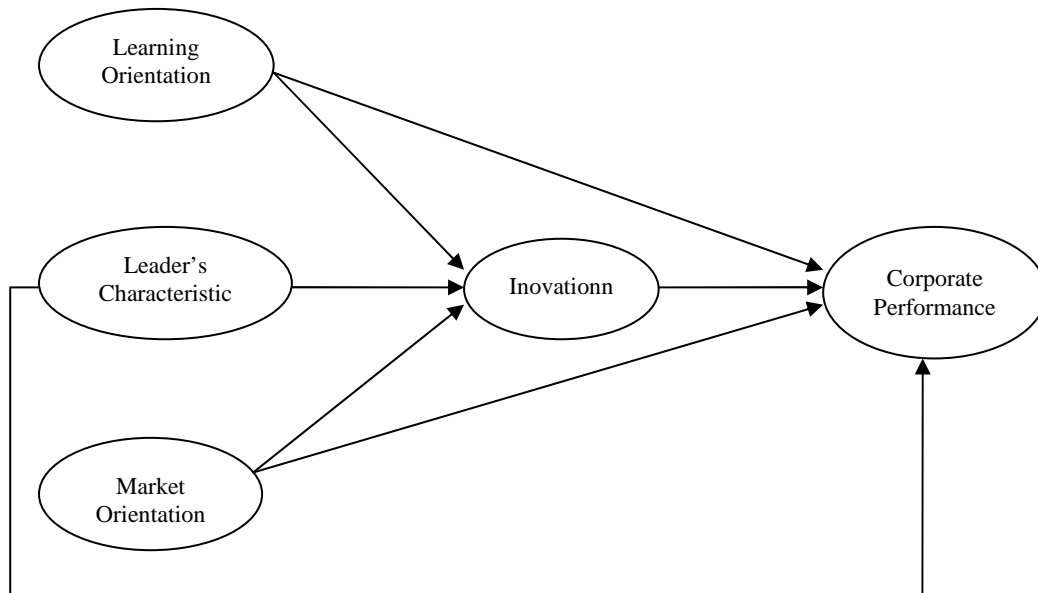
The operational definition and measurement of this research could be explained in the following table:

Table 2 – Operational Definition and Measurement

Variables	Operational Definition	Measurement
Learning Orientation	A process in which the members of an organization develop mutual values and knowledge based on their own and other’s past experiences. The learning orientation measured refers to Sinkula et al., (1997) ; Moorman and Miner (1998) and Nikoomaram (2011), with the operational measures, i.e.: commitment to study, mutual vision, mind openness, and sharing knowledge among organizations.	1 to 10 (Totally Disagree – Totally Agree)
Leader’s Characteristics	It is the attitudes of leaders in communicating, the attitudes to risk, educational level, mobility level, the attitudes toward changes and the actions taken that will affect their subordinates. The indicators of leader’s characteristics refer to Hadjimanolis (2002) and Salomo et al.,(2008), with the operational measures, i.e.: commitment, knowledge on innovation, manager’s experience, and risk taking.	1 to 10 (Totally Disagree – Totally Agree)
Market Orientation	An orientation concept focuses on the creation of high value for consumers. The indicators of market orientation measured refer to Narver and Slater (1990) and Oudan (2012), with the operational measures, i.e.: customer’s orientation, competitor’s orientation, and inter-functional coordination.	1 to 10 (Totally Disagree – Totally Agree)
Innovation	An introduction to tools, legal system, products or services, and new production process technology, administration system, structure, or planning program to be adopted by an organization. The indicators of innovation measured refer to Hurley and Thomas (1998) and Carmen et al., (2009), with the operational measures, i.e.: innovation culture, administration innovation, and technical innovation.	1 to 10 (Totally Disagree – Totally Agree)
Corporate Performance	It is a measurement of success or achievement achieved by a company measured every certain period of time. The indicators of performance measured refer to Harris and Ogbonna (2001) ; Bae and Lawler (2000); Gunday et al., (2011), with the operational measures, i.e.: corporate growth, profit growth, and new product growth, and employee’s productivity.	1 to 10 (Totally Disagree – Totally Agree)

Concerning the above explanation, the correlation can be described in the form of the following relationship of the theoretical frameworks variables (Figure 1):

Figure 1 – Theoretical Framework



3.3. Analysis Technique

The research analysis used Structure Equation Model (SEM) of the computerization package AMOS 16. The selection of the causal modeling of AMOS described the associations hypothesized between the constructs explaining causalities that included staged causality.

By considering the complexity of data measurement, the technique proposed was multivariate technique of SEM. Concerning the presence of ability in developing the model, it is still efficient statistically to have more than one dependent and independent variables when the other multivariate techniques, such as multiple regression, factor analysis, multivariate analysis of variance and discrimination analysis, can only explain one single association in a particular time.

Therefore, SEM computerization program was chosen in analyzing the relevant research data by answering the research questions, like the tools used in previous research. A complete SEM modeling basically consists of measurement model and structure model. Structure model is a model on relational structure that forms and explains inter-factor causality (Ghozali, 2008).

To make a complete modeling, several measures to do are:

1. Theoretical-based model development
2. Composing Path Diagram
3. Path Diagram conversion into equation
4. Selecting matrix input and analysis technique
5. Assessing problem identification
6. Evaluating the criteria of Goodness-of-fit
7. Model interpretation and modification.

4. Results and Discussion

4.1. Structural Equation Model (SEM)

Model feasibility test was entirely conducted by using the analysis of Structure Equation Model (SEM) which was also used to analysis the hypothesis proposed. The summary of the model feasibility test of confirmatory factor analysis is as follows (Table 3).

Table 3 – The Results of Model Feasibility Test Using Confirmatory Factor Analysis

Goodness of Fit Index	Cut-off Value	Analysis Results	Model Evaluation
Chi-square	<152.09 (5%, 125)	122.684	GOOD
Probability	≥0.05	0.542	GOOD
RMSEA	≤0.08	0.000	GOOD
GFI	≥0.90	0.887	MARGINAL
AGFI	≥0.90	0.845	MARGINAL
TLI	≥0.90	1.002	GOOD
CFI	≥0.95	1.000	GOOD
CMIN/DF	≤2.00	0.981	GOOD

Source: Processed primary data

The results of the data processing analysis show that all constructs used to make a research model in the analysis process of SEM full model meet the determined criteria of goodness of fit. The size of goodness of fit showing the fit condition is caused by the chi-square score of 122.684 which is smaller than the determined cut-off value (152.09) with the probability value of 0.542 or more than 0.05. This value does not show the difference between the sample's and population's covariance matrix estimated. The other size of goodness of fit also shows good condition, i.e.; TLI (1.002), CFI (1.000), CMIN/DF (0.981), RMSEA (0.000), and they meet the criteria of goodness of fit. In other hand, the values of GFI (0.887) and AGFI (0.845) are still in tolerance limit so that they can be accepted.

The calculation results to the criteria of goodness of fit in the program of AMOS 16 show that the confirmatory analysis and Structural Equation Modeling in this research can be accepted in accordance with the fit model with the Chi-Square score of 122.684 which is smaller than the determined cut-off value (152.09) with the probability value of 0.542 or more than 0.05. This value does not show the difference between the sample's and population's covariance matrix estimated. The other size of goodness of fit also shows good condition, i.e.; TLI (1.002), CFI (1.000), CMIN/DF (0.981), RMSEA (0.000), and meets the criteria of goodness of fit. In other hand, the values of GFI (0.887) and AGFI (0.845) are still in tolerance limit so that they can be accepted. Based on the fit model, the test can be conducted to the five hypothesis proposed in this research.

4.2. Hypothesis Test 1

H₁: Learning Orientation has positive effect on Corporate Performance

The results of this research indicate that H1 in the research is acceptable because the estimation parameter of the two variable relations was 0.459 and the test shows significant results with CR value = 3.083 that meets the requirement of >1.96, with the probability = 0.002 that meets the requirement of test probability of below 0.05.

The Relation between Learning Orientation and Corporate Performance

Data respondents indicated that the mean of learning orientation index is high with the indicators of mind openness and placed the highest position index in the variable of learning orientation. It was then followed by the commitment to study and share knowledge between organizations, and the last is mutual vision.

These data indicate that the respondents' learning orientation was good enough so that it supported the improvement of corporate performance. It is in accordance with the research of Calantone et al (2002) and Aragon et al (2007).

4.3. Hypothesis Test 2

H₂: Learning Orientation has positive effect on Innovation

The estimation parameter of the two variable relations was 0.367. The test shows significant results with CR value = 4.981 that meets the requirement of >1.96, with the probability = 0.000 that meets the requirement of test probability of below 0.05. Thus, H₂ in this research can be accepted.

The Relation between Learning Orientation and Innovation

From the research conducted, it can be concluded that the second hypothesis can be accepted. The mean of learning orientation index is high with the indicator of mind openness and places the highest position index in the variable of learning orientation. It is then followed by the commitment to study and sharing knowledge among organizations, and the last is mutual vision.

The respondents' opinions with high mean of index and the results of data processing show that the respondents' learning orientation is very good so that it supports the improvement of corporate innovation. It is in accordance with the research of Hurley and Thomas (1998) stating that learning orientation is an antecedent of innovation, and learning orientation is positively associated with innovation. However, it is different from the research results of Sinkula (1999) suggesting that learning orientation has direct effect on performance, but it also has indirect effect on product innovation.

4.4. Hypothesis Test 3

H₃: Leader's Characteristic does not have significant effect on Corporate Performance

Hypothesis H₃ in this research is rejected, The test shows significant results with CR value = 0.260 that does not meet the requirement of >1.96, and with the probability = 0.795 that does not meet the requirement of test probability of below 0.05. Meanwhile, the calculation result of the estimation parameter of the two variable relations was 0.037.

The Relation between Leader's Characteristics and Corporate Performance

Hypothesis H₃ is not accepted in this research, It means leader's characteristic does not have the significant role so that it does not affect corporate performance. The mean of leader's characteristic index is medium with the indicator of innovation knowledge and places the highest position index in the variable of leader's characteristic. It is then followed by risk taking and manager's experience, and the last is commitment.

The respondents' opinions with the medium mean of index and the results of data processing show that the respondents' leader's characteristic are quite good so that it supports the improvement of corporate performance. The facts this research shows are in line with the research of Jaworski and Kohli (1993) and Gunday et al., (2011) stating that continuous support or attention of top management to employees make the employees be more sensitive and responsive to market which finally influences corporate performance.

4.5. Hypothesis Test 4

H₄: Leader's Characteristic has positive effect on Innovation

According the facts of this research, they show that the estimation parameter of the two variable relations was 0.280. The tests show significant results with CR value = 3.293 that meets the requirement of >1.96 with significant probability. The facts of this study show that H₄ in this research can be accepted.

The Relation between Leader's Characteristics and Innovation

The facts of this research show that the forth hypothesis can be accepted. In this research, leader's characteristic has significant role so that it can affect innovation. The mean of leader's characteristic index is high when it is viewed from the indicator of innovation knowledge and places the highest position index in the variable of leader's characteristic. The results of this research are in line with the research of Daellenbach et al., (1999) and Carmen et al., (2009) stating that the Leader's Characteristic of a team management and CEO characteristics have positive effect on commitment to innovation.

4.6. Hypothesis Test 5

H₅: Market Orientation has positive effect on Innovation

Hypothesis H₅ in this research can be accepted because the estimation parameter of the two variable relations is 0.344, and the tests show significant results with CR value = 3.083 that meets the requirement >1.96 with the probability of 0.003 (below 0.05).

The Relation between Market Orientation and Innovation

The implications of the research data are the mean of market orientation index is high in this research, and the market orientation has significant role so that it can affect innovation. In addition, when it is viewed from the indicators, the competitor's orientation places the highest position index in the variable of market orientation which is then followed by inter-functional coordination and customer's orientation. The variable of market orientation indicates that the market orientation is highly important to do by the furniture companies in Jepara to perform innovation (Oudan, 2012).

4.7. Hypothesis Test 6

H₆: Market Orientation has positive effect on Corporate Performance

The effect of market orientation on corporate performance can be seen in the results of the estimation parameter to the two variable relations of 0.459. H₆ in this research can be accepted because the tests show significant results with CR value = 2.304 that meets the

requirement of >1.96 , with the probability = 0.021 that meets the test probability requirement of below 0.05. It shows that market orientation affects corporate performance.

This research result is in line with the research of Baker and Sinkula (1999) that market orientation has positive effect on organization's performance and will result in competitive advantage for a long period of time (Slater and Naver, 1995; Noble et al., 2002 and Salomo et al., 2008).

4.8. Hypothesis Test 7

H₇: Innovation does not have significant effect on Corporate Performance

The results of this research indicate that H₇ in this research is rejected because of the following facts; the estimation parameter of the two variable relations is -0.278 and the tests does not show significant results with CR value = -1.003. It does not meet the requirement of >1.96 , and the probability = 0.316 does not meet the test probability requirement of below 0.05. It shows that innovation does not affect corporate performance directly.

This research results are in line with the research of Olson and Bokor (1995) and Hadjimanolis and Dickson (2000) stating that the level of corporate innovation does not have significant effect on corporate performance measured by sales growth.

5. Conclusion

The research results can conclude that there was a significant relationship between learning orientation and market orientation on corporate performance. On the other hand, leader's characteristics and innovation did not significantly influence corporate performance. It is possible because the research found that most of Jepara furniture companies only served the design orders with specified motive of the buyers (importers). Therefore, Jepara furniture companies have no chance to develop their innovative designs and motives in serving their buyers (importers).

The results also show that learning orientation, leader's characteristics and market orientation have significant relationship to innovation. It indicates that, to increase innovation, Jepara furniture companies need to make the right policy at the variable of learning orientation, leader's characteristics and market orientation.

Meanwhile, in an effort to improve the corporate performance, it is suggested that Jepara furniture companies should create the policies that take into account the variables of learning and market orientation so that Jepara furniture companies' performance can be increased.

This research is also expected to be a reference for other researchers interested in studying in the field of marketing, especially related to corporate's marketing performance.

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