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## Innovativeness Model Of Small And Medium Enterprises Based On Market Orientation and Learning Orientation: Testing Moderating Effect Of Business Operation Mode

Rahab<sup>a\*</sup>

*<sup>a</sup>Management Department, Faculty of Economics, Jenderal Soedirman University  
Roediro Building, 1st floor, HR. Boenyamin Street 708, Grendeng Campus, Purwokerto, 53122, Indonesia*

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### Abstract

Firms tend to perform better when they attempt to focus on market orientation with special emphasis on flexibility and faster response time. The aims of this study is to analyze the interrelationships between market orientation, learning orientation and innovativeness. The effects of business operation mode on learning orientation and innovativeness are also investigated. The study involves a questionnaire-based survey of owners from small-medium sized-firms operating in Banyumas regency. A total of 149 usable questionnaires were received from SMEs. A structural equation model was designed to examine the relationship. Model was tested by Partial Least squares (PLS) analysis. The results show that firm innovativeness positively affects firm performance; firm learning-orientation positively influences firm innovativeness; firm market-orientation positively impacts firm learning orientation; firm learning-orientation mediates the relationship between firm market-orientation and firm innovativeness. The study found that participation moderate the relationship between market orientation and learning orientation on innovativeness.

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**Keywords:** market orientation; operation mode; innovativeness; learning orientation; SMEs.

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\* Corresponding author. Tel.: +62-81637970; fax: +6281640268  
E-mail address: [rahab@unsoed.ac.id](mailto:rahab@unsoed.ac.id) or [rahab\\_inc@yahoo.co.id](mailto:rahab_inc@yahoo.co.id)

## 1. Introduction

In the business world, business environment and customer preferences will always have a change to be more dynamic and complex. Each firm is required to survive by making internal changes to anticipate any changes in business and market demands. To deal with the changing business environment and changing customer preferences, many companies introduce the idea of market orientation, which is one of the important developments in marketing studies. Market orientation is a continuum that is characterized by the presence of a level of a firm in acquiring, disseminating, and responding to information obtained from customers, associates, and competitors. The firm will get better performance when the firm is trying to focus on market orientation with specific emphasis on flexibility and faster response time (Baker and Sinkula, 1999; Hardley and Mavondo, 2000; Noble et al, 2002; Benito et al. , 2009).

Several previous studies indicate that market orientation (Narver and Slater, 1990; Jaworski and Kohli, 1993), learning orientation (Sinkula, 1994; Narver and Slater, 1995) have an influence on the Firm's innovativeness. Hurley (2003) finds the relationship between the two antecedents (market orientation, learning orientation) on Firm's innovativeness. Market orientation is firm's attempt to always produce the products / services in accordance with the needs of the market/consumers. Market orientation will encourage companies to innovate at all times. Innovation Process in a firm closely associated with the learning process that develops in the firm.

Firm learning-orientation not only receive and disseminate information about the market or take advantage of market-based knowledge to find new ways to serve customers, but also continue to explore the dynamics of the market (Lin et al., 2008. Hardley and Mavondo (2000) argued that learning orientation have a significant and positive impact on customer orientation and competitor orientation. Keskin (2006) suggests that a business to maximize its ability to learn about the market and create market orientation is an early stage in developing its internal innovation. This condition indicates that learning orientation mediates the relationship between market orientation and innovativeness (Suliyanto and Rahab, 2012). Thereby, the level of learning orientation plays a role in influencing the relationship between market orientation and innovativeness.

Farrell (2000) argued that learning orientation is a source of firm's competitive advantage. Firm should facilitate organizational learning as the highest priority in management practices. However, the question arises whether a specific management practices and behaviors can facilitate the learning orientation and market orientation. Can the market orientation facilitates the learning orientation? Is learning strategies can improve the market orientation? The whole questions of research are yet to be clearly answered and require further research.

In addition, market orientation and learning orientation plays a role in the practices of Firm's innovativeness dimensions. The success of the marketing operation based on the ability of Firm to differentiate their products and marketing activities of competitors. Maydeu-Olivares and Lado (2001) argued that innovation is one of the Firm's abilities to create a core value (core value). McGuinness and Morgan (2005) state that market orientation had a positive impact on the organization innovativeness. Based on these preliminary findings, the question arises; (1) Is firm market-orientation will be able to develop the learning environment? (2) Does firm market-orientation can introduce innovativeness activity in the Firm? (3) Does market-oriented Firm achieve its innovativeness through organizational learning? Therefore, this study attempts to explain the relationship between market orientation and firm innovativeness learning orientation role in mediating the relationship between market orientation and innovativeness.

Furthermore, Hurley and Hult (1998) argued that the mode of operation of a business has a major influence on learning orientation and firm's innovativeness. Level of openness and involvement in decision-making will facilitate employees' commitment to innovation. The level of sharing information and resources will increase the acceptance of new ideas and reduce the power of certain groups, politics and status, which could hinder the process of innovation within the firm (Lee and Tsai, 2005). Level of support and collaboration will reduce

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