Market Orientation and Export Performance: Evidence from Indonesia

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ABSTRACT

Manufacturing sector plays a major role on Indonesia's exports and contributes significantly to gross domestic product (GDP). Indonesian exporters in manufacturing sectors are encouraged by Indonesian government to upgrade their market orientation in order to export more. The study examines the issue of how market orientation influences export performance. Using survey data obtained from Indonesia based manufacturing exporters, the findings of this study suggest that the three dimensions of customer orientation, competitor orientation, and inter-functional coordination were extracted from factor analysis and hypothesized to influence the variations in export performance. The results of multiple regression analysis revealed that all dimensions of market orientation make a significant contribution to the explanation of export performance. In addition, customer orientation was statistically found to be the strongest dimension in explaining the variance in overall export performance.

Keywords *Market orientation, Export performance, Manufacturing firm, Indonesia*

INTRODUCTION

There have been at least two major theoretical approaches used in international marketing research to understand the antecedents of export marketing performance. These are the industrial organization theory and the resource based-view (Calantone et al., 2006; Zou and Cavusgil, 2002; Zou et al., 2003). The industrial organization theory ascribes a firm's international performance to its external market position. The resource based-view focuses on internal organizational resources such as marketing competency or marketing capabilities to identify the determinants of a firm's international marketing performance.

In the previous export marketing performance literature, (e.g., Calantone et al., 2006; Zou et al., 2003) most studies adopted the industrial organization theory to evaluate a firm's export strategy, characteristics, and external factors as determinants of performance. Industrial organization theory states that the external environment imposes pressure on the firm to which it must respond. In line with this theory, Zou and Stan (1998) suggested that exporters who respond successfully to their external environments by developing and implementing an appropriate strategy would enjoy superior performance. The strategy factors that have been frequently studied as determinants of export marketing performance include adapting the different marketing mix elements to accommodate the needs of the local market, different channel relationships, together with the different types of channels (Zou et al., 2003). However, Zou et. al (2003) also suggest that the industrial organization framework only focuses on the impact of a firm's strategy and its external environment on performance, and places very little emphasis on the impact of idiosyncratic internal capabilities, such as market orientation, on the firm's performance (Barney, 1991).

In order to overcome this void in the literature Barney (1991) introduced a new theoretical perspective that is the resource based-view of the firm. The resource-based view of the firm views the firm not in the light of its activities or strategy in the product market but as a unique bundle of tangible and intangible resources. In addition, the firm's resources, not its strategy, are the heart of the firm's competitive advantage (Peteraf, 1993). In other words, the resource based-view states that the principal determinants of a business' export marketing performance and its strategy are its internal resources.

Not all of the firm's resources have the potential to create a sustainable competitive advantage. Barney (1991) argued that to create a sustainable competitive advantage, a resource must have four attributes: It must (1) be valuable, (2) be rare, (3) be difficult to imitate, and (4) have no strategically equivalent substitute. Specifically, resources that are necessary for creating a sustainable competitive advantage can be divided into two types, namely, assets and capabilities. Assets are the resource endowments a firm has accumulated, for example, an investment in facilities. Whilst capabilities are a firm's complex bundle of skills and accumulated knowledge, exercised through an organizational process that enables the firm to coordinate activities and make the best use of its assets (Day, 1994). In short, the industrial organization theory argues that external factors determine the firm's strategy, which in turn influences firm performance. In contrast, the resource based-view argues that the firm's internal resources determine the firm's strategy, which in turn affects firm performance.

In recent years, there has been an increasing number of international marketing studies conducted using the resource based-view of the firm (Calantone et al., 2006; Dhanaraj and Beamish, 2003; Zou et al., 2003). Additionally, Knudsen and Madsen (2002) have suggested that the resource-based view of the firm has emerged as the dominant paradigm. As such, this study uses the resource based view of the firm as its theoretical underpinnings and examines the role of market orientation in predicting export marketing performance in the context of Indonesian manufacturing exporting firms.

Despite the fact that market orientation is crucial to the success of firms, a review of the literature on manufacturing firms in Indonesia suggests that limited research has focused on this significant variable. Furthermore, it is interesting to note that most previous research on market orientation has been concentrated thus far on firm's performance in domestic operations and very limited research has been done explicitly on the impact of the market orientation on the export performance (Cadogan, Diamantopoulos & Mortanges, 1999). In line with this argument, Dalgic (1994) suggested that further conceptual and empirical studies need to be carried out and argued that future models of export performance should incorporate market orientation as an important variable of companies. Only in the last few years, researchers have explored issues relating to market orientation in an international context (Akyol & Akehurst, 2003; Codagon, Diamantopoulos & Siguw, 2002; Cadogan, Cui & Li, 2003; Cadogan & Cui, 2004; Rose & Shoham, 2002). However, the results showed that there is no unequivocal evidence as to if and when market orientation has a positive impact on export performance. Thus, such an investigation is needed because the international operations are increasingly important for business survival (Deshpande & Farley, 2004). In addition, most of researches on market orientation have been dominated by U.S. studies. The present study is intended to close this research gap. More specifically, the purpose of this study is to examine the construct of market orientation as it relates to a developing country, namely Indonesia, which has recently open up its economy to export activity. The study also seeks to identify control variables that can affect the market orientation-export performance relationship in Indonesian manufacturing firms.

LITERATURE REVIEW

1. Export Performance

Export has been documented as a crucial factor for nation's economic development. Therefore, there have been numerous studies done to explain determinants of export performance. There are at least three reasons for gaining a particular interest in export business research. First, the export business is considered as low cost and less risky mode of foreign market opportunities. Second, the national government has more attention to its export sector. Finally, the high competition appears in the worldwide markets (Loenidou & Kaleka, 1998). Furthermore, Katsikeas et al., (2000) and Ogunmokun and Ng (2004) explain that superior export performance is very important for the three certain groups. First, the firm's managers view export as a tool to improve firm's growth, financial performance, competitiveness, and survival. Second, the policy makers view export as a mean to accumulate foreign exchange reserves to increase employment level, productivity, and social prosperity. Finally, the marketing researchers consider export as a promising area to build theory.

A substantial body of integrated literature on export performance has been published over the past three decades (Madsen, 1987; Aaby & Slater, 1989; Leonidou, Katsikeas & Piercy, 1998; Zou & Stan, 1998; Katsikeas et al., 2000; Leonidou et al., 2002). Generally, the purpose of the integrated literature is to examine the different trends in studying export performance and identifying weaknesses and strengths of previous studies. Although, there are many variables considered as determinants of export performance in the previous studies, the wide disagreement still exists in the field with respect to the nature and significance of variables used as determinants of export performance. According to Leonidou et al., (2002), there are five groups of variable that influenced export performance in the previous study. These are managerial characteristic, organizational factors, environmental factors, export targeting, and marketing mix variables. Managerial characteristics refer to personal, experiential, attitudinal, behavioral, and allied traits of the exporting firm's decision makers (Leonidou et al., 2002). Among managerial characteristics, management perception, awareness and attitude (Aaby & Slater, 1989), educational level and command of languages (Leonidou et al., 1998), and international experience (Cavusgil & Zou, 1994; Leonidou et al., 1998; Zou & Stan, 1998; Yeoh, 2004) are the most important determinants of export performance.

Organizational factors refer to elements pertaining to the company characteristics, operations, resources, and objectives of the exporting organization (Leonidou et al., 2002). Among organizational factors, firm size was one of the most researched variables. However, the result was mixed effect on export performance (Aaby & Slater, 1989; Chetty & Hamilton, 1993; Madsen, 1987; Majocchi, Bacchiocchi & Mayrhofer, 2005; Zou & Stan, 1998). It is interesting to note that most positive effects are found when size is measured by total firm sales, while some negative effects are found when it is measured by number of employees (Zou & Stan, 1998). However, Haahti, Madupu, Yavas, and Babakus (2005) argued that firm size does not affect export performance directly. Subsequently, another organizational factor that considered as a key of determinants of export performance is the firm commitment to export market. It has been reported with positive effect on export performance (Cavusgil & Zou, 1994; Madsen, 1989; Naidu & Prasad, 1994).
Environmental factors refer to factors shaping the task and macro-environments with in which exporters operate in both domestic and international markets (Leonidou et al., 2002). The environmental factors can be divided into three characteristics namely; industry characteristics, foreign market characteristics, and domestic market characteristics. Generally, the previous studies found that the relationship between environmental factors and export performance is still inconsistent (Cavusgil & Zou, 1994; Elango & Sambharya, 2004; Julian & O'Cass, 2002; Kaynak & Kuan, 1993; Madsen, 1987; Morgan et al., 2004; Yeoh, 2004). For instance, industry characteristics such as technological turbulence or manufacturing complexity reported a positive influence on export performance (Zou & Stan, 1998). Export market characteristics such as export market attractiveness has positive effect on export performance, others reported a negative effect (e.g. Kaynak & Kuan, 1993). On the other hand, domestic market characteristics have contradicting effect on export performance. For instance, Katsikeas and Morgan (1994) found a positive effect on export performance for national export policy, but Madsen (1989) found a negative influence of domestic market attractiveness on export sales.

Export targeting refers to the identification, selection, and segmentation of international market. Export targeting involves the number and type of export market (i.e. countries) that a firm may select, as well as its segmentation activities within each export market (Leonidou et al., 2002). The influence of market segmentation on export performance has been documented by positive effect (Leonidou et al., 2002). However, others reported insignificant effects on export performance (Madsen, 1987; Zou & Stan, 1998).

Marketing-mix variables refer to the company's export product, pricing, distribution, and promotion activity. Product adaptation and strength are found to be important determinant of export performance especially sales, profit, and growth (Leonidou et al., 2002; Zou & Stan, 1998). However, Kaynak and Kuan, (1993) found a negative effect of product adaptation on export performance. Price has been documented with positive influence on all performance measures (Leonidou et al., 2002) wherein the effect of price competitiveness is mostly significant (Aaby & Slater, 1989; Zou & Stan, 1998). The effect of promotional adaptation on export performance is found by mixed result. According to Zou and Stan (1998), this is because of the promotional measurement that used in prior studies. The last variable of marketing-mix activity relates to distribution. Channel support was reported to have positive effect on export performance (Cavusgil & Zou, 1994) while channel type of distribution has mixed effect as reported by Madsen (1989) and Zou and Stan (1998). According to Leonidou et al. (2002), the channel type is depended on largely the export markets.

Based on the reviews above, what stands out in the export performance literature is the multiplicity of views with respect to the determinant of export performance and the nature of relationships between these factors and export performance. The literature in this area still shows, with a few exceptions, a lack of an application of theoretical reasoning and inconsistency in export performance measurement (Aaby & Slater, 1989; Katesikeas et al., 2000; Loenidou et al., 2002; Shoham, 1998; Zou & Stan, 1998).

2. Marker Orientation

Market orientation as the crucial variable to firm performance has been found in previous studies. It has been becoming an increasingly popular research theme and has been receiving a great attention from many scholars (e.g.; Bhuian et al., 2005; Cadogan et al., 1999; Cadogan et al., 2002, 2003; Cadogan & Cui, 2004; Calontone et al., 2005; Deshpande & Webster, 1989; Greenley, 1995; Heiens, 2000; Hult et al., 2004; Hunt & Morgan, 1996; Kirca et al., 2005; Kohli & Jaworski, 1990; Kuada & Buatsi, 2005; Langerak, 2003; Narver & Slater, 1990; Pelham 1997; Raju & Lonial, 2001; Rueker, 1992; Shoham et al., 2005; Slater & Narver, 2000; Tay & Morgan, 2002). Scholars have provided many different definitions of market orientation. For instance, Desphande and Webster (1989) defined market orientation as an organizational culture that has a set of shared values and beliefs in putting the customers first in business planning. Narver and Slater (1990) also viewed the market orientation as an organizational culture. Nevertheless, they argued further that market-oriented firms should not focus only to customers but also to competitors and adding the importance of inter-functional coordination. On the other hands, Deshpande and Farley (1998 p.213) defined market orientation as a set of cross-functional process and activities directed at creating and satisfying customers through continuous needs assessment. Interestingly, their definition does not emphasize or reflect the competitor orientation.

Shapiro (1998) defined market orientation as a set of process aimed at acquiring information on all of important buying influences and spreading that information through every department in the organization. Kohli and Jaworski (1990 p.6) defined market orientation as the organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence across department, and organization-wide responsiveness to it. In their definition, they emphasized the behavioral aspects and not cultural aspects.

Although many studies view and measure market orientation differently but most of prior studies adopt the seminal works of Narver and Slater (1990) (e.g., Appiah-Adu & Ranchhod, 1998; Deshpande & Farley, 1998; Greenly, 1995; Han et al., 1998; Harris & Ogbonna, 2001; Hooley, Cox, Fahy, Shiplev, Beracs, Fonfara & Snoj, 2000; Langerak, 2001a,b; Pelham, 1997,2000; Sin & Tse, 2000; Subramanian & Gopalakrishna, 2001), and Kohli and Jaworski (1990) (e.g., Avlonitis & Gounaris, 1997; Baker & Sinkula, 1999a; Bhuian, 1998; Deshpande & Farley, 1998; Langerak, 2001a,b; Matsuno et al., 2002; Siguaw, Simpson & Baker, 1998; Rose & Shoham, 2002).

a. Kohli and Jaworski's View

They were the first researchers to publish exploratory study on market orientation. Kohli and Jaworski (1990 p.1) view market orientation as the implementation of the marketing concept. In other words, a firm market-oriented is the one that acts consistently with the marketing concept. From their extensive review of marketing literature in the last 35 years, then, they conducted interviews with sixty-two managers both marketing and non-marketing managers in U.S, and finally they defined market orientation as below:

> *Market orientation is the organization-wide generation of market intelligence pertaining to current and future customer needs, dissemination of the intelligence cross departments, and organization-wide responsiveness to it* (Kohli & Jaworski, 1990, p. 6).

Based on their definition, there are three important components of market orientation, namely intelligence generation, intelligence dissemination, and responsiveness. *Intelligence generation.* It refers to the collection and assessment of both customers' current and future needs, plus the impact of government regulation, competitors, technology and other environmental forces. Kohli and Jaworski (1990 p.5) stated that the market intelligence is not the exclusive responsibility of the marketing department. Instead, it is in the all departments' responsibility. Although, in defining market intelligence they include information of competitors but it does not reflect the same importance on competitor orientation as on customer orientation.

Intelligence Dissemination. Kohli and Jaworski (1990 p.5) also stated that market intelligence must be communicated and disseminated throughout an organization in both formal and informal ways. The effective dissemination of market intelligence is seen as a vital action since it provides a shared basis for collaborative efforts among different departments. This is similar with inter-functional coordination in organization (Narver & Slater, 1990; Shapiro, 1998; Slater & Narver, 1994).

Responsiveness. It refers to the ability of an organization to react to intelligence generation and intelligence dissemination. The responsiveness is divided into two types of activity, namely, response design such as using market intelligence to develop plans and response implementation such as executing the plans.

b. Narver and Slater's View

Narver and Slater (1990) reviewed both strategic and marketing literatures intensively, and argued that market orientation is a form of organizational culture. Their definition of market orientation is as below:

> *Market orientation is the organizational culture that most effectively and efficiently creates the necessary behaviors for the creation of superior value for buyers and, thus, continuous superior performance for the business* (Narver & Slater, 1990, p.21)

They proposed market orientation as an organizational culture that consists of three components. These are customer orientation, competitor orientation, and inter-function coordination. According to them, these three components are of equal importance. *Customer orientation*. Narver and Slater (1990) stated that the heart of market orientation is its customer focus. The customer orientation element requires an understanding of customers in order to create products or services of superior value to them. It means that for companies to be customer oriented, they need to find out what customer needs and wants are in current and future, in order to create a value-added benefit (Narver & Slater, 1990; Slater & Narver, 1994). This concept seems similar with Kohli and Jaworski's (1990) idea that firms must determine their customers' needs and fulfill them. However, Narver and Slater (1990 p.2) emphasized not only to fulfill customers needs but also creating value-added benefits by either increasing a buyer's benefits or decreasing a buyer's cost. They suggested that employees in such organizations should pay attention to service delivery. According to Slater Narver (1994b), the employees in these organizations often spend considerable time with their customers.

Competitor orientation. Narver and Slater (1990) stated that firms should understand and identify the short-term strengths and weaknesses and long-term capabilities and strategies of both current and future competitors. Employees of every department in a market-driven firms share information about competitors because this information can be used to the firms' advantage (Slater & Narver, 1994b). Thus, competitor orientation is viewed as equally important as customer orientation.

Inter-function coordination. The last component of market orientation is inter-functional coordination whereby each department is important and it has a role to satisfy the customers. This idea is parallel with Shapiro (1988) who argued that market orientation is not marketing orientation. In other words, a market orientation does not view that marketing department has the most important role.

Customer orientation and competitor orientation include all of activities involved in generating market intelligence about customers and competitors and disseminating it throughout the business (Narver & Slater, 1990). Moreover, they also argued that in order to be market-oriented, it is important for all departments within organization to communicate information gathered from customers and competitors and then coordinate their efforts to create superior value for customers.

In sum, the definition of market orientation from Kohli and Jaworski (1990) and Narver and Slater (1990) are quite similar and complementary. This can be seen as the following:

1) Both view the market orientation as a continuous rather than dichotomous construct.

2) Both measurements are similar in that they focus on obtaining and disseminating information of customers and competitors in order to reach or attain competitive advantage. However, Kohli and Jaworski's construct seems to emphasize more customers than competitors.
3) Both authors emphasize the importance of joint efforts of all departments to respond to customer needs, and
4) Both of them also view market orientation as one construct that comprises three components.

Nevertheless, the important differences also exist between the two groups of researchers. For instance, Narver and Slater (1990) explained market orientation as an organizational culture, which led to values and behaviors toward customers and competitors with specific aims (i.e. profitability). On the other hands, Kohli and Jaworski (1990) described market orientation as the implementation of a marketing concept and did not indicate market orientation as a cultural aspect (Hurley & Hult, 1998).

This study adapts the Narver and Slater's (1990) construct at least for three reasons. Firstly, Narver and Slater's construct separates customer orientation and competitor orientation in different components. Therefore, it can be examined and differentiated the impact of each component such as customer orientation and competitor orientation on export performance. Although Narver and Slater view market orientation as one construct but it is quite fruitful and common in research to analyze each component separately (Lukas & Farrell, 2000). Secondly, some scholars indicated that Narver and Slater's market orientation construct outperforms the Kohli and Jaworski's construct in terms of criterion validity and reliability (Farrell & Oczkowski, 1997; Oczkowski & Farrell, 1998). Finally, other researchers have criticized the poor conceptualization of Kohli and Jaworski, in that it does not sufficiently capture the notion of providing value to customer (Pelham, 1997).

However, the market orientation is the only firm's internal variable that was quite ignored in the determinants of export performance literature. By considering and integrating the market orientation construct into export performance model, it is argued that it enhances our understanding of export performance. This is because of the notion that market orientation is a good indicator to respond market requirements. In addition, it is also able to provide a solid foundation for a sustainable competitive advantage for a firm, subsequently, enhances the firm's performance (Hunt & Morgan, 1995; Kohli & Jaworski, 1990; Narver & Slater, 1990; Slater & Narver, 1994).

c. Market Orientation and Export Performance

Most previous studies on market orientation have been concentrated thus far on firm's domestic operations and very limited research has explicitly on the impact of a market orientation on export business performance (Cadogan et al., 1999). Only in the last few years have researchers explored issues relating to market orientation in an international context (Akyol & Akehurst, 2003; Codagon et al., 2002, 2003, 2004; Rose & Shoham, 2002).

It is argued that a powerful way to enhance the export performance of manufacturing companies is for them to adopt a market orientation in their export operation (Cadogan et al., 2002). Specifically, for most exporting manufacturers, empirical studies indicated that higher levels of market orientation in the firms' export market is associated with higher levels of export success (e.g., Akyol & Akehurst, 2003; Cadogan et al., 1999, 2002; Sundqvist, Puumalainen, Salminen & Cadogan, 2000).

Rose and Shoham (2002) investigated 124 of the Israeli export institute's lists of exporters in nine industries. By employing Jaworski and Kohli's (1993) construct, they examined the export performance (sales, change in sales, profits, change in profits) consequences of a market orientation (intelligence generation, intelligence dissemination, responsiveness) and the potential moderating impact of the competitive, technology, and market environment. Their study found that change in export sales and export profits was all significantly related to overall market orientation. Specifically, export sales were not related significantly to overall market orientation. However, change in export sales and export profits were related significantly and positively to intelligence generation, responsiveness, and overall market orientation, but not related to intelligence dissemination. In addition, the impact of market orientation on export profits and change in export profits was stronger in a technologically turbulence environment. As a whole, their study synthesizes two important streams of research, establishes a relation between market orientation and export performance empirically, and examines moderating impact of the environment. Furthermore, they suggested future research to examine the strategic mediators such as pricing, product, and promotion in the relation between market orientation and export performance.

Akyol and Akehurst (2003) studied the relationship between corporate export market orientation and export performance variations. They examined 103 Turkish clothing exporting firms by employing Cadogan et al. (1999) measures (export market intelligence generation, export market intelligence dissemination, export market responsiveness). The results of their study draw conclusions showing that the relationship between export market orientation and export performance do exist, and in the case of Turkish clothing exporters, improving an export market orientation level is a significant contributor to company's export performance.

HYPOTHESIS

Generally, some previous studies have come to consensus that market orientation is an important source of competency and very likely related to some measures of performance (Hunt & Morgan, 1995, Jaworski & Kohli, 1993; Slater & Narver, 1993; Rose & Shoham, 2002). On the basis of these researches, this study hypothesizes the following:

H1: Market orientation and its components, (a) customer orientation, (b) competitor orientation, and (c) inter-functional coordination, are positively related to export performance.

METHODOLOGY

Data was collected from Indonesian manufacturing firms through a mail survey. The data collection spanned the period from April to October 2006. A total of 877 questionnaires were sent to targeted respondent's mailing address. The firms were randomly selected from the listing of Indonesian Manufacturing Industry Directory (2005). The unit of analysis is conducted at the organizational level. Therefore, the top managers' perceptions of the study variables are measured. A total of 109 complete questionnaires were returned giving an overall response rate of 12.43%. Fifteen items measuring market orientation are adapted from Narver and Slater (1990). It is measured by using a 5-point Likert scale on a 1=strongly disagree, to 5=strongly agree. Export performance is the outcomes of a firm's activities in export markets. This study proposed three dimensions to measure export performance. First, financial export performance that deals with export profitability and export sales growth (adopted from Osman, 1994). Second, strategic export performance relates to what extent responding firms achieve their strategic goals in terms of positioning, knowledge acquisition, responded to competitive pressure in domestic market. Last, export satisfaction deals with the extant of satisfaction derived from export activities in terms of success and expectation (the last two dimension adapted from Zou, Taylor and Osland, 1998). The export performance is measured using a 5-point Likert scale measured on a 1=strongly disagree, to 5=strongly agree consisting of nine items.

RESULTS

The Profile of Responding Firms

The profile of Indonesian manufacturing exporting firms participating in this study is presented in Table 1. The major export market of the participating firms is advanced developed countries such as USA (24.8%), Japan (21.1%), Germany (9.2%), and Australia (6.4%). Most of them are the textile and apparel sector (39.4%). In terms of export experience, slightly less than half of them are relatively new in exporting with six years export experience or less (45.0%). Majority of the participating companies are made up of large firms (56.9%) with number of full time employees of more than 150 employees. With regard to export entry, majority of the respondent firms are exporting directly to distributor in importing country (35.8%), followed by exporting through foreign trading company based in Singapore (25.7%) and Indonesia (21.1%). Approximately 14.7 percent of responding firms are exporting through local Indonesian trading company, and the remaining three companies exported through own subsidiary overseas.

Table 1

The Profile of Responding Firms (N=109)

Demographic	**Categories**	**Frequency**	**(%)**
Number of full	SMEs (150 and below)	47	43.1

time employees	Large firm (More than 150)	62	56.9
Export Mode	Direct to customer (distributor)	39	35.8
	Through local Indonesian Trading company	16	14.7
	Through foreign company based in Indonesia	23	21.1
	Through foreign company based in Singapore	28	25.7
	Through own subsidiary company overseas	3	2.8
Export Experience	New exporter (6 years and below)	49	45.0
	Experienced exporter (More than 6 years	60	55.0
Business Category	Food, Beverages & Tobacco	15	13.7
	Textile & Apparel	43	39.4
	Paper & printing	11	10.1
	Wood & Furniture	19	17.4
	Machinery & equipment	10	9.2
	Rubber, Plastics, Chemical	11	10.1
Export Destination	Japan	23	21.1
	USA	27	24.8
	Singapore	20	18.3
	China	5	4.6
	Malaysia	10	9.2
	Korea	7	6.4
	Germany	10	9.2
	Australia	7	6.4

DATA ANALYSIS

There are at least two important methods to assess the goodness of measure namely: factor analysis and reliability analysis (Sekaran, 2003). The purpose of factor analysis is to achieve data reduction or to retain the nature and character of the original items, but reduce the number of items (Hair, Black, Babin, Anderson and Tatham, 2006). In conducting factor analysis, this study followed the six assumptions that recommended by Hair et al. (2006). They are (1) KMO measure of sampling adequacy greater than .50, (2) Barlett's test of sphericity is at least significant at .05, (3) anti-image correlation of items greater than .50, (4) communalities of items greater than .50, (5) minimum factor loading (cutoff) of .55 for each items, and (6) minimum eigenvalues of 1. To measure the internal consistency of the items, a reliability analysis was conducted on all factors. The minimum cronbach's alpha of .70 considered to be acceptable (Sekaran, 2003). Reliability is an indication of the stability and consistency with which the instrument measures the concept and helps to assess the goodness of a measure (Sekaran, 2003). In addition, Conbrach's alpha is a reliability coefficient that indicates how well the items in a set are positively correlated to one another. The closer Cronbach's alpha is to 1, the higher the internal consistency reliability.

A factor analysis on 15 items of market orientation construct resulted in three factors explaining 76.72% of the overall variance. The six assumptions in factor analysis mentioned above were met. The factors and their corresponding items were labeled accordingly as presented in Table 2. The results of the reliability analysis affirmed that all the scales display satisfactory levels of reliability with Cronbach's alpha values much higher than the minimum threshold (Cronbach's alpha >.70).

Table 2

Factor and Reliability Analyses on Market Orientation

Items	**Factor Loading**			**Anti-Image**	**Commu-Nalities**
	F 1	**F 2**	**F 3**		
Customer Orientation					
Competitive advantage is based on the understanding of export customer needs	.88	.04	.18	.88	.81
Frequently assess commitment in serving export customer needs	.86	.08	.20	.91	.79
Measure our export customers' satisfaction systematically	.84	.11	.26	.89	.77

Driven by export customer needs and satisfaction	.83	.17	.20	.89	.75
Strategies are driven by increasing export customer value	.82	.12	.21	.94	.73
Close attention to after-sales service	.80	.04	.18	.94	.67
Inter-Functional Coordination					
We do share resources among our firm units	.07	.90	.04	.75	.81
All of our firm units understand how employees create export customer value	.11	.89	.17	.81	.83
Our internal firm functions are integrated to serve well the export customer needs	.10	.89	.12	.85	.82
Free communication about export customer information among all our firm's units	.12	.87	.02	.85	.77
Competitor Orientation					
Responds rapidly to our export competitors' actions that threaten us	.19	.03	.91	.81	.86
Target export customers for achieving competitive advantage	.18	.09	.84	.81	.75
Regularly discuss our export competitors' strengths and weaknesses with all company units	.30	.13	.82	.87	.78
Regularly share information about export competitors' strategies	.30	.13	.73	.82	.64
Total Variance Explained (%)	44.37	20.10	12.63		
Eigenvalues	6.21	2.81	1.77		
Kaiser-Mayer-Olkin Measure of Sampling Adequacy		.86			
Bartlett's Test of Sphericity Sig.		.00			
Cronbach's alpha	.93	.92	.89		

***Note**: Items with factor loading less than .55 were deleted*

For construct of export performance, a factor analysis on the nine items produced only single factor that accounted for 68.85% of the total variance. However, one item was dropped since it achieved low communalities (.15) and low factor loading (.38). This factor was labeled as overall export performance. The result of the reliability test for this factor was also above the satisfactory level (α=.94). As shown in Table 3, the mean value score of overall export performance was 3.60 and standard deviation of .60 indicating that the responding firms are rather modest in their evaluation of export performance.

Table 3

Factor and Reliability Analyses on Export Performance

Items	**Factor Loading**	**Anti-Image**	**Commu-nalities**
Firm's export has been successful	**.86**	.92	.74
Firm's export has increased the awareness of our product/company	**.85**	.94	.72
Firm's export has improved our experiential knowledge of international markets	**.85**	.93	.72
Firm's export has met our expectation	**.84**	.91	.70
Firm's export has achieved sales growth	**.83**	.87	.69
Firm's export has been satisfactory	**.82**	.91	.67
Responded to competitive pressure in domestic market	**.81**	.93	.65
Firm's export has achieved profits	**.80**	.89	.63
Total Variance Explained (%)	68.85		
Eigenvalues	5.51		
Kaiser-Mayer-Olkin Measure of Sampling Adequacy	.91		
Bartlett's Test of Sphericity Sig.	.00		
Cronbach's alpha	.94		
Mean Values	3.60		
Standard Deviation	.63		

Note: *Items with factor loading less than .55 were deleted*

Relationship between Market Orientation and Export Performance

In order to examine the relationship between market orientation and export performance, a multiple regression analysis was performed. In this analysis, organizational and structural variables were treated as control variables. According to Sekaran (2003, p.144) when a cause-and-effect relationship between an independent and a dependent variable of interest is to be clearly established, then all other variables that might contaminate or confound the relationship have to be tightly controlled. The strategic management literature has identified a number of situational variables that affect an organization's performance. These variables must be controlled for in analyzing the effect of market orientation and export performance. Based on a review of literature (e.g., Aaker, 1988), four variables were identified (firm size, export mode, industry type, and experience). It is argued that each of these variables can influence an organization's export performance, and therefore, needs to be controlled for in examining the effect of market orientation on export performance.

Table 4 displays the results of regression of market orientation on overall export performance. In step 1, none of the control variables significantly influenced overall export performance and the coefficient of determination (R^2) was found 0.01 indicating only 1 per cent variance in overall export performance was explained by the four control variables. In step 2, the addition of the three dimensions of market orientation (customer orientation, competitor orientation, and inter-functional coordination) has increased R^2 from .01 to .27. In other words, the three dimensions of market orientation cumulatively contributed additional 26% of the variance in overall export performance. Furthermore, the three dimensions of market orientation namely, customer orientation ($\beta = .26$, $p < .05$), competitor orientation ($\beta = .24$, $p < .05$), and inter-functional coordination ($\beta = .18$, $p < .10$) were found positively and significantly influenced the overall export performance. Thus, it was obvious that the hypothesis (H1) and its corollary hypotheses of H1.a (customer orientation and overall export performance), H1.b (competitor orientation and overall export performance), and H1.c (inter-functional coordination and overall export performance) were supported. In addition, the results also suggested that among the three dimensions of market orientation, customer orientation ($\beta = .26$, $p < .05$) was statistically the most important dimension in explaining the variance in overall export performance.

Table 4

Multiple Regression Analysis: Market Orientation and Overall Export Performance

Dependent Variable	**Variables**	**Standardized Coefficients Beta**	
		Step 1	**Step 2**
Overall Export Performance	*Control*		
	Firm Size	.01	.00
	Export Mode	.10	.06
	Industry Type	.03	.08
	Experience	.02	.03
	Independent		
	Customer Orientation		.26**
	Competitor Orientation		.24**
	Inter-functional Coordination		.18*
	R^2	.01	.27
	ΔR^2	.01	.26
	F change	.29	11.83***

Note. *Significant levels ***p < .01; **p < .05; *p < .10*

DISCUSSION AND IMPLICATION

Scholars and practitioners have accepted market orientation with great deal of attention for more than one and a half decade. The reason why market orientation has received a great deal of attention from many researchers in the past decade is that being a market-oriented firm provides a solid foundation for a sustainable competitive advantage for the firm (Narver & Slater, 1990; Hunt & Morgan, 1995). Moreover, market orientation has been recognized to be one of the main determinants of firms' export performance. In other word, firms that implement market orientation will achieve high export performance and outperform their competitors (Akyol & Akehurst, 2003; Codagon et al., 2002; 2003; Cadogan & Cui, 2004; Prasad et al., 2001; Rose & Shoham, 2002).

The relationship between market orientation and firm performance can be described in the ability of the market-oriented firms to fulfill and satisfy their customers' needs and wants and create sustainable competitive advantage or competency (Mazaira, Gonzalez, & Avendano, 2003; Narver & Slater, 1990; Pelham, 1997; Prasad et al., 2001) as the main core idea behind market orientation. In other word, firms which find out the customers' needs and wants in current and future, understand and identify the short-term strength and weaknesses and long-term capabilities and strategies of both current and future competitors, then coordinate these information into all departments of organization can create superior value for customers, and thus satisfying them. Such process is considered as the means by which firms can attain and sustain the robust competitive advantage.

Market orientation has been hypothesized to have significant and positive effect on the overall export performance. The results of this study indicate that long-term competitive advantage and superior performance can be achieved by being equipped to respond market needs and anticipate future needs (Day, 1994). This finding highlights that market orientation is a means to achieve successful export performance. The impact of market orientation on firm export performance in the Indonesian manufacturing-exporting samples is consistent with previous studies including Akyol and Akehurst (2003), Cadogan et al. (1999; 2002), Rose and Shoham (2002), and Sundqvist et al. (2000).

The first research question of this study deals with "what is the relationship between market orientation and export performance in Indonesian manufacturing exporting firms". The findings indicate that market orientation is a construct that consists of three dimensions, namely customer orientation, competitor orientation, and inter-functional coordination and each of the three dimensions of market orientation influences positively and significantly, but not equally on overall export performance of Indonesian exporters. In addition, that customer orientation registers the highest effect on the overall export performance. This is followed by competitor orientation, and inter-functional coordination. This can be interpreted that customer orientation statistically has the strongest effect on overall export performance in Indonesian manufacturing exporting firms. Thus, for Indonesian exporters who implement high customer orientation in their organizations will achieve better performance. In other words, the higher firms' customer orientation, the higher their export performance. The logic behind this contention is that being customer-oriented firms will be able to have a better competitive position since they know very well about their customers' needs and wants both current and future.

In regard to competitor orientation, the results of this study reveal that competitor orientation positively and significantly influences overall export performance. This implies that the higher Indonesian exporting firms' competitor orientation, the higher their overall export performance. This is understandable because the competitor-oriented firms understand and identify the short-term strength and weaknesses and long-term capabilities and strategies of both current and future competitors. Thus, by understanding and identifying competitors' strength and weaknesses, they can undertake relevant actions in order to create superior value for customer better than their competitors. This finding is consistent with previous studies (Prasad et al., 2001; Narver & Slater, 1990).

The inter-functional coordination is ranked the third in influencing export performance. However, the resultS of this study reveal that inter-functional coordination positively and significantly affects overall export performance. This implies that the higher Indonesian exporters' coordination inter-departmentally and inter-functionally, the higher their overall export performance. The logic behind this finding is that firms collect information about their customers and competitors in current and future and disseminate these information inter-departmentally to response to the customers' needs and wants, such process contributes the exporting firms in terms of high export performance. However, the results of this study suggest that Indonesian manufacturing exporting firms' inter-functional coordination registers the lowest effect on overall export performance compared to customer orientation and competitor orientation. Therefore, they need to enhance their ability to coordinate inter-functional activities to respond to customers' needs and wants in order to achieve better export performance.

For contribution of market orientation on export performance, the R^2 resulted from the multiple regression analysis is .27 indicating that 27 per cent of variance of overall export performance is explained by market orientation construct, whereas 73 per cent of variance in overall export performance can be possibly explained by other variables that are excluded in this study (ceteris paribus assumption). For the equation of market orientation and export performance, this study implicitly assumes other possible variables both internal and external factors such as managerial, environmental, and other organizational factors are constant. In other word, the influences of those variables on export performance are out of the study's scope.

Although the variance of overall export performance is 27per cent explained by the three dimensions of market orientation, it is still considered as a high contribution in behavioral science (Cohen & Cohen, 1981). Nevertheless, it is generally agreed that by employing cross-sectional data and subjective measures of performance may affect the findings differently. In addition, market orientation is strategic orientation that needs long-term to achieve performance and it is very difficult in a short period of time to capture the outcomes of performance as the results of market orientation by using cross-sectional method like the type in this study. In addition, it is true that by using the perceived measures (subjective) of export performance perhaps will be misleading, in spite of the fact that most scholars in market orientation and export performance field employ subjective measures rather than objective measures (e.g. Kohli & Jaworski, 1990; Narver & Slater, 1990; Prasad et al, 2001; Rose & Soham, 2002).
However, the results of this study suggest that market orientation consists of three dimension, namely, customer orientation, competitor orientation, and inter-functional coordination is a significant predictor of overall export performance ($F = 5.28$, Sig. at .000) in the context of Indonesian manufacturing exporting firms. This finding is not surprising since the concept of market orientation is at the heart of strategic management and marketing theory (Levitt, 1960; Porter, 1985). This drive creates superior value for customers and attains a sustainable competitive advantage, which in turn produces superior performance.

This study confirms that the three dimensions of market orientation behave in the same way as the major construct. It can be concluded that being customer oriented, competitor oriented, and inter-functionally coordinated can enhance overall export performance in context of Indonesian manufacturing exporting firms.

CONCLUSION

This study examines the relationship between market orientation and export performance in Indonesian manufacturing firms. The results suggest that market orientation and its dimensions, customer orientation, competitor orientation, and inter-functional coordination are positively related to overall export performance. In addition, the results also suggested that among the three dimensions of market orientation, customer orientation ($\beta = .26$, $p < .05$) was statistically the most important dimension in explaining the variance in overall export performance. Given the findings of this study with regard to market orientation in exporting, approaches to enhance the firm's market orientation appear to be worthwhile. If Indonesian manufacturing firms are to be successful in exporting, their managers need to devote their efforts to develop higher levels of market orientation. This greater commitment and efforts may provide Indonesian manufacturing firms with an additional opportunity to enhance their competitive advantage as well as to achieve better export performance.

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