The Influence Of Strategic Orientation And Company Reputation Toward The Performance Of Regional Water Company (PDAM) In Indonesia

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Abstract
Water is a vital requirement for human beings and so far the task of providing clean water is responsible by the Regional Water Company (PDAM). Currently, based on several resources, the performance of PDAM is far from expectation. Therefore, to improve the performance of Regional Water Company (PDAM) is also vital. Based on several research on strategic management, there are several factors that might effect the business performance, such as company resources, partnerships and strategic orientation. The purpose of this study is to analyze and verify the influence of strategic orientation and company reputation towards the performance of PDAM. The data collected will be analyzed by using Partial Least Square (PLS) and hopefully the conclusion to this research may be used as a guidance to formulate strategic orientation for PDAM to improve the performance based on their strategic orientation and company reputation. Based on this research, PDAM will continue to give contribution on developing the strategic management in the future.

Keywords: Strategic Orientation, Company Reputation, Company Performance

I. PREFACE
1.1 Research Background
PDAM or Regional Water Company is one of regional Govt. Owned companies that organize the distribution of clean water for the public. PDAM will be exist in every provinces, regencies or cities all over Indonesia. It is a regional Govt. Company controlled and monitored by the executive and legislative level of Govt. It is different with private company that oriented to profit. One of PDAM goal is to participating in regional development and national economics; through the distribution of clean, healthy and meet the health requirements standards for the citizen. And in other side as an manifestation of Govt. Service for the community.

So, within its daily routine organizing PDAM demanded to fulfill standard of healthy economic principles, since it could not be separated from economic dimensions: to gain maximum profit level. Although in other side, PDAM still faces work inefficiency, because it tends to implement public service function. It will implicated to its work performance, which indicated through the difficulty to reach sales target, low customer satisfaction and company efficiency.

Below is PDAM performance since 2006 to 2013:

<table>
<thead>
<tr>
<th>PDAM CATEGORIES</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Healthy</td>
<td>18%(44)</td>
<td>26%(79)</td>
<td>27%(89)</td>
<td>31%(103)</td>
<td>41%(142)</td>
<td>41%(144)</td>
<td>52%(171)</td>
<td>50%(176)</td>
</tr>
<tr>
<td>Less Healthy</td>
<td>43%(110)</td>
<td>37%(113)</td>
<td>37%(119)</td>
<td>34%(115)</td>
<td>38%(129)</td>
<td>38%(105)</td>
<td>31%(101)</td>
<td>30%(104)</td>
</tr>
<tr>
<td>Ill</td>
<td>39%(99)</td>
<td>37%(114)</td>
<td>36%(117)</td>
<td>35%(119)</td>
<td>21%(70)</td>
<td>21%(86)</td>
<td>17%(56)</td>
<td>20%(70)</td>
</tr>
</tbody>
</table>

Source: BPPSPAM, 2015

Based on the table we could see that PDAM performance in Indonesia still show there is 30% less healthy and 20% Ill, which indicating low work performance of PDAM, generally. According to Best (2009:66), company performance is an output or a result of business related activities, the indicator is sales growth and profitability.

In other side PDAM performance in Java Island (Region 2) could be seen within below table, from 108 PDAM operating in Java, 93 of them categorized as “health” and the rest of 10 categorized as “less health”, and the other 5 categorized as Ill. Thus in general, it is show that their performance is not completely healthy.
Their low performance possibly caused by the lack of strategic orientation developed by their management. According to Liu and Fu (201:109) “Strategic orientation is an integrative concept consisting of its own dimensions or strategic orientation is a mix covering entrepreneurial orientation, marketing orientation and learning orientation”. Based on the assumption, strategic orientation is an integrative and learning concept. While indicators that could be observed here is the low of learning orientation, where the implementation of business activities still standardized; there is no innovation when they’re serves the customers. Baker and Sinkula within Liu and Fu (2011:109) assume the learning orientation as an important value to create and implement the knowledge within organization; and strengthen learning awareness for the employee, norms; and as an ability and process to promote organizational learning for self.

Based on the assumptions above, as a company that has two function; profit oriented and public function, PDAM should have creative learning behavior. They could implement it when serves new service patterns and valuable for their customers. By this time, we still hear many complains about PDAM services.

Low performance also assumed caused by the low reputation built by them. According to Fombrun (2001:16), to help the company to built a strong reputation that could give positive and advantage impact; there are several things that need to be focused, which are credibility, reliability, trustworthiness, and responsibility. Although in the end, revealed that trustworthiness of customer to them is still low. And in other side, we will see that social responsibility of the company to their nature and social environment is still low. Customer satisfaction counted as low too

1.2 Literature Review

Liu & Fu (2011:109) took Narver dan Slater (1990), stated that strategic orientation reflect strategic direction that implemented by a company to gain superior business performance sustainably. Chow, Teo & Chew (2013:56) show that strategic orientation is the spread of of resources mechanism. Human resources strategy choose carefully since it could affect company performance. Strategic orientation also stated as mediation mechanism that could change human resources to superior company performance.

Liu and Fu (2011: 109) stated “Strategic orientation is an integrative concept consisting of its own dimensions or strategic orientation is a mix covering entrepreneurial orientation, marketing orientation and learning orientation”.

According to (2001:16), to help one company to built strong positive reputation that could use as an advantage for them, there are some factors need to be focus: credibility, reliability, trustworthiness, and responsibility.

Alniacik, Alniacik, & Erdogmus (2012:5) stated that Corporate reputation is a multidimensional construct that describes the aggregate perceptions of multiple stakeholders about a company’s performance. Accordingly, more recent attempts to measuring corporate reputation have adopted a multidimensional approach.

Sujit Sur ; Carol-Ann Tetrault Sirsly (2012:1051) “The most widely used management definition of reputation (Wartick 2002) is “a perceptual representation of a company’s past actions and future prospects that describes the firm’s overall appeal to all of its key constituents when compared with other leading rivals” (Fombrun 1996: 72).”


“Corporate reputation is a construct closely linked to stakeholder theory: it has been mostly conceptualized in academic literature, since Fombrun (1996), as a perceptual representation or assessment of the firm by its different constituents.

Fombrun & Van Riel (1997, v. 1, p. 128) have defined Reputation as an intangible asset because they consider it “rare, difficult to imitate or replicate, complex and multidimensional, which needs a lot of time to accumulate, specific, difficult to manipulate by the firm, with no limits in its use and does not depreciate with use”
Klaus-Peter Wiedmann et al (2013:191) : There are various definitions of corporate reputation that incorporate the element of history and time, one being a perceptual representation of a company’s past actions and future prospects that describes the firm’s overall appeal to all its key constituents when compared with other leading rivals.

Vintila & Gherghina (2012:47-48) had measured performance through: operational performance (return on equity, net profit margin), Sales growth, assessment (Tobin Q) and payout of dividend (dividend yield dan stock buy back).

Ferguson & Reio (2010) said that company performance could be measured from two perspectives, Financial performance and business performance. Shortly, through company performance, we could see how efficient and effective they work, with assessing and evaluating the performance of finance dept., employees, business and organization.

1.3 Objectives

Based on the background above, this research aimed to analyze and test the influence of company resources and business partnership to company performance through strategic orientation.

II. METHODOLOGY

This is verificative research, which is a method done to test one hypothesis using statistics; so in the end it could result a conclusion. The time horizon is cross sectional, because the research is established in a certain period of time analysis unit of this research is PDAM, and the observation unit is PDAM’s management in Java Island. Analysis structure used to test the hypothesis and to reveal the relationship between variables is Partial least Square (PLS)

III. STUDY RESULT

3.1 Goodness of Fit Model (GoF)

Partial Least Square (PLS) used to analyze data and relation between variables. To analyze the model using PLS we will test the outer model with certain criteria as minimum requirement value, which are: convergent validity (loading factor value 0.5 - 0.6), Composite Reliability (composite reliability > 0.7), Average Variance Extracted /AVE (nilai AVE > 0.5). Next, we will test inner model with minimum criteria value: Parameter coefficient and t-statistic (estimation value for the path correlation of structure model must be significant, > 2.0), R2 for variable latent endogen, result of R2 0.67 (good) ; 0.33 (moderate) ; dan 0.19 (weak). Prediction Relevant (Q2) the value of Q2 use for the validation of model prediction ability. This model only fit for endogen construct that have reflective indicator. If prediction relevant value < 0 show that latent endogen construct good for descriptive variable; since it able to predict the exogenous construct. The test is well known as Stone Geisler test. The value of Q2 0.1 (small), 0.25 (moderate), and 0.36 (big). Follow are the value of R2 and Q-Square on each variables:
Table 2 Outer model Test

<table>
<thead>
<tr>
<th>Variabel</th>
<th>Indikator</th>
<th>loading factor</th>
<th>t hitung</th>
<th>P Values</th>
<th>AVE</th>
<th>CA</th>
<th>CR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy Orientation</td>
<td>EO &lt;- Strategy Orientation</td>
<td>0.898</td>
<td>40.138</td>
<td>0.000</td>
<td>0.772</td>
<td>0.853</td>
<td>0.910</td>
</tr>
<tr>
<td></td>
<td>LO &lt;- Strategy Orientation</td>
<td>0.880</td>
<td>28.780</td>
<td>0.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>MO &lt;- Strategy Orientation</td>
<td>0.858</td>
<td>20.580</td>
<td>0.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cred &lt;- Corporate Reputation</td>
<td>0.918</td>
<td>37.876</td>
<td>0.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Reputation</td>
<td>Rely &lt;- Corporate Reputation</td>
<td>0.852</td>
<td>14.266</td>
<td>0.000</td>
<td>0.783</td>
<td>0.907</td>
<td>0.935</td>
</tr>
<tr>
<td></td>
<td>Resp &lt;- Corporate Reputation</td>
<td>0.860</td>
<td>23.212</td>
<td>0.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Trust &lt;- Corporate Reputation</td>
<td>0.907</td>
<td>38.743</td>
<td>0.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company performance</td>
<td>MSh &lt;- Company Performance</td>
<td>0.863</td>
<td>25.224</td>
<td>0.000</td>
<td>0.738</td>
<td>0.823</td>
<td>0.894</td>
</tr>
<tr>
<td></td>
<td>Pfrt &lt;- Company Performance</td>
<td>0.842</td>
<td>22.255</td>
<td>0.000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>SV &lt;- Company Performance</td>
<td>0.873</td>
<td>29.041</td>
<td>0.000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The result of model analysis measurement of each dimension by its indicators show loading factor value higher than 0.70 (p value < 0.05). The value of AVE > 0.5, Composite reliability (CR) and Cronbachs Alpha (CA) from each variable > 0.70 thus concluded that all variables have good validity and reliability.

Tabel 3 Inner Model

<table>
<thead>
<tr>
<th>Variabel</th>
<th>( R^2 ) Square</th>
<th>Q square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy Orientation</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Corporate Reputation</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Company Performance</td>
<td>0.871</td>
<td>0.638</td>
</tr>
</tbody>
</table>

Above table show \( R^2 \) value in a good category (>0.67), and Q square is in big category, thus concluded if the research supported by empirical condition or model fit. This picture show the test result using Smart PLS 3.0.
3.2 Hypothesis Test

Below will describe the hypothesis test both simultaneously and partial.

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>( \gamma )</th>
<th>( T ) hitung</th>
<th>( P ) value</th>
<th>( R^2 )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy Orientation -&gt; Company Performance</td>
<td>0.455</td>
<td>2.048</td>
<td>0.041</td>
<td>0.421</td>
</tr>
<tr>
<td>Corporate Reputation -&gt; Company Performance</td>
<td>0.487</td>
<td>2.261</td>
<td>0.024</td>
<td>0.450</td>
</tr>
</tbody>
</table>

From the test result we could see that there is significant influence simultaneously and partial from Strategy Orientation and Corporate Reputation to Company Performance with total influence 87.1% and there are other factors 12.9%, although the influence of Corporate Reputation more dominant than Strategy Orientation.

Based in the hypothesis test found:
The model shows that company reputation has the highest influence rather than company performance. In other side, company reputation could affect company performance higher than strategic orientation.

The result shows that to improve company performance, we must make priority on company reputation through the improvement of:

a. **Company credibility**, related to customer believes about company ability to serve their need and satisfaction.

b. **Customer trustworthy**, related to company’s skill and experience, company attractiveness, dynamics, reputable and liked by the customers, employees’ trust to the company.

c. **Company responsibility**, related to company responsibility to their customer, social responsibility, and responsibility to their environment.

d. **Company reliability**, related to customer satisfaction of company products and services, customer loyalty, company advantage above its competitors, ability to gain market share, company’s prospect.

Beside the improvement of company reputation, company also make priority on strategic orientation, related to:

a. **Entrepreneurship Orientation**, related to proactive behaviour, aggressiveness to respond the market, management ability to take the risk, and to innovate.

b. **Learning Orientation**, related to commitment of all element of a company to learn a new things, management commitment to share their vision with employee and stakeholder, management ability to stimulate open minded employees.

c. **Market Orientation**, related to management understanding to customer need and will. Management understanding of competition power and weakness.

**IV. CONCLUSION AND SUGGESTION**

Company reputation and strategic orientation has bigger influence to company performance. Company reputation gives bigger influence than strategic orientation to the company performance.

This research result could be a reference to study company performance of PDAM in others islands in Indonesia using the same variables or different one, that not discussed in this research.
REFERENCES


Wiedmann, Klaus-peter; Hennigs, Nadine; Schmidt, Steffen; Wuestefeld, Thomas. Corporate Reputation Review 16.3 (Fall): 187-205.

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