

Effect of Market Orientation on Competitive Strategy to Integrated Agro Industry in Indonesia

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Abstract:

Demand for agro-products tends to increase every year. However, agro-industry products in Indonesia does not have a good competitiveness. This is because of not optimal competitive strategy mapping indicated by unfavorable market orientation. Companies that have made the market orientation as the culture of the organization will focus on the external market needs, desires and market demand as a basis for preparing a strategy to compete for their respective business units within the organization and determine the success of the company. Competitive strategy should be designed to achieve continuous competitive advantage, enabling companies to dominate the market, old and new markets. Based on the above, the study aims to analyze the influence of market orientation in improving competitive strategy on Integrated Agro Industry in Indonesia.

This research uses explanatory survey method, as it will explain the relationship between the variables studied. Collecting data in the study conducted by distributing questionnaires. While the method of data analysis used in this research is Structural Equation Modeling (SEM).

Based on the survey results revealed that the market orientation of the positive and significant effect in improving the competitive strategy on Integrated Agro Industry in Indonesia. Meaning that the higher market orientation, the better competitive strategy applied by the company, so it will increase the competitiveness of industry which have an impact on better performance. Market orientation is an organizational culture that leads to the market. The starting point of a market orientation is market intelligence. Market orientation focused on understanding customer wants and needs of current and future.

Keywords: Market Orientation, Competitive Strategy, SEM

PRELIMINARY

Changes in the global era characterized by rapid changes in IT and technology industries, has led to competition among industries and companies are becoming increasingly sharp. Companies that want to control or survive on the market must face Hypercompetition conditions are conditions which, according to Ireland, et.al. (2011) is a condition in which the assumption of market stability is replaced by instability and constant change.

Achieve competitiveness on a company if the company managed to formulate and implement value creating strategy or the strategy of value creation (Ireland et al, 2011). A company is said to have a competitive advantage if the company is able to create greater economic value compared to its competitors. The economic value (economic value) is the difference between profit expectations (perceived benefits) received by the customers with the cost of production of goods or services consumed (Barney and Hesterly, 2010).

Driving factors of competitive strategy is awareness, motivation and ability. Consciousness (awareness) is a prerequisite of all actions or strategic responses that are taken by the company, refer to the extent to which competitors recognize the degree of interdependence caused by market commonality and resource similarity (Nemati, et.al., 2010). Awareness will increase as companies in the industry have high levels of resource utilization high similarity of the types and quantities, as well as competing on the same markets. Consciousness or awareness will affect the extent to which companies understand the consequences of actions taken or strategic response. The above shortcomings awareness can encourage competition (competition) is excessive and negative impact on the performance of the entire competition.

Companies that use the model of competitive rivalry to determine strategic action or action tactics that will be expected to help companies successfully build and use their capabilities and core competencies to achieve and maintain market position and will certainly be reflected in the company's performance.

Table 1
Competitiveness under the Asean Countries and Partners

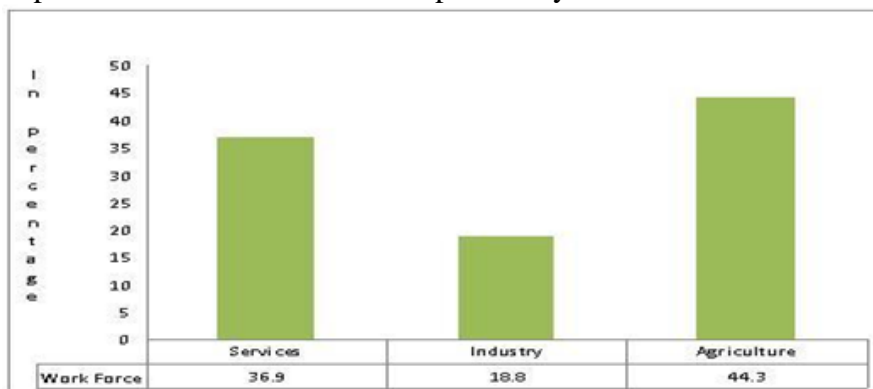
No.	Country/Economy	GCI 2013-2014		GCI 2012-2014	
		Rank	Score	Rank	Change
1	Switzerland	1	5.67	1	0
2	Singapore	2	5.61	2	0
3	Finland	3	5.54	3	0
4	Germany	4	5.51	6	2
5	United States	5	5.48	7	2
6	Sweden	6	5.48	4	-2
7	Hong Kong SAR	7	5.47	9	2
8	Netherlands	8	5.42	5	-3
9	Japan	9	5.40	10	1
10	United Kingdom	10	5.37	8	-2
-	-	-	-	-	-
24	Malaysia	24	5.03	25	1
25	Korea, Rep.	25	5.01	19	-6
26	Brunei Darussalam	26	4.95	28	2
29	China	29	4.84	29	0
37	Thailand	37	4.54	38	1
38	Indonesia	38	4.53	50	12

Source: Working Meeting of the Ministry of Industry, 2014

Based on Table 1 above shows that Indonesia's competitiveness is still not optimal, which Indonesia ranks 38th in the competition compared to Asean countries and other partners. Economic competitiveness becomes one of the elements that determine the success of a country's development. Economic competitiveness is a country's ability to produce and export manufactured goods competitively (UNIDO, 2011). The better the economic competitiveness of a country, the better the various other economic indicators such as production performance and improved trade performance.

Report of the World Economic Forum (WEF) from 2010 to 2012 based on a report stating that global competitiveness index (GCI), Indonesia ranks 44th in 2010-2011 and then dropped to 50 in 2011-2012 and then stagnate in a position to -50 in 2012-2013 but in 2013-2014 Indonesia climbed to the 38th position. However, Indonesia's competitiveness still lags far behind other ASEAN countries such as Singapore (position 2), Malaysia (position 24), Brunei Darussalam (position 26) and Thailand (37th position).

The low competitiveness of Indonesia can not be separated from the problem of competitiveness of the industry, especially the manufacturing industry. The manufacturing industry had significant contribution to the gross domestic product is about 25% since the past five years.



Source: Progress Report on the Work Program of the Ministry of Industry, 2014

Figure 1. Contributions Sector Manufacturing Industry, Agriculture and Services in Indonesia

UNIDO measuring industrial competitiveness based on indicators related to the industry's ability to produce and export manufactured goods competitively. For the competitiveness of agro-commodity exports in particular should be increased. Increasing the competitiveness of agro-export commodities absolutely must be done to penetrate the international market. This strategy can be reached by mapping several leading commodity first and then set up a number of functional and operational strategies supporters. Thus, the policy made by the government are expected to be more focused, systematic, and targeted.

Demand for agro-products tends to increase every year. This is understandable because the agro-products is a source of food and nutrients needed for humans. The results of agro-industry needs are always increasing along with the increase of population in the world. One of the indicators that showed an increase in demand for agro-products is the increase in production, an increase in the volume and value of exports and imports.

Table 2.
Sub-Sector Production value Agroindustri Indonesia

Year	Production (Rp Million)	Growth
2007	411,019,038	
2008	485,402,825	18.10
2009	620,632,108	27.86
2010	787,789,274	26.93
2011	822,730,123	4.44
2012	1,337,482,511	62.57
Mean	744,175,980	27.98

Source: Ministry of Industry, 2013

Based on Table 2 shows that the value of production in the sub-sectors of agro-industry in Indonesia during 2007-2012. It appears that the production value of this sub-sector is increasing every year. The average increase in production during 2007-2012 amounted to 27.98 percent, where the largest increase occurred in other 2012. Indikator which showed an increasing demand for agro-products are export and import.

Table 3.
Value of Export and Import Sub Sector Agroindustri Indonesia

Year	Ekspor		Impor	
	Value (US\$)	Growth	Value (US\$)	Growth
2008	20,572,779,707		5,844,470,959	
2009	25,157,161,376	22.28	7,488,373,976	28.13
2010	18,293,004,619	-27.29	6,618,601,151	-11.61
2011	26,818,491,293	46.61	8,790,198,909	32.81
2012	23,719,921,763	-11.55	7,456,489,961	-15.17
Mean	23,497,144,763	7.51	7,588,415,999	8.54

Source: Ministry of Industry, 2013

Based on Table 3 shows that the value of exports and imports of agro-industry sub-sectors during 2008-2012. Although there was a decline in exports and imports in 2010, but in general the export and import of this subsector increased. The average increase in exports by 7.51 percent and the average increase in imports amounted to 8.54 per cent during the period 2008-2012. This suggests that the increase in demand for agro-products occur not only in the domestic market but also in the international market. Not optimal competitive strategy mapping is indicated by the unfavorable market orientation. According Eris and Ozmen (2012); Johnson, et.al. (2009); Mokhtar, et.al. (2009), the company that has made market orientation (market orientation) as the culture of the organization will focus on the external market needs, desires and market demand as a basis for preparing a strategy to compete for their respective business units within the organization and determine the success of the company.

As the organization's culture, market orientation is conceptualized in terms of levels (degrees) and high and low degree of market orientation is influenced by a variety of organizational factors (Hou, 2008; Tomaskova, 2008). In the study Langerak, et.al., (2004); Mokhtar et al, (2009); Morgan, et.al., (2009); Schalk (2008) concluded that market orientation is an important determinant of corporate performance regardless of external environmental conditions in which it operates. Competitive strategy should be designed to achieve continuous competitive advantage, enabling companies to dominate the market, old and new markets (Shu, 2012). The most important thing in achieving success competitive strategy adopted is to identify the real assets of the company, in this case the tangible and intangible resources that make it a unique organization (Langerak, et.al., 2004; Mokhtar et al, 2009; Gyampah and Acquaaah, 2008). Oyedijo (2012) stated that there are two foothold in the implementation of Competitive strategy (competitive strategy) achieve competitive advantage, the advantage of resources and advantages of the position.

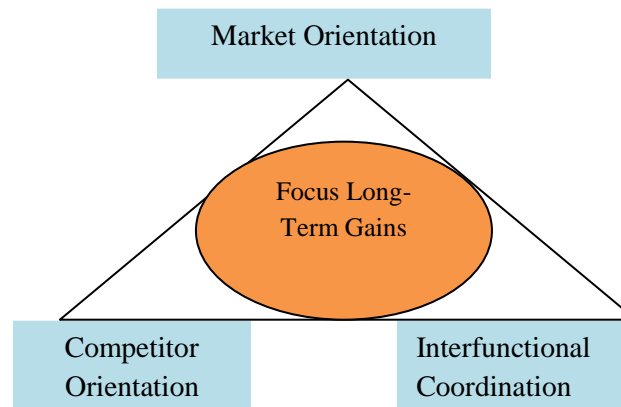
Based on the above, the study aims to analyze the influence of market orientation in improving competitive strategy on Integrated Agro Processing Industry in Indonesia

THEORETICAL BASIS

Market Orientation

Market orientation is a business culture that is running the organization towards the creation of a quality value for consumers continuously (Eris and Ozmen, 2012; Johnson et al, 2009; Mokhtar et al, 2009) the theme above will reveal three conceptualization dominant for the creation and delivery of quality value for the customers. First, Homburga, et.al. (2004) describes the conceptualization of market orientation which refers to the creation of market intelligence that are pleasing to the needs of current and future customers, dissemination of intelligence across departments, and the organization's response to the intelligence. The main aspect in this view is to focus on the market, namely an emphasis on a particular form of interfunctional coordination, and focus on activities related to information processing. Both Slater and Narver (2000) have perfected Homburga view, et.al. (2004), said that market orientation consists of three components actors (customer orientation, competitor orientation and inter-functional coordination is an activity acquisition and dissemination of market information and coordinated the creation of customer value. Third, Kanya, et al (2010) defines market orientation as a form of trust that takes into account the interests of consumers first, but it also creates profit.

Slater and Narver (2000) draw the conclusion that market orientation consists of three components, namely the behavior of customer orientation, competitor orientation and interfunctional coordination that leads to two decision criteria is long term focus and profitability. When listened to more in-depth customer orientation and competitor orientation actually covers all activities aimed to obtain information about customers and competitors in the target market. Libraries concluded that all three components of behavior that has a degree of urgency or the same level of importance, therefore, the concept of market orientation depicted in an equilateral triangle. Figure 2 shows the performance of a company that produced and improved through a focus on the: (a) Customer orientation through a sufficient understanding on the target buyers. (b) Competitor orientation.



(Source: Slater and Narver, 2000)

Figure 2. Market Orientation

Market orientation as a construct dimensional (one-dimension) consists of 3 components of behavior, namely the orientation of customer (customer orientation), the orientation of the competitors (competitor orientation) and coordination of intra-company functions (inter functional coordination). Companies that adopt market orientation will enjoy quality assessments and implementation of financially superior, the rationale put forward Mokhtar, et.al. (2009); Momrak (2012) a market orientation have been developed, the ability of the company will generate superior services, because it allows a better understanding of the needs of the target market. Understanding the needs of the target customers allows the company to coordinate all the assets, and also allows companies to increase value for customers.

Competitive Strategy

The strategy is a competitive tool that needs to be owned by the company where the application requires planning, coordinating, monitoring and evaluating strong and accurate so as to create a competitive advantage for the company. Implementation of the strategy, especially at the level of the business is a job that requires a great challenge because often the implementation of business strategies is not able to compensate for the achievement of the expected goals. Implementation of business strategies is essential for managerial tasks in achieving the organization's success. Managerial duties in implementing and executing this strategy requires an assessment of options that will develop the capability needs of the organization and the achievement of targeted goals (Thompson and Strickland, 2003).

Competitive Strategy is a strategy to cope with market competition based on the competitive advantage of the company. Porter (2006) states two generic competitive strategies is a cost advantage and differentiation. Cost advantage is achieved through reducing costs, and differentiation increase profitability by providing increased levels of service. An increase in the level of service provided through capture orders efficiently, the existence of the products, on time delivery, transparency of information and improve responsiveness. Porter (2006) states that the company must have a clear competitive strategy with the aim to compete effectively and gain a sustainable competitive advantage. Porter suggested that the company may choose to become a provider of products at low prices (cost efficiency strategy) or a provider of unique and innovative products (innovation strategy). Competitive strategy is finding the most competitive position is expected by the company occurred in the industry (Porter, 2006). Competitive strategy aim to build a profit and survive in the opposite position with the forces that determine industry competition. Any difference competitive strategy used by the company in the arena of competition in the industry can create competitive advantage.

Effect of Market Orientation on Competitive Strategy

Market orientation is a behavior to deliver superior value to customers, the response to the actions of competitors and communicate internally. Cultural market orientation is needed to build and maintain the core ability to continue to create superior customer value. Hooley, et al. (2009); Slater & Narver, (2000) found that the ability of marketing is considered more important than operational capabilities, so that when the company is up-to-date with information about customers and competitors, this company is able to effectively handle the marketing activities within their organization. Several studies have shown a strong correlation between market orientations with competitive strategy (Matsuno et al., 2004). But in general the results of studies that tested the causal relationship between market orientation with a competitive strategy to the conclusion that the market orientation has an influence on the performance of competitive strategy (Harris and Ogboma, 2001; Jaworski and Kohli, 2003; Matzuno and Mentzer, 2000). This is consistent with that proposed by Ellis (2006) in his research entitled "Market Orientation and Performance: A Meta-Analysis and Cross-National Comparisons", stating that in general the market orientation determines the performance of the company's competitive strategy. Findings Vasquez et al., (2001) in his research entitled "Market Orientation, Innovation and Competitive Strategies in Industrial Firm", to obtain findings that market orientation has a positive influence on the competitive strategy of the company. Based on the results of the above description, the hypothesis in this study are:

"Market orientation positive effect in improving the competitive strategy on Integrated Agro Processing Industry in Indonesia".

RESEARCH METHODS

This research uses explanatory survey method, as it will explain the relationship between the variables studied. While the type of relationship between the variables used in this study is the causality is the independent variable / variables influencing variables dependen/dependent variable. Explanatory research refers to the hypothesis that will be tested against the phenomena that occur. Methods of data collection in research conducted through questionnaires. While the sample in this study amounted to 80 Integrated Agro Processing Industry in Indonesia. The amount is considered to have fulfilled the general rule (rule of thumb) dikemukakan have now (2003) which states:

- a. At umunnya study was sufficient to qualify when using a sample of more than 30 and less than 500.
- b. If the sample will be divided into sub-samples, the minimum amount for each category is 30.
- c. In a study using multivariate analysis including multiple regression analysis, the sample size at least 10 times the variables used in the study.

While the method of data analysis used in this research is Structural Equation Modeling (SEM). The reason for choosing this method is its ability to measure the construct either directly or indirectly, through the indicators as well as analyzing the indicator variable, latent variable, the following error measurement.

RESULTS AND DISCUSSION

Normality Test

SEM analysis can be done if the data were normally distributed. To that end, the normality test data becomes important. Normality test data using univariate methods normality to see univariate skew index coefficient (inclination) and univariate kurtosis index (high-level). Data eligible normality if the coefficient index univariate skew and kurtosis index univariate be between + 2.58 (-2.58 <CR <+2.58). If out of this figure, it can be said that the data in abnormal conditions. Normality test results shown in Table 4.

Table 4.
Research Data Normality

Variable	Min	Max	Skew	C,R,	Kurtosis	C,R,
X1,3	7,000	15,000	-,636	-4,840	-,379	-1,443
Y1,2	3,000	8,000	-,691	-5,266	,439	1,672
X1,1	8,000	20,000	-,745	-5,673	,162	,619
Y1,1	3,000	7,000	-,605	-4,604	,010	,036
X1,2	8,000	19,000	-,733	-5,585	-,005	-,018
Multivariate					22,767	10,033

Source: Primary data are processed, 2015

Using the criteria of CR of 2.58 at the 5% significance level, then through the observation of the figures in the CR column are shown in Table 4. It can be concluded that there are no numbers greater than +/- 2.58 and a range of numbers -angka column skewness no exceed +/- 1.96 at the 5% significance level. It provides evidence that the data used to have a normal distribution.

Test Multicollinearity and Singularity

To see if there is multicollinearity or singularity in a combination of variables, it should be observed determinant of covariance matrix (Ferdinand, 2002). Determinant was really small indicate multicollinearity or singularity, so that the data can not be used for the analysis is being done. These results indicate that the determinant of the sample covariance matrix = 48.432 and well above zero. Thus, it can be concluded that there is no multicollinearity or singularity in the data used. Therefore, the data in this study can be used in the analysis.

Outliers test

Outliers are observations that emerged with extreme values either univariate or multivariate, namely that arise due to the combination of its unique characteristics and look very much different from other observations (Ferdinand, 2002). Evaluation of multivariate outliers is important because although the data

analyzed showed no outliers the univariate level, but the observations that can be outliers when it has been mutually combined.

The detection of outliers is done by using Mahalanobis distance that indicates how far a particular data from a central point. An outlier if the data is said to have a number of p_1 and p_2 is less than 0.05 (Santoso 2007). so it can be said that the existing data, found no intruder factor so that the data can be used. In the analysis of the study, when there is no particular reason to exclude cases that indicate the presence of outliers, then the case must still be included in subsequent analyzes (Ferdinand, 2002).

Variable Confirmatory Analysis Research

To ensure the validity of each indicator that form a construct (variable), it is necessary to confirmatory factor analysis (Confirmatory Factor Analysis) to confirm all the indicators that make up each variable or construct. The whole construct needs to be measured at least two indicators. Some of the criteria used to measure the reliability of a construct include Cronbach alpha reliability coefficient value, composite reliability coefficient, and the proportion of variance extracted. A construct would be considered reliable if the value of Cronbach alpha reliability coefficient of at least 0.6 (have now, 2003). The reliability of a construct occurs if the composite reliability value of more than 0.7 (Ferdinand, 2002).

In addition, the proportion of the diversity of each indicator in a construct is expected to reach at least 0.5 (Hair et.al, 1995). The validity of the examination is determined by the value standardize loading estimate (coefficient of books) were obtained. If the loading values above 0.4, the presence of an indicator expressed strong enough to measure a construct. Results of confirmatory analysis variables (constructs) research can be seen in Table 5.

Table 5.
Variable Confirmatory Analysis Research

Variable/Indicator		Raw Coefficient	S,E	C,R	P-Value
X	Market Orientation				
X1,1	Customer orientation	1,005	0,089	11,312	0,000
X1,2	Orientation competitors	0,795	0,054	7,298	0,000
X1,3	Interfunctional coordination	0,712	0,077	9,237	0,000
Y	Competitive strategy				
Y1,1	Excellence Cost	1,976	0,347	5,687	0,000
Y1,2	Differentiation	0,733	0,167	4,383	0,000

Source: Primary data are processed, 2015

As shown in Table 5, confirmatory factor analysis of all study variables showed significant results. This is evidenced by the value of CR more than 2 or p-value <0.05 and book value coefficient (standardize estimate) are all worth over 0.40. It also provides evidence that each indicator has a degree of validity to construct high.

Results of Full Analysis Model SEM

After the models were analyzed through Confirmatory Factor Analysis and seen that each variable can be used to define a latent constructs, then a full-SEM models can be analyzed. Results of data processing with AMOS program version 22 can be seen in Figure 3 below:

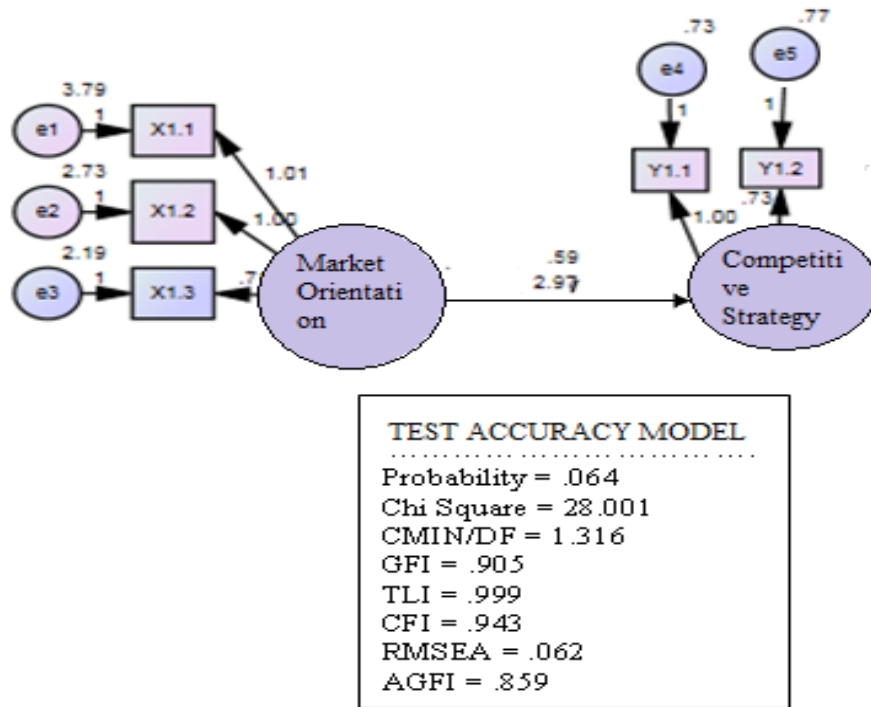


Figure 3. Structural Equation Model
 Source: Primary data are processed, 2015

Results of testing the suitability of the model in Figure 3 shows the chi-square value of 28.001 and the values of a probability of 0.64 which was above the limit of significance of 0.05. In addition, the index value measurement of the suitability of the model include GFI (0.905), AGFI (0.859), TLI (0.999), CFI (0.943), RMSEA (0.062), and CMIN / DF (1,316) are in the range of expected values (Table 6.). All this shows that there is no difference between the sample covariance matrix and covariance matrix estimated from the population so that the full model SEM is acceptable.

Table 6.
Structural Equation Model Testing Results

<i>Goodness of Fit Measure</i>	<i>Cut off Value</i>	Results Model	Evaluation Model
Chi Square (λ^2)	Expected small	28,001	Good
Significance Probability (<i>p</i>)	$\geq 0,05$	0,064	Good
RMSEA	$\leq 0,08$	0,062	Good
GFI	$\geq 0,9$	0,905	Good
AGFI	$\geq 0,9$	0,859	Enough
CMIN/DF	$\leq 2,00$	1,316	Good
TLI	$\geq 0,95$	0,999	Good
CFI	$\geq 0,94$	0,943	Good

Source: Primary data are processed, 2015.

Hypothesis Testing

Hypothesis testing is done by observing the probability (p) the estimation regression weight of structural equation modeling. Estimates regression weight of structural equation model are shown in Table 7. if the p-value greater than 0.05, then the hypothesis is accepted.

Table 7
Structural Model Hypothesis Test Results

Hypothesis	Directions Strip	Regression Coefficients	C.R	p-Value	Raw Coefficient
H	Market orientation → competitive strategy on Integrated Agro Processing Industry in Indonesia	0,591	5,190	0,000	0,811

Based on estimates of regression weight of structural equation model in Table 7, the results hypotheses can be concluded that the market orientation of the positive and significant effect in improving the competitive strategy on Integrated Agro Processing Industry in Indonesia. This is reinforced by regression coefficient that is positive of 0.591, the coefficient of raw (standardize coefficient) of 0.811, the value of the critical ratio (CR) of 5.190 (greater than 2) and a probability value (p) of 0.000 which is smaller than the level significance (α), which was set at 0.05. Thus, the hypothesis (H): "Market orientation positive effect in improving the competitive strategy on Integrated Agro Processing Industry In Indonesia supported (unacceptable). These results agree with the results of research and Ogboma Harris, 2001; Jaworski and Kohli, 2003; Matzuno and Mentzer, 2000, Ellis, 2006 and Vasquez et al., 2001 stating that market orientation has a positive influence on the competitive strategy of the company.

Strategy is the key principal companies to improve competitiveness, which in turn would increase the company's performance. Strategy is the direction of action and the allocation of the necessary resources to achieve the goals and long-term goals of a company. Competitive strategy is a course of action and how the allocation of resources companies to win the competition. Kotler (2012) distinguishes the company's competitive strategy based on market share of the company (the company's position compared to competitors, seen from the breadth of market share), the market leader strategy, market challenger, market follower, and market nicher. The strategy is market leader chosen strategy if the company into a market leader that is mastered more. Nicher market strategy is a strategy-oriented company meet the needs of specific consumer group that is not met by large companies.

Porter (2008) emphasizes that competitive strategy should be based on the potential of the company. Porter distinguishes competitive strategy called strategic generic, consisting of three components, namely differentiate strategy, the cost of leadership strategy and focus strategy. Differentiate strategy is a strategy to win the competition by developing unique products / services offered. Differentiation can be developed by looking at the source of the uniqueness found along the value chain. Companies that want to excel in the differentiation should be able to exploit all sources of differentiation while maintaining a cost advantage. After knowing the consumer value chain, companies select activities that contribute to the value of their competitive strategy. Differentiation is considered high if it releases a product difficult to imitate and able to survive in the market. Differentiation was built from the exact identification of the source of value and uniqueness that are not easily copied by competitors. Not all are created valuable differentiation for consumers.

CONCLUSIONS AND SUGGESTIONS

Conclusion

Based on the results of research and discussion that has been raised, it can be concluded that the market orientation of the positive and significant effect in improving the competitive strategy on Integrated Agro Processing Industry in Indonesia. Meaning that the higher market orientation, the better competitive strategy applied by the company, so it will increase the competitiveness of perusahaan which have an impact on better performance. Market orientation is an organizational culture that leads to the market. The starting point of a market orientation is market intelligence. Market orientation focused on understanding customer wants and needs of current and future.

Suggestion

Based on the conclusions that have been described, it can put forward some suggestions as follows:

1. Companies need to improve the quality of market orientation that has been done by the company to the future performance of the company can be increased and also expand the market pangasa and increase the return on investment (ROI) annually.
2. Further research is expected to examine the deeper is not limited to the variables that have been studied (orientasi market and competitive strategy), but the need for the addition of other causes variables associated with increased competitive strategy.
3. In further research can be developed respondents are more varied, not limited to the Integrated Agro Processing Industries, but needs to be compiled with other industry so that research results can be generalized and expected to be developed analytical models that have been there, with mempertimbangkan other analysis tools are more accurate and update.

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