

## THE FACTORS THAT INFLUENCE THE FIRM PERFORMANCE IN THE FURNITURE INDUSTRY JEPARA

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### Abstract

Furniture industry in Jepara is one of Indonesia's main commodities to be proud of and be maintained even if it needs to be improved. The industry occupies a strategic position of being able to contribute to regional revenue by 26% by value of exports of U.S. \$ 130 million or more than Rp1 trillion in 2010 and in 2011 reached U.S. \$ 111.65 million. However, exports from Jepara furniture is likely to decline due to a variety of things. This study aims to analyze firm performance through, market orientation, learning orientation, and innovation in furniture industry in Jepara. The samples in this study were 110 small and medium-sized enterprises. Sixth hypothesis with SEM analysis results of the research are: (1) learning orientation have a significant effect on firm performance, (2) learning orientation significant effect on innovation, (3) market orientation have a significant effect on innovation, (4) market orientation significantly influence on firms performance, (5) innovation no significant effect on firm performance. Indicator variables that need to be considered in learning orientation is open-mindedness and sharing of knowledge, while the indicator variable of the market-orientation is competitor orientation as a significant effect on innovation and firm performance.

*Keywords:* firm performance, market orientation, learning orientation

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### 1. INTRODUCTION

Market orientation approach helps the organization to adapt the environment. It is a way to develop competitive advantage. A more market orientation organization will be able to gain an access to the destination. To get more success, market-orientation approach is needed more than other strategic approaches.

Besides market orientation, to improve the company's performance, it needs learning orientation that can help reinforcement of the market-orientation vision and behavior in organizations. Actually, learning orientation, which is known as the acceptance of the learning process in the organization, enable the company to create the knowledge in selling the product, technology and related processes (Slater and Narver, 1995). It is strongly associated with the introduction and action on market opportunities in the unstable environment (Slater and Narver, 1995).

Competitive conditions and dynamic competition requires an aggressive and innovative attitude increasingly fierce competition in which companies also have an impact on the need to be more flexible, adaptive and act quickly. The emergence of innovation or innovated product is essential to meet the market's demand so that product innovation can be used as a competitive advantage for the company. Product innovation is believed to be able to increase sales, profits and an advantage of organization's competitiveness, but innovation product development also means that products can be expensive and risky to the company, as the result the proper and accurate coordination was needed among the parts in the company to make an appropriate product for the market.

Hadjimanolis (2002), which connects between owner characteristics, firm characteristics on innovation has a positive impact on firm performance as measured by profitability (*profitability*), size (*size*), the market share (*market share*) and sales growth (*sales growth*). Therefore, based on these studies, the end result of the innovation is the company's performance. Han, Jin. K. (1998), stating that the product innovation has a positive effect on firm performance.

Related research of the leadership characteristics on market orientation as conducted by Jaworski and Kohli (1990), shows that the outcome is the factors affecting the orientation leader marketplace.

Furthermore, the role of senior managers is an important factor in developing market orientation. By adapting ideas and studies as mentioned above, the research was done in the furniture industry in Jepara, Central Java Province. As for the reason or judgment, First, based on the opinion of Sadler (2003), that research on small and medium enterprises in the absence of a functional separation of small employers and labor organizations, they are more easily traced, in addition to the entrepreneurial competence and managerial competence can be found in every-individual managers, small business can make a major contribution in making innovations. Loan-Clarke (2000) (in Sadler 2004), also stated that research in small companies are handled by individuals as the functions of operational, managerial and entrepreneurial. Westhead and Storey (1996) (in Sadler, 2004) state that the reason of the management in small and medium enterprises is an important aspect of supporting the growth of regional economies and the national economy.

Reason and consideration of the second, the furniture industry is one of the main commodities trading and export activities in Central Java, most of them are located in Jepara regency, until now those are still active in trade and export activities. In 2001 Central Java province has launched a trade and export development program which is aimed to increase trade and non-oil exports of superior product that will have an impact on economic development and employment.

As the center of the wood furniture industry in Indonesia, Jepara district has a very important role in the national economy. According to wheel *et al* (2007), contained the furniture industry in Jepara is 15.271 industrial and employment as much us 176.470 people. Based on BPS data Jepara regency in 2007, total trade furniture from Jepara to 2007 was 37.894.523,92 kg furnishings with a value of U.S. \$ 94.640.782,15 production.

Loebis and Schmits (2005) state that wood furniture is an industry which can survive during the economic crisis in 1997. It is known from Jepara furniture industry growth and increased employment. Number of wooden furniture industry in 1997 as many as 2.439 and the number of industries in 2007 increased to 3.710. (Trade, industry and cooperation Department, Jepara, 2008). So is the amount of labor in 1997 as many as 38.264 workers increased to 49.192 workers in 2007. Looking at the contributions made by the furniture industry furniture industry should get the attention of not only the aspects of the market in Jepara furniture but also aspects of corporate performance and marketing aspects.

An illustration fluctuation of export activities in the district of Jepara based on empirical data on the potential of the furniture industry in the years 2008-2012 can be seen in Table 1.1 below:

Table. 1.1 Data Export Furniture Industry in Jepara Year 2008-2012

No	Year	Value (In U.S. \$ Million)	Total Number of Destination Countries	Exporting Company
1	2008	102,1	111	-
2	2009	93,52	106	-
3	2010	111,5	99	268
4	2011	111.65	101	282

Source: *Department of Industry and Trade of Jepara, 2012*

Table 1.1 shows that the value of exports in 2009 suffered a huge drop compared with 2008 despite further in 2010 and 2011 increased. While the number of destination countries declined from 2008 to 2010, then increased again in 2011 but the increase was very small which only increases by 2 (two) countries.

Based on sources of local government, the decrease in the volume of exports of furniture that many rejected is caused of the failure of the requirements fulfillment in putting forward by consumers. Rejected products cost cheap. This statement is justified by the management in the district of Jepara. It states that any product that does not comply with the wishes of the customer payment is not completely 100% but it is rewarded according to the incompatibility, for example only 80%. Therefore, the need of increasing product relates to the terms proposed by the consumer. Furniture industry in Central Java is not considered more as a tailor, for the reason that the furniture lacked of basic shapes (basic designs) are obvious, many are merely imitate, lack of innovation and tend to be controlled by the purchaser (buyer).

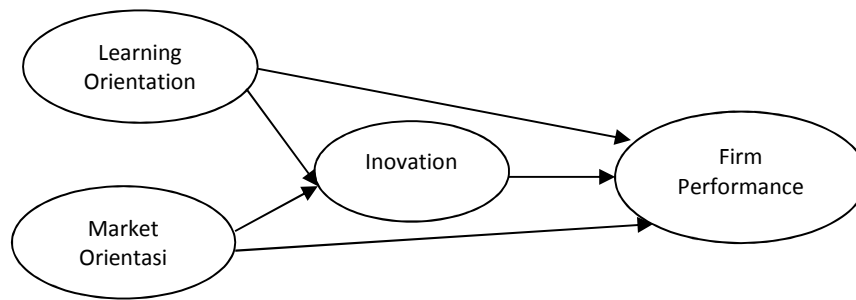


Exhibit 2.1 Conceptual Framework

## 2. RESEARCH METHODS

### 2.1 Samples

The data used in this study is primary data. Sampling techniques are also applied with purposive sampling. The sample in this study of 110 companies, in order to sufficiently representative data obtained by using analytical techniques Structure Equation Model (SEM).

### 2.2 Operational Definition and Measurement

VARIABLE	OPERATIONAL DEFINITION	MEASUREMENT
attitude of the leadership	characteristics of leaders to communicate, attitude towards risk, level of education, level of mobility, which leads to changes in behavior and actions taken will affect the staff below. Indicators of leadership characteristics through commitment, knowledge of innovation, experience manager, <i>risk taking</i> . (Anthanasios Hadjimanolis, 2002).	1 to 10 (strongly disagree-strongly agree)
Market Orientation	An orientation concept which focuses on creating high value for the consumer. Indicators of market orientation are measured through customer orientation, competitor orientation, interfunctional coordination. (Narver and Slater, 1990).	1 to 10 (strongly disagree-strongly agree)
Orientation Learning	A process whereby member organizations develop shared values and knowledge based on past experiences of self and others. Lipshitz et al. (1996, P 293). Orientation learning is measured through : commitment to learning, shared vision, open-mindedness, knowledge sharing between organizations (Sinkula et al, 1997; Moorman and Miner, 1998).	1 to 10 (strongly disagree-strongly agree)
innovation	An introduction to equipment innovation, the legal system, product or service, a new production process technology, a structure or a new administration or a new planning program to be adopted by an organization. Innovation indicators is measured through a culture of innovation, administrative innovation and technical innovation. (Hurley and Hultz, 1998).	1 to 10 (strongly disagree-strongly agree)
Company's Performance	It is a measure of the success of the Company's performance or achievements that have been achieved by a company which is measured by a certain time. Performance indicators (Harris and Ogbonna, 2000), (Bae and Lawler, 2001), measured by growth, profit growth, new product growth, employee productivity.	1 to 10 (strongly disagree-strongly agree)

### 2.3. Technique of Analysis

This research analysis uses *Structure Equation Model* (SEM) computerized package AMOS 16. Selection of causal modeling AMOS portrait hypothesized relationships between constructs, which describes a causality, including tiered causality. By looking at the complexity of the data measurement, the proposed techniques is multivariate techniques, namely SEM. Given there is the ability to develop the model, but still statistically efficient with more than one dependent and independent variables. Techniques-other multivariate techniques such as *multiple regression, factor analysis, multivariate analysis of variance and discrimination analysis* only can explain a single relationship at a time.

Therefore, SEM computerized program is selected to analyze research data related to answer the research objectives as the tools used in previous studies. A complete modeling of SEM consists essentially of measurement models and *structure model*. *Structure Model* is a model of the relationships that form the structure or explain causality between factors (Imam Ghozali, 2008).

To create a complete modeling step that need to be done (Imam Ghozali, 2008), namely:

- 1 . Development based on theoretical models,
- 2 . Compiling path diagram (*Path Diagram*),
- 3 . Converting flowcharts into the equation,
- 4 . Choosing the input matrix and analytical techniques,
- 5 . Assessing problem identification,
- 6 . Evaluating criteria *Goodness-of-fit*,
- 7 . Model Interpretation and modification.

## 3. RESULTS AND DISCUSSION

### 3.1 Structural Equation Model (SEM)

Test the feasibility of the overall model analysis performed by using *Structural Equation Model* (SEM), which also is used to analyze the hypothesis.

Summary feasibility test model of *confirmatory factor analysis* are as follows :

Table 3.1 Results of testing the feasibility Model Confirmatory Factor Analysis

Goodness of Fit Indeks	Cut-off value	Analysis Results	Evaluation Model
Chi-square	< 152,09 (5%,125)	122.684	GOOD
Probability	0,05	0.542	GOOD
RMSEA	0,08	0.000	GOOD
GFI	0,90	0.887	MARGINAL
AGFI	0,90	0.845	MARGINAL
TLI	0,95	1.002	GOOD
CFI	0,95	1.000	GOOD
CMIN/DF	2,00	0.981	GOOD

Sources : Primary data were processed

The results of data processing analysis show that all constructs are used to establish a research model, the full analysis of the SEM **models goodness of fit criteria** that have been established. Measure *goodness of fit* which shows that fit this condition is caused by the Chi-square figure of 122.684 is smaller than the cut-off value set (152.09) with a probability value of 0.542 or above 0.05, this value indicates the absence of difference between the sample covariance matrix with the estimated population covariance matrix. Another measure *goodness of fit* is also a good show at the TLI condition (1.002), CFI (1.000); CMIN/DF (0.981), RMSEA(0.000) met the criteria **goodness of fit**. While the value of GFI (0.887) and AGFI(0.845) is well within the acceptable tolerances so.

The results of calculations of the goodness of fit criteria in the AMOS program 16 showed that confirmatory analysis and *Structural Equation Modeling* in this study may be accepted in accordance with model fit chi-square value of 122.684 which is smaller than the cut-off value set (152.09) with probability value of 0.542 or above 0.05, these values showed no difference between the sample covariance matrix to the covariance matrix of the estimated population. Another measure *goodness of fit* is also a good show at the TLI condition (1.002), CFI (1.000); CMIN/DF (0.981), RMSEA (0.000) met the criteria **goodness of fit**. While the value of GFI (0.887) and AGFI (0.845) is well within the

acceptable tolerances so. Based on this model fit can be tested against the 5 hypothesis proposed in this study.

### **1. Testing Hypothesis 1**

**H<sub>1</sub> :** Learning orientation has a positive effect on firm performance

Parameter estimation of the relationship between the two variables was obtained for 0.459. Tests showed significant results with values CR = 3.083 qualified > 1.96 with probability = 0.002 qualified test probability is below 0.05. Thus H<sub>1</sub> in this study is acceptable.

#### **The relationship between learning orientation and company performance**

From the research that has been done, it can be concluded that the first hypothesis can be accepted. The average index of learning orientation was high with indicators of open-mindedness, occupies the highest position in the variable index of learning orientation, followed by a commitment to learning and knowledge sharing between organizations and the latter shared vision. Opinions of respondents index average high and if the results of these data suggest that the orientation of the respondents learned very well to support the advancement of the company's performance. This is consistent with the results of the research that has been done by (Calantone, Cavusgil, and Zhao, 2002) and (Flint Gammelgaard Larsson and Mentzer, 2005) and (Aragon-Caravaggio, Garcia-Morales and Cordon-Pozo, 2007).

### **2. Testing Hypothesis 2**

**H<sub>2</sub> :** Learning orientation has a positive effect on innovation.

Parameter estimation of the relationship between the two variables was obtained for 0.367. Tests showed significant results with values CR = 4.981 qualified > 1.96 with probability = 0.000 qualified test probability is below 0.05. Thus H<sub>2</sub> in this study is acceptable.

#### **The relationship between learning orientation and innovation**

From the research that has been done it can be concluded that the second hypothesis can be accepted. The average index of learning orientation was high with indicators of open-mindedness, occupies the highest position in the variable index of learning orientation, followed by a commitment to learning and knowledge sharing between organizations and the latter shared vision . Opinions of respondents whose index averages are high shows learning orientation of the respondents are good to support the advancement of innovation company. This is consistent with the results of research conducted by Hurley Hult (1998) that learning orientation is an antecedent of innovation, research and Hult Hurley and Knight (2004) states that orientasi learning is positively related to innovation . But according to the results of the study differ from the Baker Sinkula (1999) which states that learning orientation has a direct impact on performance, but also an indirect impact through product innovation.

### **3. Testing Hypothesis 3**

**H<sub>3</sub> :** Market orientation has a positive effect on innovation

Parameter estimation of the relationship between the two variables of 0.344 was obtained. Tests showed significant results with values CR = 2.986 qualified > 1.96 with probability = 0.003 qualified test probability is below 0.05. Thus H<sub>3</sub> in this study is acceptable.

#### **Relationship between market orientation to innovation.**

From the research that has been done, it can be concluded that the fifth hypothesis is acceptable. The average index of market orientation is high. Based on this study market orientation and market orientation are very important role so they can affect innovation. Viewed from the indicators, the competitor orientation occupies the highest position in the variable index of market orientation followed by interfunctional coordination and orientation of customers. The results of respondents' perceptions of market orientation variables shows that market orientation is very important to be done by the employer/employee furniture in Jepara to innovate.

### **4. Testing Hypothesis 4**

**H<sub>4</sub>:** market orientation has a positive effect on the performance of the company.

Parameter estimation of the relationship between the two variables was obtained for 0.459. Tests showed that the results are not significant to the value of CR = 2.304 qualified > 1.96 with probability = 0.021 qualified test probability is below 0.05. Thus H<sub>4</sub> in this study received, it indicates that the market

orientation affects the performance of the company. The results are consistent with research and Sinkula Baker (1999), that the positive effect on market orientation and organizational performance will result in a competitive advantage for long periods of time (Day, 1994; Slater and Naver, 1995 and Noble et al, 2002).

## 5. Testing Hypothesis 5

### H<sub>5</sub> : Innovation positive effect on firm performance.

Parameter estimation of the relationship between the two variables was obtained by -0.278. Tests showed that the results are not significant to the value of CR = -1003 are not eligible > 1.96 with probability = 0.316 which does not qualify under test probability of 0.05. Thus H<sub>5</sub> is rejected in this study, it is shown that innovation does not directly affect the company's performance. This result is consistent with the research (Olson and Bokor, 1995, Hadjimanolis and Dikson 2000), states that the level of innovation the company has no significant effect on firm performance as measured by sales growth.

## 4. CONCLUSIONS AND SUGGESTION

### 4.1 Conclusions

From the explanation above it can concluded as follow which has been based on the hypotheses.

1. Learning orientation have a significant effect on the performance of the company.
2. Learning orientation significantly effects on innovation.
3. Market orientation significantly influences the innovation.
4. Market orientation significantly influences the performance of the company.
5. Innovation does not significantly influence the performance of the company.

### 4.2 Suggestions

1. Indicator variables that need to be considered in the study was open-minded orientation as perceived by the respondents, but based on the results if the SEM which has the largest contribution is precisely the sharing of knowledge between organizations as a significant effect on firm performance and innovation.
2. Indicator variables to consider in market orientation is a good competitor orientation as perceived by the respondents as well as by the results if the SEM that has the largest contribution due to significantly influence the innovation and corporate performance.

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