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## Market Orientation and Value Creation in Improving Business Performance of the Fertilizer Industry in Indonesia

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**Abstract:**

**Purpose:** This research aims at examining the effect of market orientation and value creation on business performance of the fertilizer industry in Indonesia.

**Approach/Methodology/Design:** This research used observation using time horizon with cross section one shot in year 2018. Unit of analysis in this research is organic fertilizer company or inorganic with company's management as the observation unit. The survey was conducted to 35 fertilizer companies in Indonesia. Verification analysis was used to measure quantitative data and hypothesis testing by using PLS (Partial Least Square).

**Findings:** The findings showed that market orientation and value creation had a significant influence in improving business performance in the fertilizer industry in Indonesia. In addition, value creation had a greater role than market orientation in improving business performance..

**Practical Implications:** The result of this research is expected to give implication for business actor of fertilizer industry in Indonesia as an effort to improve its business performance by increasing value creation supported by increasing market orientation.

**Originality/Value:** The result of this research is expected to give implication for business actor of fertilizer industry in Indonesia as an effort to improve its business performance by increasing value creation supported by increasing market orientation.

**Keywords:** Market orientation, value creation, business performance, fertilizer industry.

**JEL classification:** C1, D12, D46, D47

**Paper Type:** Research study.

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## **1. Introduction**

The demand of urea fertilizers in Indonesia, non-subsidized and subsidized in 2013 amounted to 5.3 million tons, and increased to 6.3 million tons in 2016 (Arief, 2019). According to data from the Association of Indonesian Fertilizer Producers (APPI), the consumption of urea fertilizer throughout 2017 became the largest in the last 10 years with the achievement of 5.97 million tons exceeding the realization of urea fertilizer consumption in 2016 which reached 5.32 million tons (Winanto, 2018). High consumption is caused by several factors such as the long rainy season that encourages farmers to produce. National urea consumption in 2017 is still dominated by agriculture sector (4.10 million tons), plantation sector (1.01 million tons) and industrial sector (847 thousand tons). As for the export of urea fertilizer throughout 2017 decreased 39% to 766 thousand tons compared to the previous year of 1.25 million tons. This is caused mainly due to declined international market prices. Nevertheless, the total consumption of urea for domestic and export markets in 2017 increased 2% to 6.73 million tons compared to the previous year at 6.58 million tons. Meanwhile, for the consumption of NPK fertilizer also rose 6% to 3.11 million tons compared to the previous year of 2.93 million tons (Pupuk Indonesia, 2018). The condition shows the unstable business performance of fertilizer industry in Indonesia. Meanwhile, according to Wheelen and Hunger (2012) business performance can be measured from sales, market share and profitability.

The above conditions are allegedly related to the business value creation issue. Conceptually, Kotler and Keller (2012) explain that customer value creation focuses on the customer, its core competence on the business domain, and its collaborative network on business partners. While empirically found indications such as the collaboration is not carried out closely with business partners. It was found indications such as the lack of effort to develop collaboration with business partners. By paying attention to the high international market competition climate, each fertilizer producer is required to operate efficiently, and be more responsive to seeing opportunities and taking various anticipatory steps in order to continue to grow sustainably. Fertilizer companies continue to make efforts to obtain gas contracts at competitive prices.

Another aspect that is thought to have an impact on the creation of business value and company performance is market orientation. According to Narver and Slater (1990), the conceptual model of market orientation includes three dimensions: 1) customer orientation; 2) competitor orientation; and 3) inter-functional coordination. While the observation results indicate that the understanding of fertilizer companies to target customer purchases has not been comprehensive. The management has not yet developed a competitor's orientation well, as they have not made a maximum effort to understand the short-term strengths, weaknesses, long-term capabilities and strategies of their potential competitors, as materials in strategizing to create products that are superior to their competitors.

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The background shows the phenomenon of problems in market orientation, value creation, and business performance of fertilizer companies. On the basis of the research background, this study aims to examine the effect of market orientation and value creation on the business performance of the fertilizer industry in Indonesia.

## 2. Literature Review

### 2.1 Market Orientation

According to Narver and Slater (1990), market orientation is a broad organizational culture that helps companies perform the behaviors necessary for superior customer value creation and sustainable business performance. The conceptual model of market orientation includes three dimensions: 1) customer orientation; 2) competitor orientation; and 3) inter-functional coordination. The competitor's orientation and competitor orientation includes all the activities involved in obtaining information about buyers and competitors on targeted and dispersed markets through business.

The inter-functional coordination is based on customer and competitor information consisting of a coordinated business venture. Kohli and Jaworski (1990) define market orientation as collecting organizational information, disseminating information, and responding quickly to the needs and preferences of current and future customers. Market orientation encourages organizational components to be able to contribute through the learning process and accumulated knowledge of customers and competitors on an ongoing basis, with the aim of creating superior and competitive value for both customers and competitors. Gaur, Vasudevan, and Gaur (2011) explained that the concept of market orientation itself can be grouped into two groups: behavioral approach and cultural approach. In behavioral approach (Kohli and Jaworski, 1990), market orientation is a set of activities to increase customer satisfaction. In addition, in the cultural approach (Narver and Slater, 1990), market orientation emphasizes on the values and beliefs dissemination within a company to meet customer interests above all else.

Tomaskova (2009) measures market orientation by: external environment, branch environment, distributor, competitors, supplier, internal environment analysis, inter-functional coordination analysis. Kirca, Berdan and Roth (2011) define market orientation from a behavioral perspective as an effort to develop, deploy and respond to markets related to current and future customer needs, competitor strategies and actions, channel requirements and company capabilities, and the broader business environment. Mahmoud, Kastner and Akyea (2011) suggested that market orientation places customers first as a path to competitive advantage.

Based on the above description of the concept, in this study market orientation is measured by three dimensions referring to Narver and Slater (1990), which consists of customer orientation, competitor orientation, and inter-functional coordination.

## **2.2 Value Creation**

Kotler and Keller (2012) explain that customer value creation focuses on the customer, its core competence on the business domain, and its collaborative network on business partners. So that a company can create customer value if it is able to focus on providing benefits to customers, having superior core competencies, and having a good business partner in its collaboration network. Value creation activities are related to business strategy. Hubbard and Beamish (2011) explains that business strategy is concerned with creating value that generates customer value that is the difference between what is sacrificed in cost and what is received in a number of benefits derived from the performance of a product or service received from the organization. Ngo and O'Cass (2010) developed the conceptual framework of Value Creation Business (VCB), which explains that the value creation process must be understood from three value perspectives, creating value for customers, value in bids, and value in use.

Based on the concept description, value creation in this research is measured by three dimensions referring to Kotler and Keller (2012) i.e. benefits for customers, business domains, and business partners.

## **2.3 Business Performance**

There are several measurements of business performances: Financial performance (Return on Assets/ROA) and Nonfinancial performance (Quality) (Hassab-Elnaby, Hwang, and Vonderembse, 2012); ROA (Huang, 2010) Return on equity (Fonseka, Wang, Manzoor, Suhaib, 2013). In this study, business performance is measured by dimensions: sales, profitability, and market share. David (2013) uses financial ratios to measures strategy including: Return on Investment (ROI), Return on Equity (ROE), Profit Margin, Market Share, Debt to Equity, Earnings per share, Sales growth, Assets growth.

## **2.4 Previous Research**

According to Gaur, Vasudevan, and Gaur (2011), market orientation can affect company performance in several ways. Matanda and Ndubisi (2009) found that value creation felt by suppliers has a mediating effect on the relationship between market orientation and business performance. Sánchez and Sotorrío (2010) suggest that the learning of producer organizations is a direct factor to the positive ability of customer value creation, understood from a functionalist perspective that directly improves the producer's business performance. Rodgers (2010) finds that the creation of corporate value that leads to performance gaps can be explained by seven organizational variables that focus on the entire organization consisting of vision, mission, risk, goals, strategies, organizational flexibility, and core values. Sindhuja (2009) provides a concrete analysis of the various parameters used to assess

shareholder value creation from both perspectives. This study shows that with professional management, non-family businesses can create value for shareholders. Based on a review of previous research results, the following hypotheses are prepared:

*H1: Market orientation and value creation have an effect on business performance either simultaneously or partially.*

### 3. Methodology

This research will examine fertilizer industry in Indonesia by using quantitative research approach. The quantitative approach emphasizes the numerical assessment of learned phenomena. It is more systematic, planned, structured, cleared from the beginning to the end of the study. This quantitative approach is used to identify all the concepts that the research aims (Malhotra, 2010). Quantitative research seeks to test a theory by detailing specific hypotheses and then collecting data to support or refute the theory. Data were collected with the help of special instruments designed to assess behavior, and the information was analyzed using statistical procedures and hypothesis testing. Observation using time horizon (time horizon) is cross section / one shot, meaning information or data obtained is the result of research conducted at a certain time that is in 2018.

The unit of analysis according to Sekaran and Bougie (2010) is "unit of analysis refers to the level of aggregation of the data collected during the subsequent data analysis stage". So that unit of analysis in this research is organic fertilizer company or inorganic with observation unit that is management side of that company. The survey was conducted on 35 fertilizer companies in Indonesia. Verification analysis, used to measure quantitative data and hypothesis testing by using PLS (Partial Least Square).

### 4. Resulta and Discussion

The simultaneous testing of hypothesis is presented in Table 1:

**Table 1.** *Simultaneous Testing of Hypothesis*

Hypothesis	R <sup>2</sup>	F	Conclusion
Market Orientation and Value Creation -> Business Performance	0.729	42.949*	Hypothesis accepted

**Note:** \* significant at ( $\alpha=0.05$ ) ( $F$  table =3.294).

Based on Table 1, it is known that within the degree of confidence of 95% ( $\alpha=0.05$ ) simultaneously there is the influence of Market Orientation and Value Creation to Business Performance; amounted to 72.9%, while the rest of 27.1% is affected by other factor did not examined.

Following is the result of partial testing of hypothesis:

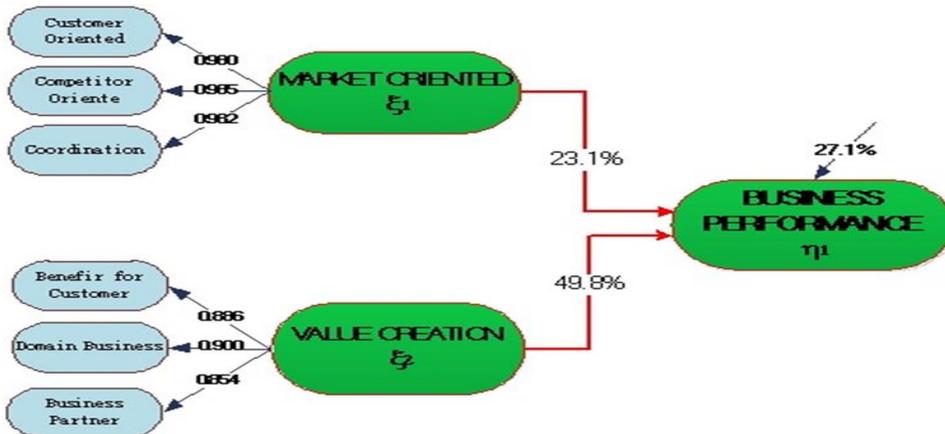
**Table 2.** *Partial Testing of Hypothesis*

Hypothesis	$\gamma$	SE ( $\gamma$ )	t	R <sup>2</sup>	Conclusion
Market Orientation -> Business Performance	0.308	0.089	3.450*	0.231	Hypothesis accepted
Value Creation -> Business Performance	0.601	0.101	5.921*	0.498	Hypothesis accepted

*Note:* \* significant at ( $\alpha=0.05$ ) ( $t$  table =2.03).

Table 2 shows that partially, Market Orientation and Value Creation affect significantly to Business Performance, which is Value Creation has a greater influence (49.7%). Based on hypothesis testing result, the Research Model Finding is as follow:

**Figure 1.** *Research Finding*



The results showed that the two variables of market orientation and value creation have a significant effect on business performance in the fertilizer industry in Indonesia. This result answers the research objective which is to examine the effect of market orientation and value creation on company performance, where the hypothesis is supported namely that market orientation and value creation affect company performance.

Value creation has a greater role than market orientation in improving business performance. The business domain is a value creation aspect that has the greatest contribution in driving value creation to improve business performance, followed by benefits for customers, and business partners. Strengthening business domain is done through the creation of product characteristics compared to competitors. Creation of standards for order fulfillment in a timely manner, and increase the company's understanding of product trends in the future. Benefits for customers are created by

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providing the variety of products and additional benefits, as well as improving quality standards. The cooperation with business partners, needs to be done primarily with customers and with competent business networks, such as with farmers' associations, fertilizer company associations, and others. The findings of this study are in line with the results of Gaur, Vasudevan, and Gaur's study (2011) and Matanda and Ndubisi's study (2009) that the market orientation impacts on business performance.

While on the market orientation side, competitor orientation has the highest impact in improving business performance, followed by inter-functional coordination and customer orientation. Competitor orientation means that the company understands the short-term strengths, weaknesses, long-term capabilities and strategies of its potential competitors. This understanding includes whether competitors use new technology to retain existing customers. This is done by utilizing various information media, as well as conducting periodic research to observe the development of competitors and their marketing policies. In addition, it is necessary to develop the ability to predict the behavior of the main competitors and understand the strengths and weaknesses of the main competitors. Companies also need to do regular analysis of competitors competitive strategies, to understand the weaknesses and strengths of competitors' strategies.

Interfunctional coordination means utilizing coordinated company resources to create superior value for targeted customers. Interfunctional coordination is carried out with the competence and responsibilities of employees. Employees also need to know the goals of the organization and ways to contribute in achieving company goals. The company also analyzes employee complaints, and develops teamwork to develop coordination between functions. For this reason, the company held an internal meeting to discuss successes, opportunities and threats, the development of new tasks. The ability of employee flexibility and maintaining business ethics and making ethical decisions are also important for companies in order to develop coordination between functions.

Customer orientation is a comprehensive understanding of customers' buying targets with the aim of continuously creating superior value for buyers. Customer orientation is intended so that companies are able to understand customer wants, customer needs, and customer expectations. Companies also need to understand the extent of customer satisfaction. For this reason, the company provides additional features, and completeness of product information, and provides fast service to customers. Therefore, the ability of the Customer Service Unit needs to be developed.

Thus, the test results that show the effect of market orientation on company performance, support the research findings of Sánchez and Sottorio (2010), Rodgers (2010), and Sindhuja (2009) which show that value creation influences business performance.

## **5. Conclusions and Suggestions**

The purpose of this study is to examine the effect of market orientation and value creation on business performance. The results showed that market orientation and value creation have a significant influence in improving business performance in the fertilizer industry in Indonesia. Value creation has a greater role than market orientation in improving business performance. The business domain is a value creation aspect that has the greatest contribution in driving value creation to improve business performance, followed by benefits for customers, and business partners.

While the phenomenon shows that there are still problems in developing market orientation and value creation. Therefore, the result of this research is expected to give implication for business actor of fertilizer industry in Indonesia in an effort to improve its business performance, by increasing value creation supported by increasing market orientation.

Strengthening the business domain can be done through creating product characteristics compared to competitors, creating standards for order fulfillment in a timely manner, and increasing the company's understanding of product trends in the future. Benefits for customers are created by making product variations more varied than competitors and providing additional benefits. In addition, the benefits for customers can also be done by increasing quality standards. Strengthening value creation also needs to be done by increasing cooperation with business partners, especially with customers and with competent business networks, such as with farmers' associations, fertilizer company associations, and others.

Meanwhile, on the market orientation side, competitor orientation has the highest impact in improving business performance, followed by inter-functional coordination and customer orientation. The company strengthens its competitor orientation by understanding the competitors' short-term strengths, competitors' weaknesses, competitors' long-term capabilities, and strategies of their potential competitors. This understanding includes whether competitors use new technology to retain existing customers. The use of various information media, and periodic research to observe the development of competitors and their marketing policies, also needs to be done to understand competitors. In addition, it is necessary to develop the ability to predict the behavior of the main competitors and understand the strengths and weaknesses of the main competitors. Companies also need to do regular analysis of competitors' competitive strategies, to understand the weaknesses and strengths of competitors' strategies.

The development of inter-functional coordination is carried out by increasing employee competencies and responsibilities. Employees also need to know the goals of the organization and ways to contribute in achieving company goals. The company also needs to analyze employee complaints, and develop teamwork to develop coordination between functions. Internal meetings to discuss successes,

opportunities and threats, the development of new tasks need to be done regularly to evaluate. The ability of employee flexibility and maintaining business ethics and making ethical decisions are also important for the company.

Customer orientation is suggested to carried out with the aim of understanding customer desires, customer needs, and customer expectations. Customer orientation also needs to be improved by understanding the extent of customer satisfaction. For this reason, the company provides additional features, and completeness of product information, and provides fast service to customers. Therefore, the ability of the Customer Service Unit needs to be developed.

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