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THE EFFECT OF MARKET ORIENTATION ON ORGANIZATIONAL INNOVATION, ORGANIZATIONAL TRANSFORMATION, AND CORPORATE PERFORMANCE: STUDY ON PT BANK NEGARA INDONESIA

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ABSTRACT
This research aimed to examine and explain the effect of (1) Market Orientation on Organizational Innovation; (2) Organizational Transformation on Corporate Performance; and (3) Market Orientation on Corporate Performance. The location of this research was BNI Branch throughout Indonesia with all BNI Branch Managers acted as respondents which amounted to 169 people. Exogenous variable for this research was Market Orientation, namely Organizational Culture which was effective in creating important behaviors for the creation of superior value for buyers and performance in business. On the other hand, endogenous variables for this research were: Organizational Innovation, Organizational Transformation, and Corporate Performance. Some of the findings in this research were as follows: (1) Market Orientation had a significant positive effect on Organizational Innovation; (2) Organizational Transformation had a significant effect on Corporate Performance; and (3) Market Orientation had no significant effect on Corporate Performance.

KEY WORDS
Market orientation, organizational innovation, organizational transformation, corporate performance.

The current era of globalization has changed consumer behavior and business environment so as to create a new paradigm of transactional marketing to relationship marketing, namely the transition of the development of the company's business strategy from being product-oriented to customer-centric (Barnes, 2003) Such changes create business competition in banking industry. However, the challenge is that with increasingly fierce business competition, banks must also deal with declining customer loyalty numbers (Info Bank, January 2012).

The growth of Financial Technology (FinTech) in Indonesia illustrates that banking industry will move towards virtual banking without the presence of a physical bank in the future (Hadad, 2017). Bank Negara Indonesia (BNI) realizes that 62% of its customers are millennial generation who are familiar with technological developments. Thus, BNI responds to this technology with various efforts to have the ability to develop strategic choices and adapt to a dynamic environment. Therefore, company resources must be managed systematically to produce superior values that can truly be valued by customers.

One of the interesting things to study is how BNI changes its pattern of activities by promoting a customer-centric paradigm on cross organizational work units so that the attainment of customer satisfaction and loyalty is well obtained. Improvements in organizational performance are also carried out to improve quality, efficiency and effectiveness. Gibson (1995) and Bernardin (2003) stated that organizational performance is the ultimate achievement of an organization and contains several things, such as the existence of certain targets achieved, having a period of time in achieving targets and achieving efficiency and effectiveness. Mangkunegara (2005) explained that performance is work quality and quantity achieved by a person in carrying out his/her duties in accordance with the responsibilities given to him/her.

Corporate Performance can be achieved depending on company ability to determine the needs and desires of the target market and satisfy it more effectively and efficiently than its competitors (Agarwal et al., 2003). Market Orientation is one of the concepts in the discovery of corporate strategy. Market Orientation is a business philosophy and process of business manager behavior. It is viewed as philosophy because Market Orientation is a pattern of values and beliefs that help individuals to understand organizational functions based on certain norms (Deshpandé and Farley, 1998).

The study conducted by Kumar (2005) showed that Market Orientation contributes significantly in increasing a number of company competencies that can drive high performance in the field of cost and success in providing new services. Similar results are expressed by Baker and Sinkula (1999) that Market Orientation is significantly related to corporate performance. On the other hand, different results were shown by Wilkinson (2005) who confirmed that in implementation, Market Orientation is not necessarily a positive impact because relying on customer information can be misleading. This is in line with Baker and Sinkula (1999) who found that Market Orientation does not have a direct effect on Organizational Performance. Furthermore, Han et al. (1998) concluded that Market Orientation has a positive but insignificant effect on corporate performance.

Improving corporate performance can be done by growing the special capabilities of all the resources that are owned through innovation. Innovation plays an important role in the success of a company. Innovation is the introduction of new processes, products, or ideas in organizations that are relevant to the company ability to engage in innovation (Hurley and Hult, 1998). Ho (2010) showed that Organizational Innovation has a direct and significant effect on performance.

In addition to innovation, improving corporate performance can be done by doing transformation by the company. Organizational transformation will bring the old organizational form and system to the new form and system. The desire to change can be driven from the outside or is an urge to achieve a better situation. Organizational transformation is always preceded by a need related to business demands. Furthermore, Robbins (2006) stated that organizational changes can be made on structures that include strategies and systems, technology, physical arrangement, and human resources. Licen (2002) stated that Organizational Transformation changes organizational structure and describes the impact of the transformation and builds an organizational culture that supports the success of Organizational Transformation. Organizational Transformation basically changes the structure so that organizations become more flexible and have fewer hierarchical levels.

LITERATURE REVIEW

Slater and Narver (1995) defined Market Orientation as the organizational culture that is most effective in creating important behaviors for the creation of superior value for buyers and performance in business. Uncles (2000) defined Market Orientation as a process and activity related to customer creation and satisfaction by continuously assessing customer needs and desires. Slater and Narver (1995) stated that Market Orientation consists of 3 components, namely customer orientation, competitor orientation, and interfunctional coordination. Customer orientation and competitor orientation including all of its activities are involved in obtaining information about buyers and competitors in the target market and disseminating through business, while interfunctional coordination is based on customer information and competitors and consists of coordinated business ventures.

Obtaining maximum business benefits as a result of the implementation of organizational innovation makes many companies interested in learning how to produce innovation and manage the innovation process effectively (LengnickHall, in Hitt et al., 2005). In industry, where a dynamic environment has become a reality of life, innovation is closely related to organizational effectiveness (Robbins, 2006). Many factors influence the application of organizational innovation effectively. Structural, cultural and human resources aspects are characteristics that always arise when researchers study innovative organizations (Robbins, 2006).

What Robbins said was apparently supported by a comprehensive review of the problem of innovation, namely organic structure positively influences innovation (Damanpour, 1991). Therefore, the organizational leaders needed to support the innovation process are those that have the characteristics of transformational leadership, namely those that provide inspiration and energy to others through intellectual stimulation (Robbins, 2006). The slow pace of acceptance of innovation by the wider community is influenced by the characteristics of its own innovation. According to Rogers (1983), the characteristics of these innovations are: relative superiority, compatibility, complexity, trialability, and observability.

Webster in Armstrong (2003) stated that the Organizational Transformation strategy is about developing programs that are responding to new requests strategically and functioning effectively in the dynamic environment in which the organization operates. According to Armstrong (2003), there are four strategies for transformation: (1) Changes in terms of controlling the organization; (2) A basic change in the relationship intra- or inter-parts of the organization; (3) Major changes in how to do work; (4) Changes in basic culture in norms, values or research systems.

Kottler (2005) described eight steps for changing an organization, as follows: (1) Giving a feeling of urgency. (2) Forming a guiding coalition. (3) Creating a vision. (4) Communicating vision. (5) Empowering others to act based on vision. (6) Planning for and can create short-term wins. (7) Consolidating improvements and production that are more different. (8) Institutionalizing new approaches. Organizational Transformation is the entire process of changes needed by a corporation to position itself to be better in responding to and answering to new business challenges, a rapidly changing business environment and new desires that emerge from within the company. Changes are carried out thoroughly and continuously to the mindset, pattern of view and patterns of company action, business strategy, corporate culture and organizational behavior and abilities.

Rue and Byard (1977) defined business performance as a result achieved by an organization. Performance Measurement is a measurement of the results of the implementation of the strategy. Performance results that are considered good will be the standard for measuring performance in the future. If the indicators that become performance measures increase, this means that the strategy has been implemented properly (Anthony and Govindarajan, 2001). Venkatraman and Ramanujam (1986) described performance as a reflection of the success of a company that can be used as a result of various activities carried out. Wells and Spinks (1996) and Waterhouse and Svendsen (1998) defined performance as an action or activity that can be measured by the achievement of the quantity and quality of work produced by individuals, groups, or organizations in accordance with criteria and quality standards. According to Kreitner and Kinicki (2003), organizational performance is intended as the level of achievement of the organization in carrying out its activities in a certain period. Performance is a reflection whether the organization has been successful or not in its activities.

METHODS OF RESEARCH

This research paradigm was classified as the Post-Positivism Paradigm which is characterized by determination, reductionism, empirical observation and testing and verification of theory (Creswell, 2010). Causality research is research that wants to find explanations in the form of causal relationships between several variables (Ferdinand, 2006).

The location of this research was all Regional Offices of Indonesia with the scope of research covering all BNI Branch Offices which amounted to 169 branch offices. The objects studied were BNI employees at the Branch Manager level, assuming that employees at this level know and implement the policies that have been set. The reason they were responsible for managing the BNI Branch Office making them worth representing as a respondent in this study.

There were two data sources used in this study, namely primary and secondary data. Primary data was data obtained directly from respondents and collected through interviews. The primary data in this study was the assessment of BNI Branch Managers throughout Indonesia about the variables of Market Orientation, Organizational Innovation, Organizational Transformation, and Corporate performance. Secondary Data was data

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obtained from Bank BNI data base. Secondary data was in the form of information about company descriptions, internal surveys, and activity reports.

RESULTS AND DISCUSSION

The Effect of Market Orientation on Organizational Innovation. In our findings in the field, Market Orientation had a positive effect on innovative products through coordination between functions. This condition can be understood because the coordination between marketing functions with other functions in the process will lead to a common understanding of the needs of customers.

Organizations that can fully recognize the development of Market Orientation will more quickly conduct Market Orientation adjustment. The role of mediation from organizational innovation will weaken the direct relationship of Market Orientation to Corporate Performance. This result is in line with a number of studies conducted by Eris and Ozmen (2012). Ho (2010) showed that organizational innovation had a direct and significant effect on performance. The same result was shown by Eris and Ozmen (2012), who showed that companies in the logistics sector in Turkey that were market-oriented, learning-oriented, and innovative contributed effectively to performance improvement.

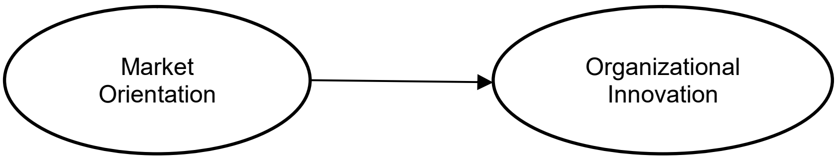

Figure 1 – The Effect of Market Orientation on Organizational Innovation

Innovation is the introduction of new processes, products, or ideas in the organization, which are relevant to the company ability to engage in innovation. Organizational innovations measured in this study include: Organizational Structure Innovation, Management Information System Development, Sustainable Products & Services Development, Service Process Innovation, and Product/Service Feature Change. Of a number of innovations mentioned previously, one that was considered still lacking was service process innovation for customers. BNI still needed service improvements as part of the company's incremental innovation. Incremental innovation is the changes to existing service products, which are considered as improvements. Service innovation is by bringing up new features in BNI service products, so that it can facilitate consumers when making transactions.

This is consistent with research conducted by Han et al. (1998) which stated that Market Orientation had a significant effect on Corporate performance through Innovation as an intervening variable. Market orientation had a positive effect on product innovation through coordination between functions. This condition was understandable because with the coordination between marketing functions with other functions in the process, it will lead to a common understanding of customer needs.

The Effect of Organizational Transformation on Corporate Performance. In our research, Organizational Transformation had a significant effect on Corporate performance. This is in line with the research conducted by Robbins (2006) and Licen (2002) that Organizational Transformation had a positive effect on corporate performance. In addition to innovation, improving corporate performance can be done by doing organizational transformation. Transformation is a process of changing from one condition to another to achieve something better.

However, other findings also revealed the importance of improving the concept of good corporate governance (GCG), as a system that regulates and controls companies that create added value for all stakeholders. Creating important added value was carried out by BNI because the implementation of GCG principles had consistently proven to improve the quality of financial reports and could also be a barrier to performance engineering activities

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that resulted in financial statements not describing the company's fundamental value. The principles of GCG include: 1) Transparency, namely openness in carrying out the decision making process and openness in expressing material information; 2) Accountability, namely clarity of function, structure, system, and accountability of corporate organs so that the management of the company is carried out effectively; 3) Responsibility, or compliance in the management of the company against the principles of a healthy corporation; 4) Independence, or a condition where the company is managed professionally without conflict of interest and influence/pressure from the management; 5) Fairness, a fair and equal treatment in fulfilling the rights of stakeholders arising based on agreements and applicable laws and regulations.

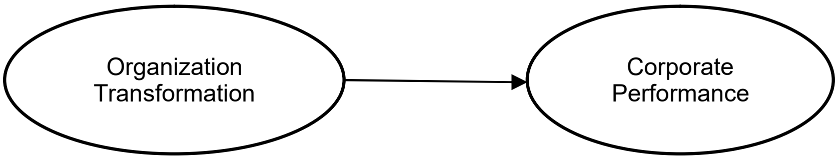

Figure 2 – The Effect of Organizational Transformation on Corporate Performance

Robbins (2006) stated that organizational changes can be made on structures that included strategies and systems, technology, physical arrangement and human resources. Licen (2002) stated that Organizational Transformation changed organizational structure and described the impact of the transformation, and built a supportive organizational culture. Organizational Transformation basically changes the structure so that organizations become more flexible and have fewer levels of hierarchy. To support efforts to build an organizational culture, changes in human management practices are needed.

The Effect of Market Orientation on Corporate Performance. The research findings of Kumar et al. (2011) showed that Market Orientation had a positive effect on business performance both in short and long term. Similar results were expressed by Baker and Sinkula (1999) that market orientation was significantly related to corporate performance. Lee and Tsai (2005) showed that market orientation and learning orientation had a significant effect on business performance. Farrel (2008) confirmed that companies with low performance would tend to increase market orientation and learning organizations as an effort to improve corporate performance.

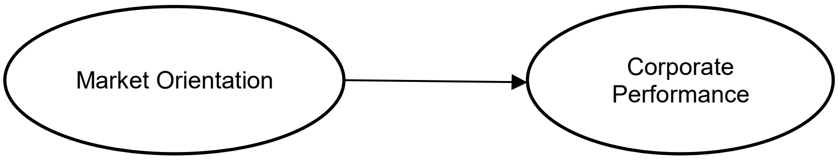

Figure 3 – The Effect of Market Orientation on Corporate Performance

Measurement of Corporate Performance in BNI found that customer growth experienced a fairly good increase. This was inseparable from customers' perceptions who believed that BNI provided optimal services to the optimum. This finding is consistent with corporate performance seen in its financial perspective. BNI's ability to obtain and manage profits was considered as “good enough”.

However, if the corporate performance was associated with market orientation, it did not have a significant effect. This relationship explained that directly, changes in performance were not determined by market orientation. There were also influencing factors, namely there was a mediating variable that causes a relationship between market orientation and insignificance. This result is not in line with research conducted by Lings and Greenley (2009), Kumar et al. (2011) and Eris and Ozmen (2012) who stated that Market Orientation had a positive effect on Corporate Performance.

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If the market orientation relationship to the company's performance is significant, then the company's ability to identify the market is an important thing that must be owned by branch managers. Corporate performance will be easier to increase if market orientation can be recognized well. Based on empirical data, almost all Bank Managers stated that they have carried out a deep Market Orientation. There were two things that were considered as not optimal to support Market Orientation activities, namely competition in ensuring customer satisfaction and synergy of each BNI unit in formulating the company’s strategy.

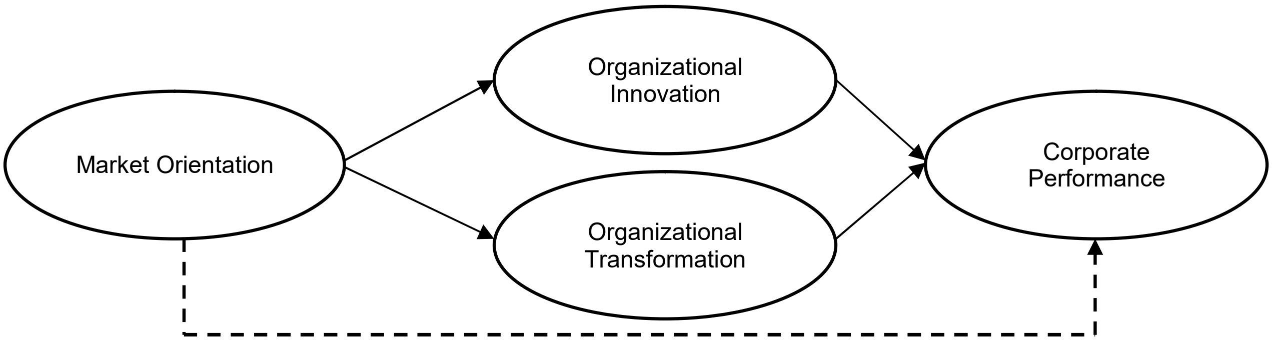

Figure 4 – The Effect of Market Orientation, Organizational Innovation, and Organizational Transformation on Corporate Performance

Description: ———————— significantly influences;
- - - - - - - - - - - - - - - - - - does not significantly influence.

Our research resulted in the finding that Market Orientation significantly influenced Organizational Innovation and Organizational Transformation. Both of these things also positively influenced Corporate Performance. However, on the other hand, it was also found that Market Orientation did not significantly influence Corporate Performance.

CONCLUSION

Market Orientation has a significant effect on Organizational Innovation, this enriches the theory of Resources Based View (RBV), and namely how companies can compete with other companies to gain competitive advantage by managing their resources according to the ability of the company. This is in line with the results of empirical studies conducted by Eris and Deniz (2012), Lee and Tsai (2005), Suliyanto and Rahab (2011), Han et al. (1998) and Ho. (2010).

Organizational Transformation has a significant effect on Corporate Performance, this enriches the theory of Resources Based View (RBV). This is in line with the results of empirical studies conducted by Robbins (2006) and Licen (2002). In addition to innovation, improving corporate performance can be done by transforming the company. Transformation is a process of changing from one condition to another to achieve something better. Organizational Transformation will bring the organization from the old form and system to the new form and system.

Market orientation has no significant effect on Corporate Performance, this result is different from the Market Based View (MBV) theory that a company must be able to provide products or services closer to the client's needs. This is not in line with empirical studies conducted by Lings and Greenley (2009), Kumar et al. (2011) and Eris and Ozmen (2012).

Based on the results of the discussion and research findings that have been presented, the researcher suggests that Bank BNI Branch Managers can utilize market orientation in the form of information about competitors, customers and coordination. In addition, BNI can utilize market orientation to obtain input regarding customer needs and desires. For Branch Managers, a number of banking innovations need to be applied in the field such as customer diversification in millennial generations, optimization of supply chain financing, increased low-

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cost funds on closed loop transactions, e-commerce applications and increased synergies and digital banking development.

BNI can utilize competitive advantage sources, namely customer service, service quality, good bank image, business process skills, customer knowledge skills, competencies, customer relationships and service flexibility as a tool to achieve superior performance for Bank BNI.

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