The Effect of Market Orientation, Handling Processing Orientation and Absorptive Capacity to Become a Born Global SME’s in Indonesia Fisheries Industry

Adi Wibowo¹, Yuswar Zainul Basri², Willy Arafah (Dr)³

¹Doctor Program Student, Economics Department, Trisakti University, Jakarta, Indonesia  
²Professor of Economics, Trisakti University, Jakarta, Indonesia  
³Senior Lecturer, Economics Department, Trisakti University, Jakarta, Indonesia

wdiwibowo.kkp[at]gmail.com  
yuswarzainulbasri[at]gmail.com  
willy.arafah[at]gmail.com

Abstract: Born global has evolved over a short period of time. The success of this type of company is intriguing. By proposing a model for the Indonesian fisheries born global, the study is carried out to understand more in regards to the success of the born global companies. The model combines the direct and indirect effects of three variables: market orientation, handling and processing orientation, and absorptive capacity. In addition to the relationship of establishing born global companies with other variables, independent relationships are also taken into account. The model offered is tested by a structural calculation model of quantitative research methods. The sample used 112 respondents from middle to top management of fishing companies in Indonesia. Structural Equation Model (SEM) is used to analyse the data. It is suggested that direct and indirect relationships of the building model indicate a positive relationship, with the exception for the direct relationship of handling and processing orientation to the born global (not significant value). The results show that the absorptive capacity plays an important role for market orientation and handling and processing orientation as the key success of the born global small medium enterprises in Indonesia.

Keywords: Market Orientation; Handling, Processing Orientation, Absorptive capacity; Born global companies

1. Introduction

The Indonesian maritime and fisheries sector has an important contribution to the national economic development. Data from the Central Bureau of Statistics (BPS) recorded the 2017 gross domestic product growth (GDP) of the fisheries sector valued over 6.75 percent. In the same time, making it the most progressive and above average national GDP growth of 5.03 percent to be precise. The value of GDP from the Fisheries sector at constant prices continued to increase from Rp204 trillion to Rp214.5 trillion in 2016 and rose again to Rp227.2 trillion incoming year of 2017.

Referring to the positive growth and the high value of fisheries GDP and its economic potential at large, the marine and fisheries is a prospective sector to contribute to the national balance of payment. In 2017, the estimated potential of Indonesian marine fish resources reaches up to 12.5 million tons per year in the Republic of Indonesia Fisheries Management Area (RIFMA) (Ministerial of Marine Affairs and Fisheries Decree No, 50, 2017). This figure increased 2.61 percent compared to 2016 which reached 9.93 million tons. While production from captured fisheries in 2017 reached 6.42 million tons or 51.36 percent utilized from existing potential.

The well-supplied fish resources, opens opportunities to boost Indonesian fishery product exports. The export value in 2017, was dominated by shrimp commodities reaching over USD 1.75 billion. This is followed by tuna, cob and skipjack mounting up to USD 0.66 billion, crab / crab commodities totalling amount to USD 0.41 billion. Squid, cuttlefish and also octopus for a total value of USD 0.39 billion. Small medium enterprises of born global, are entitle for the success of this increasing trend.

By definition, born global company is a small and medium scale company that has been internationalized since its founding (Zahra et al., 2000). Global born companies apply high technology, but typically they use known technology (Rasmussen and Madsen, 2002). Born global focuses more on their international sales rather than from domestic incomes. Born global are usually more dependent to their foreign partners active participation, as well as importers. Sales decisions, marketing activities and things that are directly related to consumers are usually more dominated by born global business partners (Rasmussen & Servais, 2016).

The main factor of establishing a born global company is the management commitment to be internationalized (Harveston, Kedia and Davis, 2000). At the managerial level, the attitude and mindset of the management team, play an important role in determining the extent of the international activities of the company to be achieved. Jones and Coviello (2005) state that internationalization in the formation of born global companies is the result of innovation. While innovation is not always new to the world, innovation can also means, its new only to the company maybe because of a late introduction. Afuah (2003) mentions innovation can be classified as additional innovation and radical innovation. The parameters can be seen from how much the impact on the company’s

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capabilities. In addition, the establishment of born global companies requires implementation (Rasmussen and Madsen, 2002), this is needed especially in supporting the company's ability to standardize quality product.

Small and medium enterprises are in important needs for capabilities and knowledge in meeting the international challenges. In this study, born global success was examined through the effects of applying market orientation variables, handling and processing orientation, and absorptive capacity as mediating variable. This study has several research questions as follows:

1. Is there an effect of market orientation on the absorptive capacity of the company?
2. Is there an influence on the handling processing orientation of the company's absorptive capacity?
3. Is there an effect of market orientation on born global companies?
4. Is there an effect of absorptive capacity on born global companies?
5. Is there an influence on the handling processing orientation of global born companies?

Theoretical Basis

Kohli and Jaworski (1990) define market orientation as a business activity includes market intelligence activities, analyzing market intelligence results, and activities that are carried out in an organizational manner. Narver and Slater (1990) support this opinion and adding it with three behaviors component, namely consumer orientation, competitor orientation, and functional coordination. Naver and Slater also added two criteria for decision making. Decision is that motivated by long-term focus and decision in the purpose of profit gaining.

Gray et., al. (1998), in his research tried to build a measurement scale for market orientation. Making this scale of measurement, as a validation effort of what seems promising to be used as a measurement of market orientation. The data used was taken from multi-industries in New Zealand. Prior research such as Jaworski and Kohli (1993), Narver and Slater (1990), took samples of small and medium-sized companies in America, but the results became more general for using amulti-industry. There are at least five parameters used to measure market orientation. Consumer orientation, competitor orientation, inter-functional coordination, responsiveness, and profit orientation. These indicator can company to find out weaknesses. This weakness must then be corrected to improve marketing performance and the company's financial performance. The dimensions of functional coordination related to the marketing information socialization across departments, the participation of the entire department in the preparation of business plans and strategies, integration of inter-departmental activities, interaction between marketing personnel and those from other departments and routine of inter-departmental meetings to discuss market trends, product or service development that are related to the consumer needs. Responsiveness are also matter in terms of market orientation. Responsiveness means to be able to respond a quick changes, either a small or even big amendment, in dealing with competitors selling price and routinely monitor the needs of goods or services desired by consumers. Emphasis on profit is based on the capabilities of management information systems to determine the profitability from each consumer, product line, sales area and distribution channel. Thus, the application of the marketing concept in market orientation is actually a dynamic process to improve financial performance and marketing performance.

Handling Processing Orientation

The processing orientation is based on the argument of Castagnetti (2008) that introduce in the domain of admissible orientation (DOA) concept. It discusses the optimization of 5 axis (multi axis) in the cutting path of a wood cutting machine and is specifically studied and examined in the wooden industry. It is proven to be more efficient in terms of the use of raw materials and the speed of the processing time. This concept applies to the timber industry whose discussion includes how to handle raw materials more efficiently.

The processing orientation related to the DOA concept is divided into handling and processing. Handling and processing perishable food materials, is also closely related to time, handling know how, adopt knowledge and technology. Both infrastructure and knowledge are acquired, transformed, assimilated, and exploited. The purpose of this orientation is to maintain the quality and safety of the fishery products according to the standards set. Delivered by minimizing time at the handling stage, processing stage and product distribution stage. In studies on fishery product industry, the concept of handling and processing orientation is to maintain good quality of the fishery products. The method is to minimize handling time (factory shipments), processing time and product distribution time. Fish handling is a series of activities that change or not change the structure and basic forms of raw materials. Fish processing is a series of activities and treatments from fish raw materials to final products so that they are ready for human consumption (Ministerial of Marine Affairs and Fisheries Regulation No. 72, 2016).

Handling and processing orientation is a derivative from entrepreneurial orientation. There for, it can fall down to the criteria of production capability (Anderson et., Al., 2009) to gain competitive advantage (Bain 1968; Caves and Porter 1977; Peteraf & Bergen 2003; Porter 1980, 1985, 1996). The specificity of this concept is for the fishery industry and can also be applied to other types of perishable foods. Similar to entrepreneurial orientation, processing orientation is also a strategy on the level on institution. Thus the construct of handling and processing orientation in this study, are also examined through indicators of innovation, proactivity and risk taking (Miller, 1993).

Absorptive Capacity

The roots of absorptive capacity or capacity to absorb knowledge, are found in the literature of organizational
learning in the 1980s. Fiol and Lyles (1985), and Levitt and March (1988) discuss the role of research and development (R & D) in organizational learning and performance. Kedia and Bhagat (1988) address the role of organizational characteristics in transfer of technology (TOT). This is in line with Cohen and Levinthal (1990). This initial article strongly connects the absorptive capacity of knowledge with learning, innovation, and company performance. Furthermore, Reagans and McEvily (2003) support the concept of accumulated knowledge by showing that people are more able to absorb knowledge more easily if they have shared the same knowledge in terms of expertise, both skills from training results or character backgrounds.

Cohen and Levinthal (1989) in their journal explained that knowledge absorptive capacity refers to one of the fundamental corporate learning processes. Through this learning process, companies will gain the ability to identify, assimilate and exploit knowledge originating from their environment. Developing and continuing to use the absorptive capacity within the company will help complement each other, and can also restore the focus of the company's knowledge base. Through the ability to identify, assimilate and exploit, companies can not only follow or imitate other companies' products and processes, but companies can also bequest by the ability to focus on knowledge that is less commercial such as general scientific research (Lane, Koka, Pathak, 2006).

**Born Global**

Born global or the formation of a global company was first known through Australian manufacturing board consultants reports, byRennie, Michael W. (1993). It discussed with similar concepts such as the international new venture. A new small-scale company that has become an international company since its founding, is known and called by many names. Some authors name it a global startup, multinational infant, and international new venture. Theoretically, there are differences between the concepts (Oviatt and McDougall, 1994; Zahra et al., 2000).

International new venture (INV) is defined as a new international company, which since its birth has been seeking competitive competition from resources availability and selling its products in multiple countries. Thus it can be said that the originality or origin of this company is indeed international because its commitment (eg raw materials, human resources, finance and time) originates from more than one country (Oviatt and McDougall, 1994).

The Geographically Focused Start-Ups are companies that gain competitive advantage by serving fewer consumers with very high demand for specialization in small parts on the world market scale. The company's competitive advantage departs from coordinating a number of networks related to the development of technology, knowledge, production, and others. This kind of coordination is usually very complex socially. The impact of this complexity makes it difficult to replicate, because it involves maintained knowledge. The network is also an outsider so knowledge is maintained (Oviatt and McDougall, 1994).

2. **Research Methods**

Based on the Rodriguez (2017) model proposition, the model is adapted by deriving the entrepreneur orientation into a handling processing orientation. The distinction from Rodriguez model is the used of born global as unit variable Y, while Rodriguez (2017) in his model proposition uses innovation performance as the Y variable. The following is the model proposition in this study.

**Figure 1: Causal Relationship Path Diagram Model**

This research belongs to the type of causal design which is to identify the cause and effect relationship between variables. The purpose of this type of design is to looks for true type of fact to help understand and predict relationships (Zikmund in Ferdinand, A.T. 1999). The problems presented in this study are problems that are recommended by previous researchers, who need support for the latest facts.

The proposed model is tested by a structural calculation model of quantitative research methods. The sampled data, used 112 respondents ranging from middle to top management from fishery companies in Indonesia. The data then analyzed using Structural Equation Model (SEM).

3. **Results and Discussion**

For research based on hypothesis testing, it is necessary to test hypotheses by using appropriate statistical tools. Results of the study describes the output of statistical tests (including the results of the quality test data used and the classic assumption test), and the consequences of the tests results that refuse, or fail to reject the null hypothesis. For a case study type of analyses or applied research, the relevantant of the research topic, data and facts regarding the company or industry, need to be described.

The validity test using factor analysis result valid. The loading factor value in each indicator in each construct has a value greater than 0.4. There for, it can be concluded that all question indicators are valid. While the reliability testing, alsoindicates that all constructs of research are reliable. All the values of the reliability construct of variables is greater than 0.7.

The normality test is carried out using the criterion critical ratio of $\pm 2.58$ at a significance level of 0.01 (1%). There for, it can be concluded that there are no deviant data. Data
normality tests for each indicators are proven normal, so the data used in this study has a normal distribution.

Outliers are observations or data that have unique characteristics and appear in the form of extreme values, both for a single variable and combination variables (Hair, et al. 1995). Outliers are evaluated in two ways. By an analysis of univariate outliers of analysis on multivariate outliers (Hair, et al. 1995). Based on the results of SEM analysis, it is known that the value of the expensive distance is greater than the value of 113.577 so that there are no observations affected by multivariate outliers.

Model assessment is carried out to find out how far the model hypothesized is appropriate or able to explain the existing sample data. The results of the model assessment in this study are:

After analysis with the AMOS program, the path diagram results in this study are as follows:

![Path Diagram](image)

The result of the model hypothesis shows that this model is in accordance with the data or fit to the available data as seen from the significance level of the chi-square model of 111.761. Index, CMIN / DF, RMSEA, GFI, TLI, and AGFI are the expected ranges, while the AGFI value approaches the expected value. Because the chi-square and CMIN / DF values are at a good value, this model is acceptable because the data taken is authentic data from the field.

<table>
<thead>
<tr>
<th>Goodness of Fit Index</th>
<th>Cut of Value</th>
<th>Analysis results</th>
<th>Evaluation Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chi Square</td>
<td>Minor</td>
<td>111.761</td>
<td>minor</td>
</tr>
<tr>
<td>Probability</td>
<td>≥ 0.050</td>
<td>0.001</td>
<td>Good</td>
</tr>
<tr>
<td>CMIN / DF</td>
<td>≤ 2.000</td>
<td>1.574</td>
<td>Good</td>
</tr>
<tr>
<td>GFI</td>
<td>≥ 0.900</td>
<td>0.943</td>
<td>Good</td>
</tr>
<tr>
<td>AGFI</td>
<td>≥ 0.900</td>
<td>0.890</td>
<td>Nearly good</td>
</tr>
<tr>
<td>TLI</td>
<td>≥ 0.950</td>
<td>0.957</td>
<td>Good</td>
</tr>
<tr>
<td>CFI</td>
<td>≥ 0.950</td>
<td>0.956</td>
<td>Good</td>
</tr>
<tr>
<td>RMSEA</td>
<td>≤ 0.080</td>
<td>0.072</td>
<td>Good</td>
</tr>
</tbody>
</table>

The results of SEM analysis with the AMOS program can be briefly seen in the following table:

<table>
<thead>
<tr>
<th>Table 2: Regression Weights Standardized Structural Equation Model</th>
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<tr>
<td></td>
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<tr>
<td>Absorptive &lt;--- Handling</td>
</tr>
<tr>
<td>Absorptive &lt;--- Market</td>
</tr>
<tr>
<td>Born Global &lt;--- Absorptive</td>
</tr>
<tr>
<td>Born Global &lt;--- Handling</td>
</tr>
<tr>
<td>Born Global &lt;--- Market</td>
</tr>
</tbody>
</table>
The structural equations produced in this study refer to the table above are as follows:

Absorptive = 0, 542 + 0, 570 Market + 0, 284 Handling

Born Global = 0, 652 + 0, 513 Market + 0, 149 Handling + 0, 381 Absorptive

The interpretation of the results of the hypothesis testing are:

Hypothesis 1 states that there is an effect of market orientation on absorptive capacities. If seen in table 4,10, the value of C.R. amounting to 6.302 with a significance value (P) of 0, 000. Referring to the significance value (P) which is less than 0,05, the null hypothesis can be rejected and accept the alternative hypothesis (H1) which states that there is an influence of market orientation on absorptive capability acceptable. Seeing the estimated value that is positive can be interpreted that the effect of market orientation on absorptive capacity is positive, meaning that the better the company runs the market orientation, the company will have more absorptive capability.

Hypothesis 2 states that there is an effect of handling processing orientation on the absorptive capacity. The table 2 shows the value of C.R. amounting to 1, 975 with a significance value (P) of 0.048. Referring to the significance value (P) which is less than 0,05, the null hypothesis can be rejected and accept the alternative hypothesis (H1) which states that there is an influence of the handling processing orientation on the absorptive capacity acceptable. Seeing the estimated value that is positive can be interpreted that the effect of handling processing orientation on absorptive capacity is positive, meaning that the better the handling processing orientation that the company does, the more absorptive capacity of the company.

Hypothesis 3 states that there is an effect of the absorptive capacity on the born global. The table 2 shows the value of C.R. amounting to 2.850 with a significance value (P) of 0.010. Referring to the significance value (P) which is less than 0,05, the null hypothesis can be rejected and accept the alternative hypothesis (H1) which states that there is an influence of the absorptive capacity on born global can be accepted. Seeing the estimated value that is positive can be interpreted that the effect of the absorptive capacity on born global is positive, meaning that the better the absorptive capacity of the company, the more born global the company will be.

Hypothesis 4 states that there is an influence of market orientation on global born. If seen in table 2, the value of C.R. amounting to 3.935 with a significance value (P) of 0, 000. Referring to the significance value (P) which is less than 0,05, the null hypothesis can be rejected and accept the alternative hypothesis (H1) which states that there is an influence of market orientation on global born acceptable. Seeing the estimated value that is positive can be interpreted that the effect of market orientation on global birth is positive, meaning that the better the market orientation that the company does, the more born global the company will be.

Hypothesis 5 states that there is an effect of handling processing orientation on global born. If seen in table 2, the value of C.R. equal to 0.956 with a significance value (P) of 0.339. Referring to the significance value (P) which is more than 0.05, the null hypothesis is acceptable and rejects the alternative hypothesis (H1) which states that there is an influence of the handling processing orientation on global births that cannot be accepted.

The influence of market orientation variable and absorptive capacity towards born global indicates that performance is not only supported by radical innovation and corporate culture. The presence of born global proven to market its products or services abroad in a short period time is also a performance. The condition of fish processing companies in Indonesia is in accordance with born global concept, that to establish a born global, company must look beyond their internal into aspects of market orientation and adopt knowledge of both innovation and new technology by acquiring, assimilating, transforming and exploiting it according to the absorptive capacity theory. However technology and innovation do not have to be “new to the world” to become a born global, technology and innovation can also be “new to company” as likely in the case in Indonesia fishing industry. The freezing and cooling technology of fish material has long been found, but in the fishing industry in Indonesia in general there has only been a shift from fresh fish products to frozen fish products. The entrepreneur orientation can turn out to be a handling and processing orientation that looks into the company through absorptive capacity mediation to establish born global.

4. Conclusion

Market orientation and handling processing orientation are proven to have a positive effect on absorptive capacity. Likewise, market orientation and absorptive capacity significantly influence positively on born global.

While the handling processing orientation is not significant in influencing born global. The condition of fish processing in Indonesia to conduct global birth must strengthen its market orientation, handling and processing orientation and absorptive capability. The market orientation effort that must be prioritized is to do proactive on market dynamics. Companies must continue to recognize and explore the needs of their consumers. In some cases, consumers do not even fully understand their needs. For this reason, the company makes a proactive effort. A proof of a proactive fishery product industry is the lack of awareness of consumers about consuming good protein alternatives. Companies should run market orientation through responsiveness or fast respond (reactive) to market desires, as well as more co-active with both business partners and the government who also carry out programs that support businesses. Likewise with the handling processing orientation, companies must prioritize proactively in creating new products needed by consumers.
so as to strengthen their power by becoming a born global company.

Born global companies are also supported by absorptive capacity. This condition indicates that the company must more strongly implement the absorptive capacity strategy through its indicators by further exploring and transforming knowledge. Knowledge and technology to create innovation and also improve performance may already exist so that it needs to be transformed into the specificity of the company's business model such as fishery product producers.

The model proposed specialised in the vast scattered remote island of Indonesia fishery industry as general. The born global performance from the model proposed is indicated from the internationalization period, collaborative, and knowledge. Future research should study the born global performance from the financial based measured, operational indicator, and better international performance than non-born global company.

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